

Annex A – DBT POL Briefings

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Department for
Business & Trade

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Deep Dive 1: Post Office Redress

16 July 2024



Agenda

1. Timeline
2. Inquiry
3. Horizon-related redress
4. Non-Horizon redress
5. Opportunities and Challenges

Timeline

1996	Post Office first trials use of a computer accounting system called Horizon (supplied by Fujitsu), in pilot programmes across some branches.
2000	Post Office rolls out Horizon across its network.
1999-2013	Post Office prosecutes at least 600 postmasters due to shortfalls recorded in Horizon. Post Office pursues repayment of shortfalls from postmasters and terminates contracts. Post Office denies faults with Horizon system despite postmasters claiming there are bugs.
2017	A 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; and that the postmasters' contract was unlawful in key respects. Post Office reached a £42.75m settlement plus costs with the 555 group litigants. Of this, about £31m went to litigation 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.

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Timeline part 2

2020	Horizon Shortfall Scheme (HSS) is launched by the Post Office. Due to receiving five times more applicants than expected, Post Office later calls on Govt for funding, which is agreed (in 2021). In October 2022, the Government announced funding for late applications.
April 2021	The Court of Appeal quashes 39 Horizon-related criminal convictions in a landmark judgment.
May 2021	Horizon IT Inquiry placed on a statutory footing.
Dec 2021	Govt announces funding for POL to reach settlements with those with overturned convictions .
March 2022	DBT announces funding to bring redress for non-convicted GLO litigants into line with that given to those who were not part of the litigation. To be paid under emergency spending powers with a 2-year time limit.
Sept 2023	Govt announces £600k fixed sum offers to those with overturned Horizon convictions .
December 2023	Announcement of the 40 working days target for processing claims in the GLO scheme.
January 2024	The Prime Minister announces that the Government will legislate to overturn convictions.

Timeline part 3

January 2024	Post Office (Horizon System) Compensation Act achieves Royal Assent, removing the 2-year limit on GLO compensation payments.
January 2024	Announcement of a £75,000 upfront fixed sum offer to GLO claimants.
March 2024	The Post Office (Horizon System) Offences Bill was introduced in the House of Commons, overturning hundreds of criminal convictions. Government announces the Department for Business and Trade will deliver redress for those in scope of the Bill (the Horizon Convictions Redress Scheme (HCRS)).
March 2024	Announcement that the £75,000 upfront fixed sum offer for claimants will be extended to the Horizon Shortfall Scheme (HSS).
May 2024	The Post Office (Horizon System) Offences Bill received Royal Assent, overturning convictions and paving the way for the HCRS.

The Inquiry

- The **Post Office Horizon IT Inquiry** began in September 2020 and was made statutory in June 2021.
- The Inquiry is chaired by Sir Wyn Williams, a former High Court Judge. Sir Wyn's remit, set by DBT, is to get to the bottom of what happened and to ensure a similar situation can never happen again.
- The Inquiry has published a list of 218 issues around which Sir Wyn structures his work, including errors with Horizon, investigations & prosecutions by Post Office, governance and financial redress.
- DBT is a Core Participant to the Inquiry, alongside Post Office, Fujitsu, Met Police, UKGI, some postmasters who have been affected by the scandal, and others.
- The Inquiry's work has been thematically divided into 7 phases:
 - Phases on human impact, procurement, roll-out of Horizon, operation, and action against postmasters are already complete.
 - Phases 5 and 6, focusing on governance, began in April.
 - Phase 7 (the final phase) is expected to begin in September. Redress falls under this phase.
 - 8 DBT witnesses are due to appear between Wednesday 17 July and Thursday 25 July. **They are all former Ministers.**

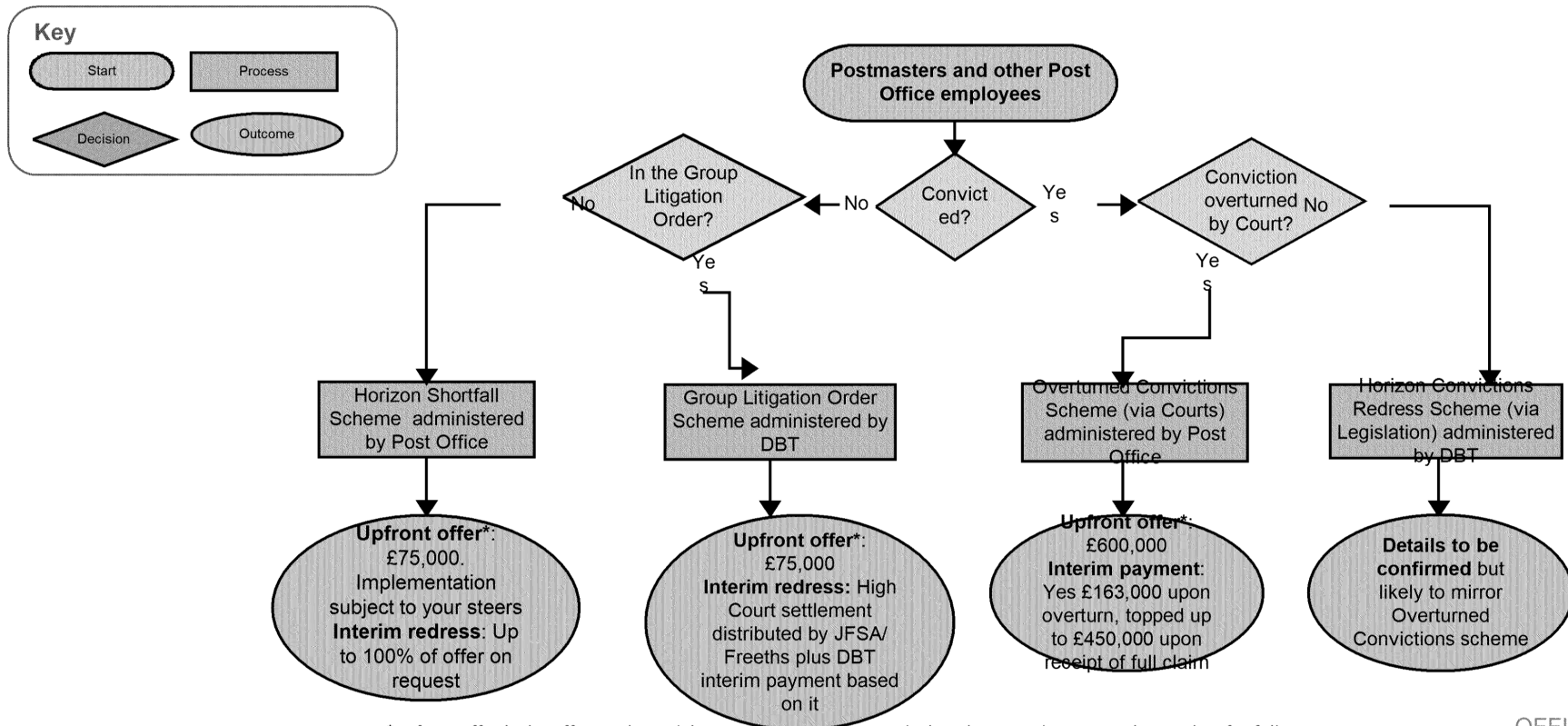
We currently expect the Inquiry to report to SoS in **early-to-mid 2025**, but this is subject to change.

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Redress

Routes to Financial Redress

- There are currently three main schemes delivering redress to those affected by the Horizon scandal. These are delivered by either the Post Office or the Department for Business and Trade.
- A new scheme – the **Horizon Convictions Redress Scheme**, to be delivered by DBT is currently being set up to pay redress to those who will have had their convictions overturned by the Acts.
- Which scheme an affected individual can apply to depends on the circumstances of their claim (see below).



*upfront offer is the offer made to claimants as soon as they apply, but they can choose to reject and go for full assessment

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Existing Redress Scheme Summary Overview

Scheme	Horizon Shortfall Scheme (HSS)	Group Litigation Order (GLO)	Overturned Convictions Scheme (OC)
Delivery Body	Post Office	DBT	Post Office
Purpose of Scheme	A scheme for non-convicted postmasters who were not part of the Group Litigation Order case.	A scheme to top up redress from High Court Group Litigation Order case	A scheme to provide financial redress to those who were wrongfully convicted of Horizon-related offences, once their convictions have been overturned by the Courts
How are schemes accessed	Claims are assessed by an Independent Panel, comprising legal, forensic accounting and retail experts. The Panel assesses claims against established legal principles but is also able to exercise its discretion where the postmaster is unable to provide documentary evidence.	Claims are assessed by the DBT, with advice from Addleshaw Goddard. Claims are assessed in line with the scheme's published guidance and principles, which have been modelled on the HSS and reviewed by Sir Ross Cranston during their development.	Claims assessed by Post Office, with oversight by DBT. Non-pecuniary claims assessed in line with framework provided by retired Supreme Court judge Lord Dyson, in his Early Neutral Evaluation. Pecuniary claims assessed in line with pecuniary principles, developed with claimant legal representatives.
Upfront offers	Intention to introduce £75,000 fixed sum as per March announcement. You will receive advice on this.	Yes, £75,000	Yes, £600,000
Interim payments	Yes, on request. Up to 100% of an offer that has been made, where this is possible.	Yes, interim payments have been made throughout the duration of the scheme.	Yes, £163,000 available upon overturn, and topped up to £450,000 (less any payments already received) available upon receipt of full claim.
Independent panel	The Independent Panel assesses each claim under the HSS before an offer is made. There have not been any cases where Post Office have made a lower award than the amount recommended by the Panel.	An independent panel comprising a legal specialist, a forensic accounting specialist and either a retail specialist or a medical specialist, depending on the specifics of the case, can review disputed cases where the parties are unable to reach agreement.	Independent panel of experts chaired by Sir Gary Hickinbottom to review disputed offers.
Appeal process	There is a Post Office run Dispute Resolution Process. Where a postmaster is unhappy with their offer, they can dispute it with the aid of legal support. There is a team in place in Post Office to support with any queries or wider concerns. Where new evidence is provided by the postmaster or their representative, the claim will re-flow to the Independent Panel for a further assessment. If the postmaster does not accept a revised offer, they can go to an independent mediator.	The Independent Panel provides an initial mechanism for appeal, however following the independent panel, DBT or the claimant can refer the claim to the independent reviewer, Sir Ross Cranston, if the Panel have made a manifest error or if the Panel's final assessment is substantially inconsistent with the Guidance and Principles.	Applicants will have the right to continued appeal through the courts
Legal fees	Government provides funding for reasonable legal costs at the offer stage.	Government provides funding for reasonable legal costs, which are defined by an agreed tariff.	Government provides funding for reasonable legal costs.

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Horizon Shortfall Scheme (HSS)

- The HSS was created as part of the settlement with claimants in the group litigation in December 2019.
- The scheme is currently delivered by the Post Office (POL). DBT provides POL with funding to deliver the associated compensation and has oversight over the key decisions made on the administering of the scheme.
- Following the scheme's initial closure in November 2020, 2,417 eligible applications were received. In October 2022, the scheme was re-opened to 'late applications' of which 1352 have so far been accepted as eligible. A final closing date is to be decided.

There are criticisms of the HSS, including speed of delivery, level of compensation and lack of independence of Post Office. However, early decisions are required on the following issues:

- **£75k fixed sum payments:** On 13 March 2024, it was announced that all current and future claimants will be entitled to a fixed sum award of £75k, in line with what is offered in the GLO scheme. All claimants who had settled for less than that amount will be topped up to that figure. This intervention directly addresses the criticisms around speed and level of redress but has not yet been rolled out.
- **HSS Appeals:** The Horizon Compensation Advisory Board has called for HSS claimants to have an independent route of appeal. HMT is willing to consider a proposal for a DBT delivered HSS Appeals scheme.
- **Options for HSS delivery:** Given that the scheme is at an advanced stage, it would be very difficult to remove Post Office from its involvement and such a change would cause significant delays to the assessment of claims, but there are options available to increase speed and cost of delivery.

Group Litigation Order Scheme (GLO)

- The GLO Scheme is an *ex gratia* claims-based scheme for postmasters who were part of the action Alan Bates and Others v Post Office Ltd pursued under a Group Litigation Order, and who do not have a Horizon-related conviction. The scheme is delivered by the Department for Business and Trade.
- Post Office's involvement is limited to disclosure of relevant documents, such as its correspondence with postmasters, branch records and its analysis of the Horizon shortfalls. That disclosure started slowly, but is now complete.
- 492 claimants are eligible for the scheme. 221 claims had been received by 28 June 2024, 210 offers have been made. 92% of claimants received their first offer within 40 working days of submitting a full claim, in line with DBT's self-imposed target.
- Of the 210 offers, 179 (85%) had been accepted, although 148 of those were for the £75k fixed sum offer. To date, c. £64m has been paid under the scheme (includes interim payments).
- Claimants who are unhappy with their initial offer can challenge it and claims can be assessed by an independent panel if the claimant is unable to reach an agreement with DBT.

We have received calls to increase the speed of delivery of the scheme and have taken steps to do so:

- In January 2024, HMG announced that all GLO claimants could receive a £75k fixed sum offer as an alternative to full claim assessment. This has been successful in increasing the number of final settlements.
- Previous Ministers announced that claimants would be topped up to £50k upon receipt of a full claim.

Overtured Convictions scheme (OC)

- As of 28 June, the Courts have overturned only 110 of the 700+ Horizon convictions. These people can get redress through the Overtured Convictions scheme, which is delivered by Post Office with oversight by DBT.
- Over £49m has been paid to 103 claimants so far and 48 full and final settlements have been reached.

We have received calls to increase the speed of delivery of the scheme and have taken steps to do so:

- In September 2023, HMG announced that a £600k fixed sum offer for all OC claimants as an alternative to full claim assessment. This has been very successful in increasing the number of full and final settlements.
- To encourage early submission of full claims, HMG announced that claimants would be topped up to £450k upon receipt of a fully evidenced claim.
- Sir Gary Hickinbottom, former High Court judge, is also working with claimant representatives to ensure that there are no undue delays in the processing of pecuniary claims.

Although the scheme is delivered by Post Office, independence has been built into the scheme:

- Decisions on the non-pecuniary aspects of redress for people with overturned convictions are made in line with guidance provided by retired Supreme Court judge Lord Dyson in his Early Neutral Evaluation.
- Where agreement cannot be reached with a postmaster, decisions on the pecuniary aspects of a claim can be referred to an independent panel chaired by Sir Gary.

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Horizon Convictions Redress Scheme (HCRS)

- This scheme will provide financial redress to claimants whose convictions will be overturned by the Post Office (Horizon System) Offences Act and the Post Office (Horizon System) Offences (Scotland) Act
- The Ministry of Justice (and their Scottish Government and Northern Irish equivalents) are seeking to identify everyone covered by the Acts and inform them that their conviction has been quashed.
- Data around the number of individuals within scope of the Acts is uncertain, an individual could have multiple convictions within scope of the criteria in the legislation. It is anticipated 600 – 1000 convictions will be in scope of the legislation.
- These people will be eligible for financial redress – the Horizon Convictions Redress Scheme.
- 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. The aim is that the Scheme will deliver comparable outcomes to those in the Overturned Convictions scheme.
- We have been engaging with the Advisory Board and claimant representatives to ensure we have a process that is as efficient as possible and builds on lessons learned from previous schemes.

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Current redress scheme data (28 June 2024)

- The Government has been publishing transparency data on a monthly basis to demonstrate the progress being made in the assessment of claims and payment of claims.
- As of 28 June 2024, approximately £236 million has been paid to over 2,800 claimants across 3 schemes:
 - Horizon Shortfall Scheme (HSS): £124 million
 - Group Litigation Order (GLO) Scheme: £64 million total value of all payments including interim payments
 - Overturned Convictions (OC): 110 convictions have been overturned; £49 million total value of all payments including further interim payments

GLO Scheme Delivery Target

- The Department for Business and Trade is committed to a target of making a first offer to 90% of claimants who have submitted a full claim within 40 working days.
- As of 28 June 2024, 92% of claimants had received their first offer within 40 working days of submitting a full claim.

Non-Horizon Redress

Post Office Process Review Scheme (PPR)

- Post Office has identified non-Horizon processes and/or policies that may have affected postmasters financially. It is therefore establishing a compensation scheme to provide redress for these issues. Government has agreed to fund this scheme.
- The pilot for the PPR scheme has launched, which will help to provide better information on the potential claimant population and the nature of losses that may have been suffered. A decision on whether to roll out the scheme in full will be needed in Autumn.

Suspension Remuneration Review (SRR)

- SRR is a Post Office run scheme to compensate postmasters who were suspended by the Post Office without remuneration.
- The 2019 Common Issues Judgment found that Post Office's policy of withholding remuneration during any period of suspension was unreasonable under the Unfair Contract Terms Act.
- The process is that Post Office write out to postmasters affected and offer them compensation for the unpaid suspension pay, with an additional 8% simple interest in lieu of consequential losses.
- There are around 2,500 postmasters affected by this issue. To date, Post Office have issued 1059 offers of compensation and have settled 757 claims.

Capture

- The Horizon Compensation Advisory Board and representatives of some of the Horizon victims have been approached by postmasters who have suggested they were affected by similar issues with one of the pre-cursors to Horizon – 'Capture'.
- Post Office estimate that a maximum of 2,500 postmasters may have used Capture in the 90s before Horizon was introduced in 1999. However, there is very limited documentary evidence on who may have used the software and whether bugs in the system may have led to any detriment.
- DBT has commissioned an independent forensic accountancy firm – 'Kroll Associates' to investigate the issue. You will receive further advice on this in September.

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Opportunities and Challenges

- 1) Launch of new **(HCRS) redress scheme** – high public and political expectations of very early delivery.
- 2) Overseeing Post Office's response to the **surge of HSS claims** triggered by the ITV drama. The Post Office will shortly be launching a **£75k fixed sum offer** to HSS applicants, in line with the GLO scheme.
- 3) Consideration of the Advisory Board recommendation to establish an **independent route of appeal** for HSS claimants.
- 4) Ensuring that redress is fair and timely, and that we convey that to the **Horizon Inquiry**, which will look at redress issues in September-October.
- 5) Forthcoming investigation report may require compensation for postmasters affected by previous IT system 'Capture.'



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Deep Dive 2: Post Office Policy

16 July 2024



Agenda

- 1) Overview
- 2) Challenges
- 3) Questions

Strategic challenges and the future of the Post Office

Overview of Post Office

- Post Office is a Government-owned business with DBT as the sole shareholder. UK Government Investments acts as our Shareholder Representative and advises the Department on governance and corporate finance.
- 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



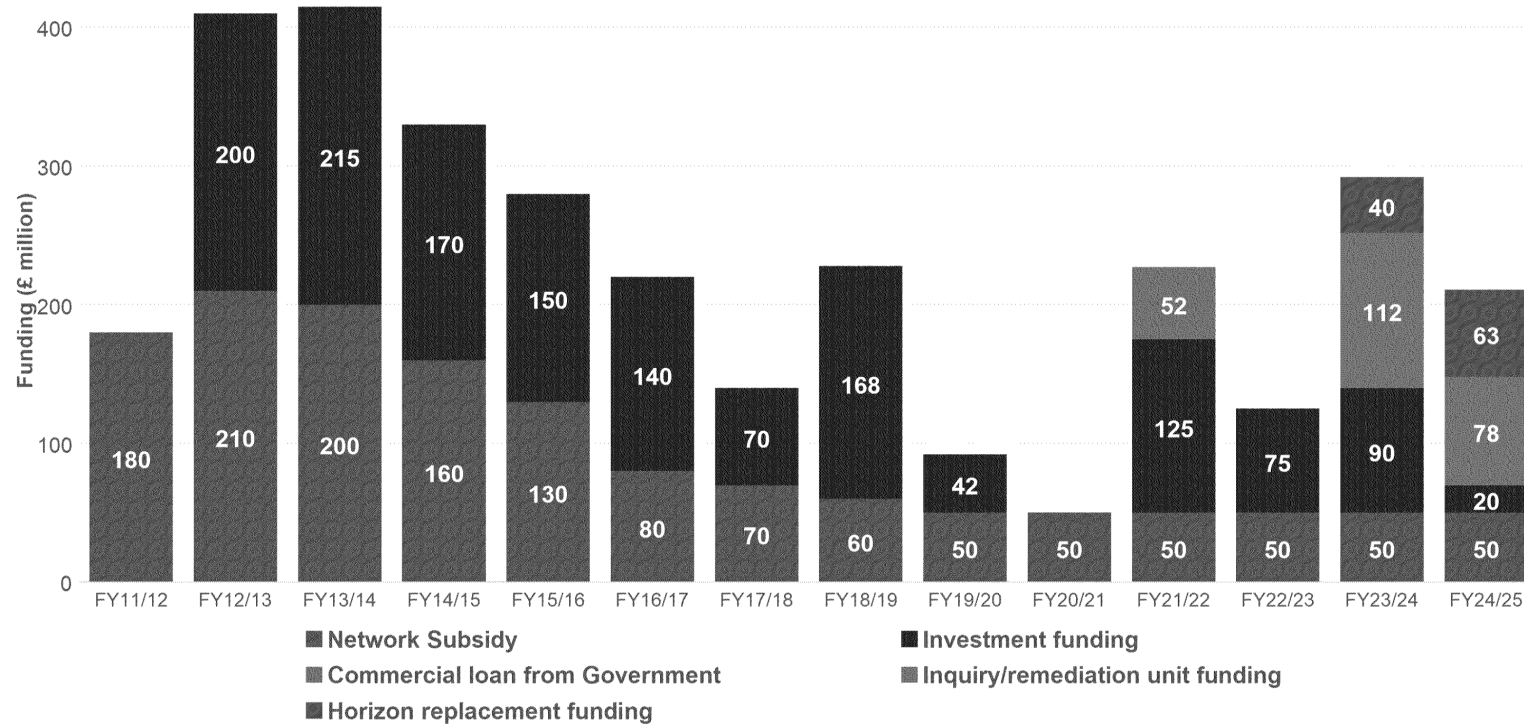
50,000

full time
jobs supported
by the network

Challenges facing the Post Office

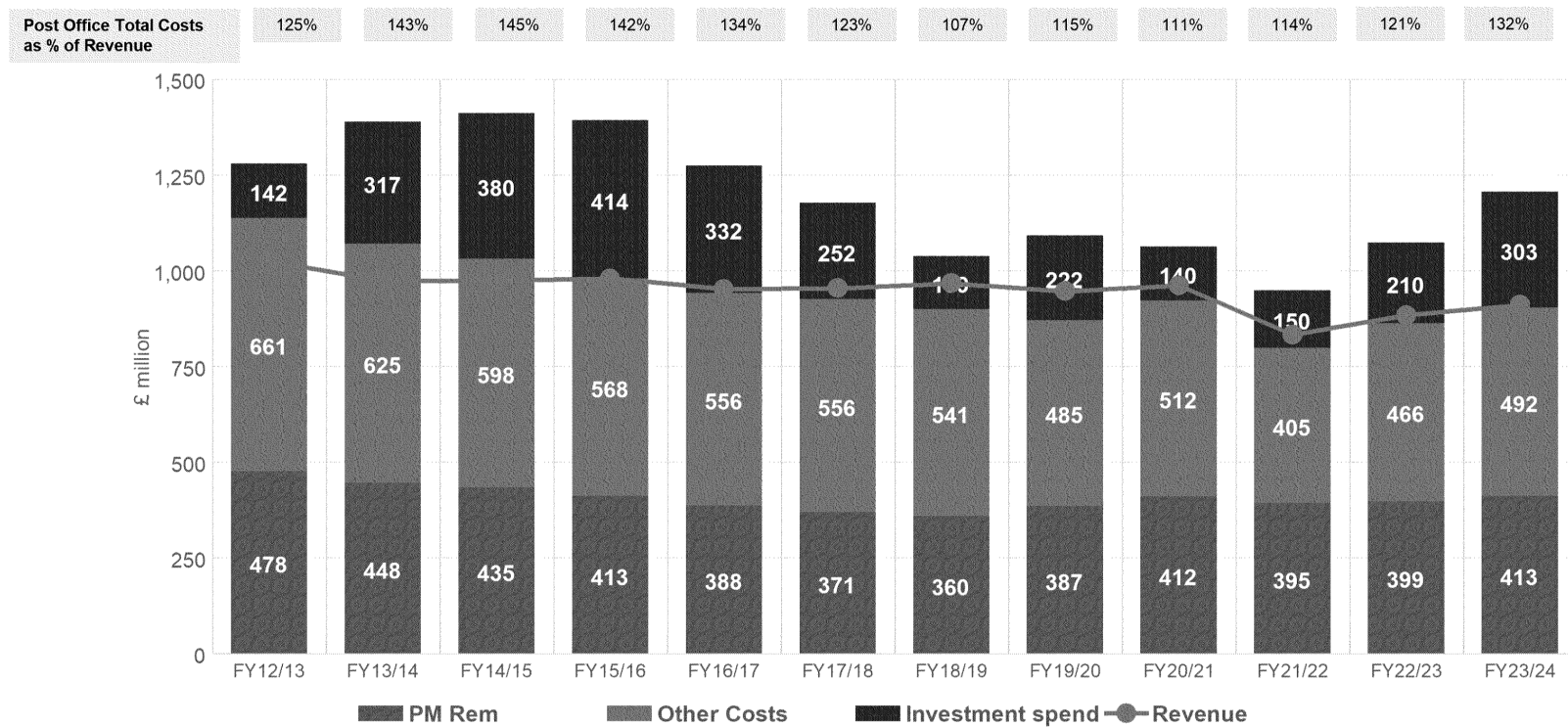
1. Post Office is **heavily reliant on Government funding** and the trend of Post Office being loss-making on a cash basis is expected to continue.
2. Post Office and HMG are in a difficult position with respect to the complex and expensive **IT programme to replace the Horizon system**.
3. **Over half the network is loss-making** and the costs of the uncommercial network are increasing as reductions to revenues materialise in core services, due to the digital transition driving down supply and demand for many in-person services.
4. Both the **mails and cash business elements are likely to face challenges** in the medium term.
5. **Postmasters are struggling** with around a third of branches estimated by Post Office to be loss-making for the postmasters running them.
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 at all levels of the business in part due to the high-stress environment and public criticism of the business.

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



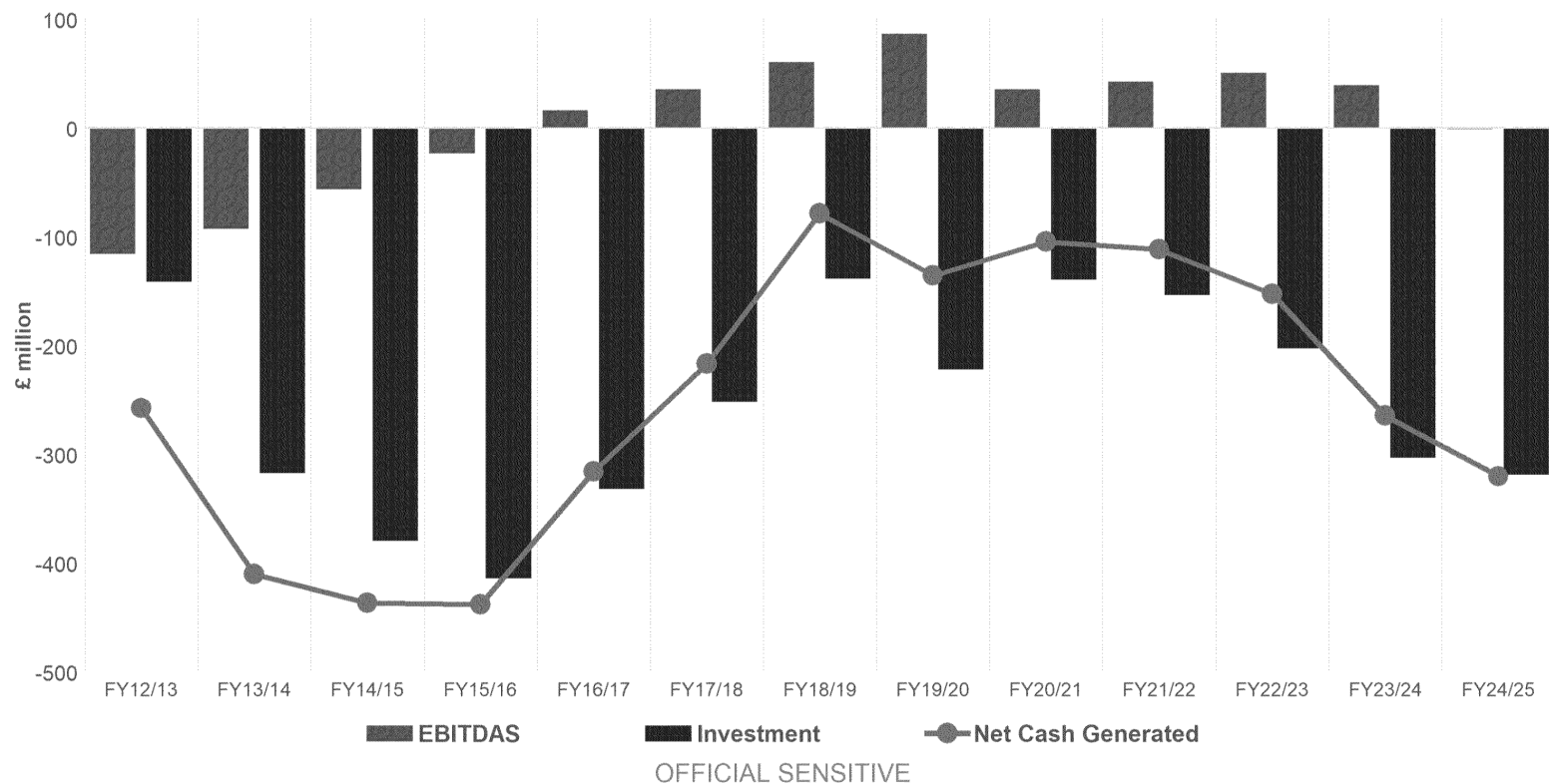
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Post Office spends substantially more to cover costs than total revenue it brings in

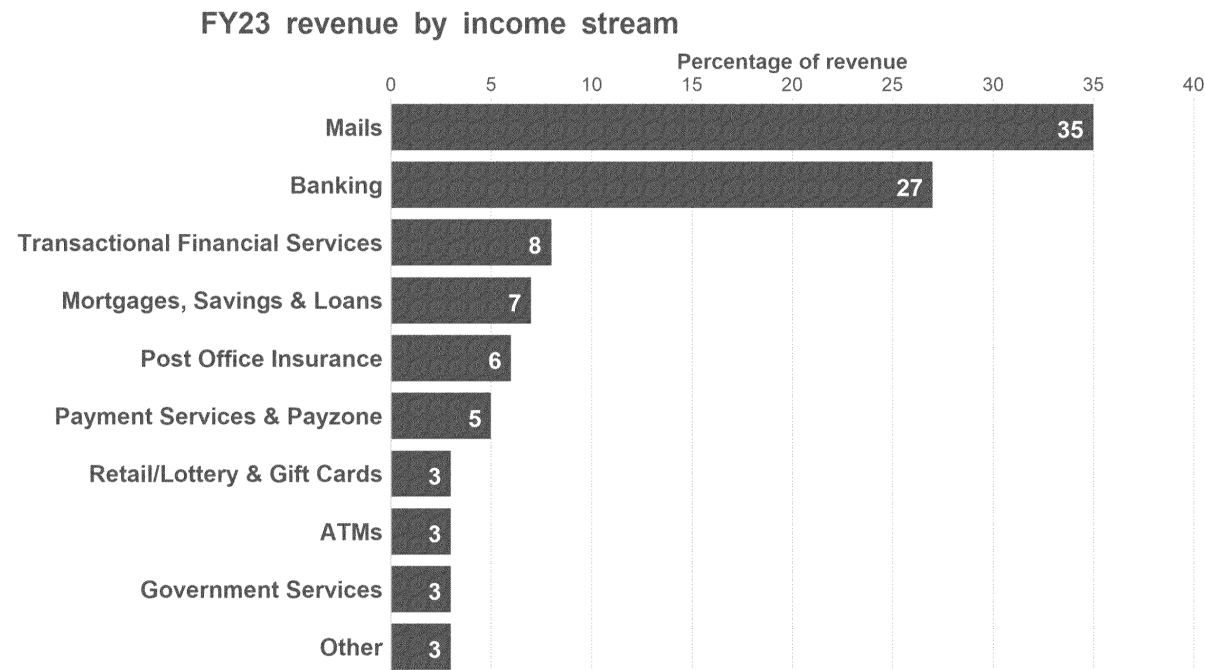


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While Post Office has delivered a small 'trading profit' in recent years, it has never been cash generative after accounting for essential investment spend



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



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Post Office faces a changing customer profile and falling demand

Post Office's customer profile today

Poorer areas

- ✓ Post Office's income is higher in poorer areas, largely due to payments and banking

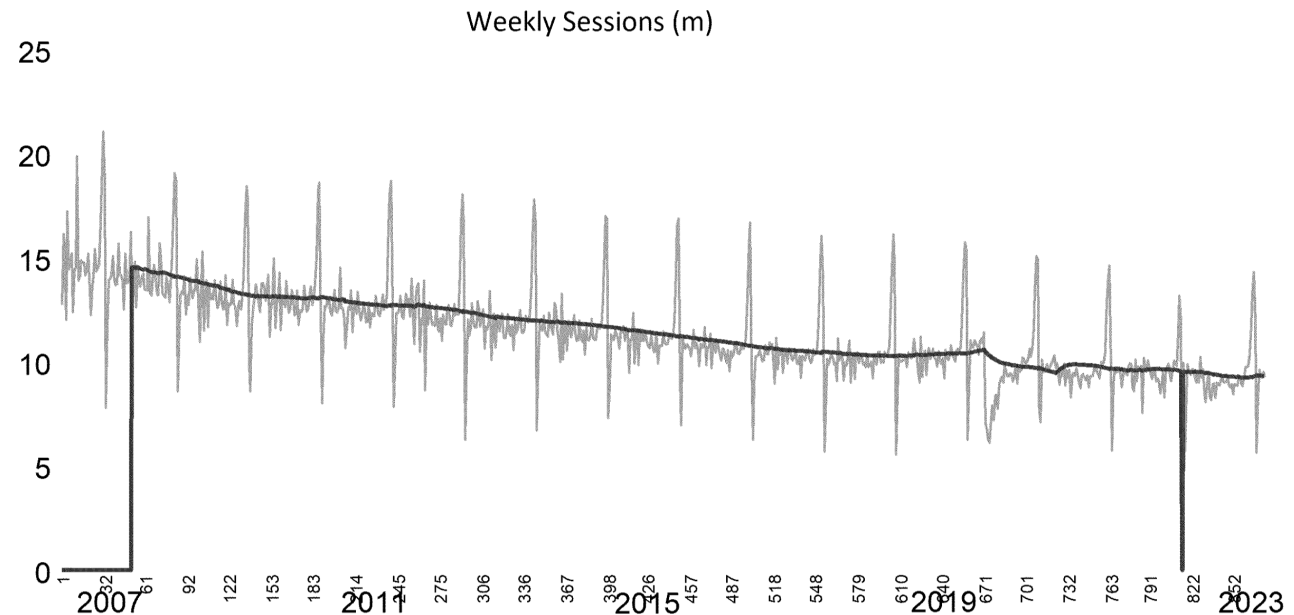
Areas with more people aged over 60

- ✓ Post Office's income is highest in areas where 35%+ of the population are aged over 60

Small markets such as villages

- ✓ Post Office's income per person is higher in smaller markets as these areas have more branches

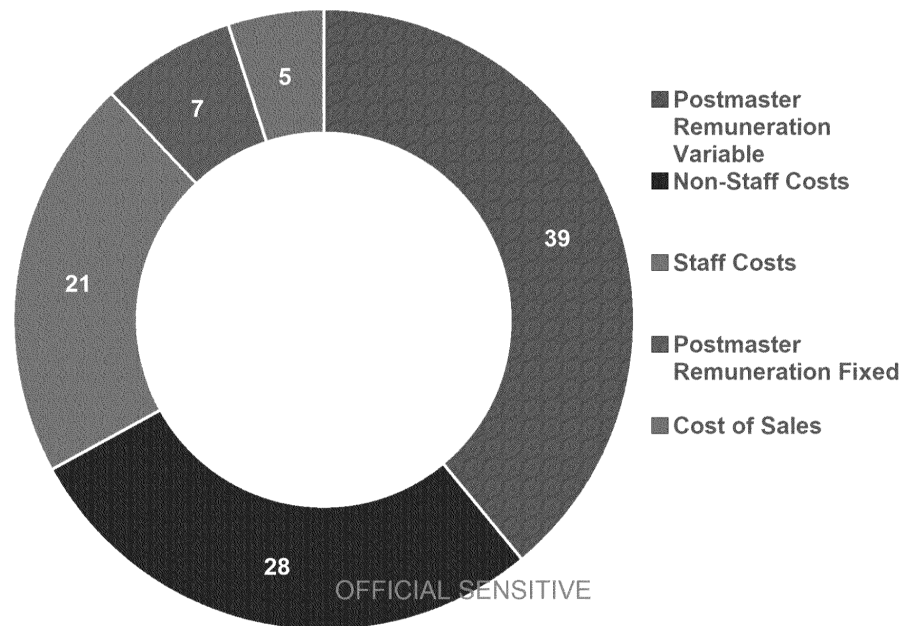
Customer sessions have fallen over time



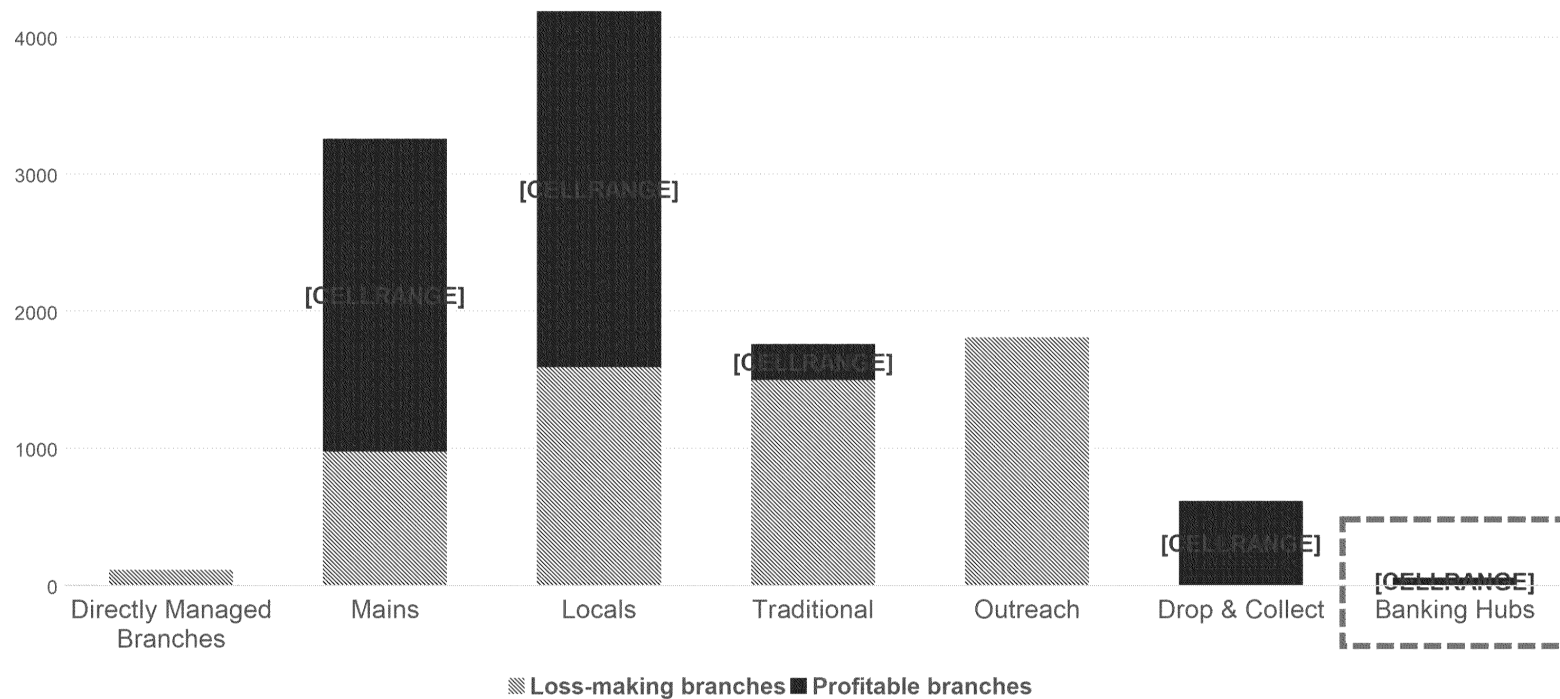
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Post Office's total cost base is largely split between postmaster pay and central costs to run the company. There are limited options within postmaster pay and non-staff costs to reduce the cost base.

FY23 trading costs by type (%)



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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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 (Chair) 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. We would welcome a discussion about making 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?