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Dear Liam,

Post Office Limited: Compensation and Costs Update

Your predecessor, Darren Jones MP, took a keen interest in the Post Office, particularly issues relating to the Post Office Horizon IT scandal. I committed to him, and I commit again to you, to provide regular updates on the delivery of compensation to postmasters impacted by the Horizon IT scandal and associated costs.

In previous updates I have gone into detail regarding the number of claims received, processed and paid. Due to the strong public interest in this matter, the Department now provides this information monthly on GOV.UK¹ to enable interested parties to better track progress on each scheme. Going forward, I do not propose to duplicate these figures in further updates to your Committee but will continue to highlight significant milestones and I will of course respond to any questions you or your Committee may have.

In the body of this letter, I am providing an update across all compensation delivery. In Annex A, you will find an updated table covering compensation, legal and administrative costs for delivering compensation to those with overturned convictions, the Post Office's Horizon Shortfall Scheme (HSS), the Group Litigation Order (GLO) Scheme, the Suspension Remuneration Review (formerly referred to as Suspension Pay Scheme (SPS)) and the Post Office Horizon IT Inquiry, setting out both the costs to date and estimated outturn for these areas.. However, I wanted to first make you aware of an announcement the Government is making today.

Post Office Process Review

The Post Office Limited is compensating postmasters for the suffering they have experienced due to the historic Horizon IT Scandal, which arose following the installation of the Horizon software in the late 1990s.

In parallel with this, Post Office has continued to review its operational processes and policies to ensure that, where any further issues are identified, it takes steps to investigate and address these.

¹ <https://www.gov.uk/government/publications/post-office-horizon-compensation-data-for-2023>

Through this work, Post Office has found previous operational issues such as processes and/or policies regarding certain services that impacted postmasters financially. As a result, Post Office is establishing a compensation scheme to provide redress to postmasters affected by these issues. This is separate to its work compensating postmasters for Horizon shortfalls and for those with overturned convictions.

The Government is supportive of Post Office's programme of reform, putting right the wrongs of the past, and its aim to help rebuild trust with its postmasters. The Government therefore intends to support Post Office's Process Review scheme with funding to cover the cost of compensation to postmasters affected by the issues identified.

The compensation will be exempt from Income Tax, National Insurance Contributions, Capital Gains Tax and Corporation Tax.

Post Office will communicate with current and former postmasters and publish details on its website in due course, to outline the scope of the review. The Department for Business and Trade will provide oversight to ensure that this compensation is delivered quickly and effectively to affected postmasters.

This funding is subject to compliance with subsidy control requirements, including referral to the Subsidy Advice Unit (part of the Competition and Markets Authority) under the Subsidy Control Act 2022.

Overtured Convictions

I wrote to your Committee in September when I announced in the House that all postmasters who have had their convictions overturned because they were reliant on Horizon evidence will be offered £600,000 in full and final settlement of their claims. This offer is currently with all eligible postmasters for consideration. Whilst I recognise that it will not be the preferred route for all claimants, I hope this change has provided some reassurance to postmasters that there is an optional quick and straightforward route to compensation, if they would like to take it. I also hope it will encourage further postmasters to come forward and appeal their convictions.

Horizon Shortfall Scheme

Progress continues to be made on delivering compensation to postmasters through the Horizon Shortfall Scheme, with offers issued to all but 2 of the original cohort. Post Office is working at pace to issue offers to the remaining claimants as soon as possible. Recognising the considerable period that these remaining claimants have been waiting to settle their claims, Post Office is making interim payments of up to 100% of the offer to those who are currently progressing through the Dispute Resolution Process.

As the Committee is aware, the Department announced in June that it would support the Post Office with funding to make additional payments to postmasters in the HSS to ensure that compensation is not unduly lost to tax.² Given the complexity involved, the Post Office has spent time putting a team in place to deliver the payments and designing a process with appropriate oversight and assurance. I am pleased to report that the Post Office has now started to issue letters to the first tranche of claimants setting out the detail of the top-up payments and the support available. More information is provided on the Post Office website - <https://www.onepostoffice.co.uk/scheme>.

² <https://www.gov.uk/government/news/government-announces-tax-top-up-payments-for-postmasters-affected-by-the-horizon-it-scandal>

Group Litigation Order (GLO)

Over the summer the Department has been finalising arrangements and documentation regarding scheme delivery. We have appointed and announced Sir Ross Cranston as the independent reviewer. As of 2 November, DBT has paid circa £27m in compensation (including interim payments). We continue to make progress in this area and are making offers as a result. We would encourage all claimants' legal representatives to submit claims to the Department as soon as possible.

Suspension Remuneration Review

In addition to the Horizon compensation workstreams, the Department is providing funding to Post Office to deliver compensation to postmasters who did not receive remuneration during a suspension period, through the Suspension Remuneration Review (SRR).

As of 3 November, Post Office had made offers of compensation to 271 postmasters, with payments made to 156, totalling around £2.7m in value. The current offer acceptance rate is 84%. Post Office has issued 1,685 initial disclosure letters to current and former postmasters.

The Department is providing oversight to ensure that compensation is delivered quickly and effectively to affected postmasters and we will continue to keep the Committee updated on any key milestones.

Cross-Cutting

As you may be aware, Sir Wyn Williams, Chair of the Post Office Horizon IT Inquiry (POHIT), published his interim report on compensation in July. I am pleased to attach a copy of the Government response.

A copy of this letter will be shared with Sir Wyn Williams and Parliamentarians who have been active in campaigning on Horizon issues.

Yours ever,

A handwritten signature in black ink, appearing to read 'Kevin', with a stylized flourish at the end.

Kevin Hollinrake MP

Minister for Enterprise, Markets, and Small Business
Department for Business and Trade

Annex A: Horizon-Related Costs

1) Government compensation for the Group Litigation Order (GLO)
• Good progress has been made on delivering compensation for those in the GLO. To date 45 claims for full and final compensation have been received with a number being fully settled. • Government contracted with Freeths LLP for administration of interim payments and provision of data and methodology. Total value of contract £150k plus VAT. • Government has contracted with Dentons LLP and Addleshaw Goddard to help run the compensation scheme. These contracts are valued at £2,523,129 and £3,900,000 respectively, plus VAT. Government is contracting with the Post Office to enable it to disclose information to GLO claimants. The contract value is £3.7m.
Costs to date As of 3 November, DBT has paid: • Compensation (including interim payments): circa £27m • Payments to Dentons LLP: £295,573 (inc. VAT) • Payments to Addleshaw Goddard: £276,937 (inc. VAT) • Payments for claimants' reasonable legal fees: £1,867,692 (inc. VAT)
2) Horizon Shortfall Scheme (HSS)
Estimated outturn • £180m estimated cost of settlement compensation, including payments made, is set out in the Post Office's 2021/22 Annual Report. £172m is in provision and £8m is from payments made before April 2022. • This includes the first c.£87m being covered by Post Office. DBT has made the funds available to cover the remaining settlement amounts, estimated to be £93m. • £83m is the current forecast for all the associated legal and administrative costs to be covered by the Post Office. This covers the period of 2020/21 – 2024/25. • This includes design, administration, set-up running costs of the scheme, dispute resolution and an estimate upon closure of the scheme once all payments have been made.
Explanatory Notes <i>1) Settlement compensation:</i> • The actual settlement costs will depend on the compensation paid out under the scheme, which will be determined by the Independent Panel, and, if the initial offer is not accepted, through negotiation with claimants via alternative resolution methods. • An initial estimate of £233m of maximum budget cover from the Government for HSS compensation payments was published by the Department, as we are required to do, on the UK Subsidy Control Transparency database. This was an estimate of maximum budget cover potentially required from Government and is not an estimate of likely outturn in settlement costs. The best estimate of likely overall compensation under HSS is £180m as set out in the 2021/22 Annual Report. £8m was paid out by March 2022 and there is a £172m provision for further payments.

- The increase from the £150m estimated cost of settlement compensation in the Post Office's 2020/21 Annual Report to the figure of £180m here is a result of the addition of 502 late applications and the revision of a number of principles including termination losses.

Costs to date

- As of 7 November 2023, offers have been made to 2,415 out of 2,417 original eligible cases (99.9%). The total value of offers made is £107.3m. 2029 payments valued at £79.2m have been made on original claims, including interim payments. A further £4.2m has been paid out in respect to 117 late applications.
- £73.2m has been spent on legal and administrative costs to run the programme.
- Government has made no financial contributions to date.

3) Compensation for overturned convictions

Estimated outturn

- £780m is the estimated maximum potential spend for payment by the Department to cover both the interim payments and the final settlements.
- As of March 2022, there was a net present value of £493m estimated cost of settlement, of which £6m had been paid at that stage, which left the provision recognised in Post Office's 2021/22 Annual Report at £487m. As of October 2023, against the net present value of £493m million estimated cost of settlement, of which £21.6m has been paid, there is a remaining provision of c.£472m.
- £27.2m is the current forecast for all the associated legal and administrative costs to be covered by the Post Office. This covers the period of 2021/22 – 2024/25.

Explanatory Notes

1) Settlement compensation:

- Actual costs will be determined by the total number of overturned convictions and the individual settlements reached. The estimated maximum £780m figure was published by the Department, as we are required to do, on the UK Subsidy Control Transparency database broken down into maximum estimates of £94.4m to cover interim payments and £685.6m to cover final settlements. This was an estimate of maximum budget cover potentially required from Government and is not an estimate of likely outturn in settlement costs.
- Government funds will cover settlement payments and the claimants' reasonable legal costs only and will be paid to Post Office in arrears to fulfil interim payments and individual settlements where the offer made has been accepted by the claimant.

Costs to date

- Initial interim payments have been made to 82 claimants, totalling £11.6m.
- Value of full and final settlements is withheld for claimant privacy.
- Including those settled in full and final settlements, Post Office has made 60 payments on non-pecuniary settlements, totalling over £7.2m (in addition to interim payments already received), and has made offers to a further 16.
- Government has reimbursed Post Office £22.5m to date, which includes compensation sums and claimants' legal/professional fees.
- £15.1m has been spent in Post Office legal and administrative costs for the programme to compensate those with overturned convictions.

4) Suspension Remuneration Review (formerly referred to as Suspension Pay Scheme)
Compensation to date Post Office has made offers of compensation to 271 postmasters, with payments made to 156 totalling around £2.7m in value.
Estimated outturn £115.9m is the estimated total potential liability associated with the Suspension Remuneration Review. Government has agreed to fund suspension pay settlements up to March 2024. - In the Post Office's 21/22 Annual Accounts is a provision of £62m for probable compensation payments relating to the Suspension Remuneration Review.
5) Other Post Office costs
Costs to date £41.8m on Post Office legal fees relating to legal obligations, response and support activities in relation to postmasters who wish to appeal their Horizon related convictions. - This includes costs associated with identifying and contacting potential future appellants, discovery and disclosure of over 4.5m documents and preparation and representation at hearings before the Court. £21.1m on Suspension Remuneration Review, other legal, project management, governance, operational reviews, improvement implementation and contracts, regarding Horizon-related issues and requirements.
Estimated outturn Costs in these areas for the remainder of the compensation settlement process cannot be reliably estimated at this time because any further such activity will largely be responsive and demand-led, e.g., as appeals against postmaster convictions are progressed.
6) Horizon IT Inquiry
Costs to date - Government has spent £30.6m running the independent Post Office Horizon IT Inquiry for FY 2020/21, FY 2021/22, and FY 2022/23 up to the end of Sept 2023. - Post Office has spent £93.4m in legal and administrative costs in responding to the Inquiry to October 2023.
Estimated outturn - Government: Additional cost estimates for FY2023/24 and FY2024/25 for the running cost of the Independent Post Office Horizon IT Inquiry are not yet finalised and will be provided in a future update to the DBT Select Committee on Horizon-related costs. - Post Office's costs are also not yet finalised and will be provided in a future update to the DBT Select Committee.