



Brooks Newmark MP
House of Commons
LONDON
SW1A 0AA

Your Ref:
Our Ref:

23 December 2009

Dear Mr Newmark

I have been asked to reply to you directly on the Parliamentary Questions that you recently raised on the new Post Office Horizon system and Subpostmaster contract matters.

The new Post Office Horizon system is in the process of implementation. The migration to new data centres has already been successfully completed and the preparation for the roll out of new counter software is at an advanced stage and will be implemented in our model offices before Christmas and then progressively rolled out across our branch network in the New Year. Completion for the majority of the network is expected to be by the end of April 2010 with just a few offices that will need to be finalised after this date.

The current forecast for the cost of the project is £117m and the main benefit of the new system is a significant reduction in running costs compared to the old system under the previous contract with the supplier. In 2010/11 this saving will be £56m.

Whilst the new system is essentially the business equivalent of the current system there are a number of new features. There is a new user interface which provides greater ease of navigation, an improved postal services application, embedded counter operations manuals in a context sensitive help function, a significant reduction in the amount of paper used and a secondary network link, for use in case of failure of the primary connection, for many more branches than with the current system.

The new system has been designed with extensive input from Subpostmasters and other users and over 5000 have had the opportunity to review the new design and provide feedback during development. The new software has been subject to a number of third party sign offs and a number of independent reviews have been carried out into various aspects of the new system. Also, once implemented, the system is subject to annual audit by the businesses external auditors.

As with the current system the design ensures that accounting integrity is maintained if a system failure occurs. Significant amounts of testing effort are devoted to proving that, should a failure occur, the system not only enables accounting integrity to be maintained but also to ensure that the system alerts those responsible for its maintenance when a failure occurs. A feature of the system is the audit archive to which every transaction is written. This data is sequentially numbered at the point of its creation so should a system problem cause data to be lost then this would, amongst other places, be visible in this archive. When data is written to the



www.postoffice.co.uk

archive it is locked so that it is possible to prove that the data has not been altered. This archive data is used by Post Office Limited to prove that the system balances are correct and that the data used to prove the balance has not been tampered with since its creation.

Moving to the questions you raised around Subpostmasters contracts – our summarised records for Subpostmasters show the current/latest status of their contractual position i.e. if there is a valid Subpostmaster contract in place, if the contract has been suspended or if the contract has been terminated. Additionally, where a suspension or terminated contract status is identified the record will also show the type of action i.e. cash shortage. Information on those instances where the use of the Horizon system forms part of the case is not data that we can provide as we do not hold this at a summarised level and identifying this would involve the checking of each individual Subpostmaster record which is a very costly and time consuming activity which we are unable to undertake.

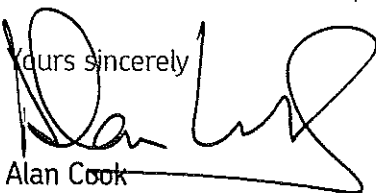
A Subpostmaster's contract may be terminated if the terms of that contract are breached. The termination may be summary for one serious and significant breach e.g. false accounting or misuse of Post Office funds, or for a number of breaches which together demonstrate serious failings in how the branch is being operated and managed. A Subpostmaster's contract can also be terminated by giving three months notice and this would generally be for a series of less serious operational failures demonstrating a lack of ability to perform effectively in the role.

Issues related to breach of contract which may lead to termination of a Subpostmaster's contract are considered to be internal procedures and, as such, meetings and hearings are not open to external bodies to attend, this includes solicitors. A Subpostmaster may be accompanied at a conduct meeting by one of the following:

- a Post Office® employee
- a Subpostmaster
- a registered Sub Post Office Assistant
- a representative of the National Federation of Subpostmasters (NFSP) who may also be a Subpostmaster

Appeals following termination of contract are conducted by a member of Post Office Limited's National Appeals Authority who has been specifically trained to deal with appeals of this nature. The Appeals Manager assigned to the case will not have had any involvement with the case previously, thus ensuring impartiality. The appeal is a complete re-hearing of the case and not simply a review and, again, the Subpostmaster is entitled to be accompanied/represented as stated above.

I hope this information is helpful to you.

Yours sincerely


Alan Cook
Managing Director