

Witness Name: Pat McFadden
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POST OFFICE HORIZON IT INQUIRY

FIRST WITNESS STATEMENT OF RT HON. PAT McFADDEN

I, Pat McFadden, former Minister of State in the Department for Business, Enterprise and Regulatory Reform and former Minister of State in the Department for Business, Innovation and Skills, will say as follows:

INTRODUCTION

1. I make this statement in response to the Inquiry's request for evidence dated 8 May 2024 ("the Rule 9 request"). I have prepared it with the support of the Government Legal Department and counsel. I have been dependent on others putting documents before me to assist with the chronology of events as set out herein, but any views expressed in this statement are my own. I would be very happy to clarify or expand upon the evidence set out in this statement should it assist the Inquiry.
2. I have answered the Rule 9 request in sequential order, adopting the same numbering, and have endeavoured where possible to provide my account in chronological order as requested.

Background

3. After completing my undergraduate studies in 1988 I worked as a researcher for Donald Dewar, then Labour's Scottish Affairs spokesman. From 1993, I served John Smith QC, Labour leader, as a policy adviser. I then worked for the Rt Hon Sir Tony Blair KG in several advisory roles, including as his Political Secretary from 2002.
4. I was elected to Parliament in 2005 as the MP for Wolverhampton South East. From 5 May 2006 to 28 June 2007, I served as the Parliamentary Secretary in the Cabinet Office. I was appointed Minister of State in the Department for Business, Enterprise and Regulatory Reform ("BERR") on 2 July 2007, with responsibility for employment relations and postal affairs.
5. In October 2008, when Lord Mandelson was appointed as the Secretary of State for BERR, I led for BERR in the House of Commons across a range of different issues as Minister of State. This was necessary because the Secretary of State was a member of the House of Lords and could not appear or take questions in the Commons.
6. My role at BERR concluded on 5 June 2009 when BERR was dissolved and replaced by the Department of Business, Innovation and Skills ("BIS") as part of a machinery of Government change. I was appointed Minister of State in BIS on 9 June 2009 and served until the general election of 6 May 2010, when I left Government.
7. In this statement I will refer to BERR and/or BIS as "the Department" unless specificity is required.
8. Since the 2010 general election, I have continued to serve as the MP for Wolverhampton South East. During the period between 2010 and 2024 I served on the House of Commons Treasury and Exiting the European Union Select Committees. I was appointed Shadow Secretary of State for Business, Innovation and Skills on 12 May 2010 and served in that role for a brief period until 8 October 2010. From 20 October 2014 to 5 January 2016 I served as Shadow Minister for Europe. From 10 April 2020 until 29 November 2021 I served as the Shadow

Economic Secretary, and from 29 November 2021 to 4 September 2023 I acted as Shadow Chief Secretary to the Treasury. Since 4 September 2023 I have served as Shadow Chancellor of the Duchy of Lancaster.

Knowledge and understanding of concerns about the Horizon system

9. When I was appointed Minister of State at BERR on 2 July 2007 postal affairs came within my policy portfolio. As Minister, my responsibilities included leading on any legislation connected with employment relations or postal affairs, meeting with external stakeholders, and being the main Ministerial point of contact for the civil servants covering these areas in the Department. I would take debates and questions in Parliament and represented the Government at European Council meetings on matters touching those policy areas. It was my role to make sure that the five-year strategy for Post Office Limited (“POL”) was implemented.
10. Upon appointment to the Department, I was given a handover note. It was prepared by officials and was the sort of note made available to any new Minister when taking up post in any Government department. The note is aimed at bringing new Ministers up to speed with current issues in the Department and likely early decisions the Minister will have to make.
11. The handover note is entitled “Post Office Network – Issues. Key Points & Background Info” (BEIS0000014 Post Office Network – Issues. Key Points & Background Info) and is comprehensive in addressing the issues within the portfolio in respect of which I would need to be making decisions.
12. The note focusses very much on the programme of Post Office closures about to be implemented; a project known as the Network Change Programme. The Network Change Programme was the central component of Post Office’s five-year strategy. It involved the reduction of the size of the network by 2,500 branches out of a total network of around 14,000 in order to make the network commercially viable.

13. The closure programme had been decided upon and agreed by previous Ministers as part of Government policy, driven by losses in the Post Office network and changing consumer habits (such as the decline in people sending letters). The implementation was about to begin when I was appointed to BERR and it proved very controversial, with heated opposition in local communities, and significant Parliamentary activity such as petitions, a large number of adjournment debates and debates in the House of Commons and Westminster Hall, parliamentary written questions, and evidence to the Select Committee.
14. The closure programme helps to illustrate the relationship between the Department and POL: whilst the overall policy was agreed between the Government and POL, the implementation fell to POL. So, for example, whilst there were criteria for the selection of branches for closure, the individual decisions were left to POL¹. Although Ministers played no role in selecting which Post Offices closed, as the Minister with overall responsibility for postal affairs I took most of the debates in Parliament on the programme.
15. Another key area for me in the postal affairs brief was the search for new streams of work for the Post Office. The Post Office faced technological challenges. Greater direct payment into bank accounts of benefits and pensions meant fewer people were using the Post Office for collecting these benefits.
16. Issues in the employment relations area of my portfolio included legislation going through Parliament to improve employment rights. I spent considerable time on the European Directives with implications for UK workers and businesses, specifically the Working Time Directive, where the UK had an opt out from the 48-hour week, and a proposed Agency Workers Directive which would guarantee

¹ The requirement to ensure good national coverage of branches indirectly added to the controversy of the programme. It meant that the Post Offices selected for closure were not necessarily those where the sub-postmaster might volunteer for voluntary redundancy but rather those which the Post Office selected based on the criteria of having adequate coverage in the area. It also meant that where a local campaign was successful in saving a post office from closure, POL picked another one for closure, sticking to the target of reducing the network size by 2,500.

equal rights for Agency workers once they had been employed for a particular period of time.

17. My portfolio and responsibilities for the first year or so focussed on the closure programme, the Hooper Review into the future of Royal Mail, legislation to improve employment rights, the vulnerable workers forum and the European Directives referred to above. From 2008 the role broadened as I began to act as the Departmental lead in the House of Commons. This meant involvement in a number of industrial and business issues following the financial crash; for example, the future of the UK steel and automotive industries, and work with Regional Development Agencies to try to help business recover from the financial crisis.
18. As to my knowledge of Horizon when I was appointed to the Department, I knew by virtue of the handover note that Government had made an investment of £500 million in 1999 into the Horizon project *“to bring modern computer systems into every post office in the country for the first time – enabling Post Office Ltd to launch a range of new products and to open its counters to potentially over 20 million bank customers”* (BEIS0000014).
19. The note did not mention anything in relation to any issues subpostmasters and subpostmistresses (“SPMs”) were having with the Horizon IT system, and I did not receive any oral briefing upon appointment to the Department in relation to any such issues. Horizon was mentioned in briefings and statements when I was first appointed only as an investment in the future of the Post Office. I did not at the time of appointment know of complaints made by SPMs about the system, or any Post Office Limited (“POL”) or Royal Mail Group (“RMG”) investigations into such matters, or any prosecutions by RMG for fraud, theft or false accounting. My knowledge of Horizon matters did not materially change or develop until early 2009, as I explain further below.

Government oversight of POL

20. Every Minister has a private office of a few officials who help process all the paperwork, prepare the Minister's box, arrange their diary and so on. Additionally, the Department has lead officials on specific areas who would be the experts on those areas, and would prepare any relevant submissions and attend any relevant meetings. For Post Office purposes during my time at the Department the officials were those working within the Shareholder Executive (ShEx).
21. At the time of my appointment in July 2007, both RMG and POL were publicly owned, but run at arm's length from the Government. This meant each had their own chair, chief executive / managing director, and management team.
22. Royal Mail and the Post Office were different in character, though faced some similar challenges from technological change. Royal Mail was a large nationalised industry with many thousands of directly employed staff. The Post Office was a huge network of small businesses run mainly by sub-postmasters who often ran a shop or business alongside the post office, and several hundred Crown Post Offices – mainly larger ones located in town and city centres – which were run by directly employed staff. Of the two, the Post Office had more of a social benefit character – an organisation providing a range of services in every community in the country.
23. The arm's length relationship between Government and Post Office was legislated for in the Postal Affairs Act of 2000, which had the policy intent of day-to-day operations in the Post Office being run by its own management rather than Ministers in the Department, or their officials. Making a statement introducing the Post Office White Paper of July 1999 which preceded the legislation the then Secretary of State for Trade and Industry said²

“The White Paper proposes that the Post Office be subject to effective market disciplines coupled with regulation, and be allowed new commercial freedoms. Operating at arms length from Government, it will have the freedom to grow and the means to succeed...”

² RLIT0000219

Although the Government will set out clear objectives for the Post Office, they will not be involved in day-to-day business operations. The Post Office Board will be responsible for running the Post Office, based on a rolling five-year strategic plan, which will be agreed with the Government...

Primary legislation will be necessary to transform the Post Office into a public limited company. That will underline the new commercial freedoms and help to establish clearly the separate functions of ownership and management, by subjecting the Post Office to the full range of company law. In particular, the directors will owe their duty to the company, not directly to the Government.”³

24. This arrangement was in place for several years prior to the period in which I served as a Minister. The arrangement meant that the executive team of POL had responsibility for running the company. Issues regarding individual sub post offices were regarded as operational matters to be dealt with by POL.
25. As with the Post Office, the Government owned Royal Mail which was also – and again by design – run at arms-length with its own chair, chief executive and management structure. Royal Mail faced significant challenges as a result of technological change. Letter volumes were declining and parcel volumes were increasing due to online shopping but parcel delivery was open to much more competition than letter delivery. Alongside its competition and technology challenges Royal Mail had to fulfil the social obligation of the Universal Service Obligation. This is the obligation to deliver a letter at a single price anywhere in the country. To address these challenges at the end of 2007 the Government commissioned the Hooper Review into the future of RMG.
26. The Hooper Review recommended that the Government seek private capital for RMG – in other words a partner who would invest and take a stake in the business,

³ The White Paper was followed up by the Postal Services Act of 2000 which enacted the above provisions and established the Post Office as a Public Limited Company.

to help it modernise and meet the challenges posed by new technology and changing communications patterns.

27. For a Labour Government, proposing that a private partner take a stake in RMG was challenging politically. Many Labour backbenchers were deeply opposed to any level of private investment and ownership. The Communication Workers Union (CWU) which represented Royal Mail's staff was totally opposed to the idea.
28. Legislation was brought forward and introduced in the House of Lords, with its second reading on 10th March 2009. The Bill passed in the Lords but in the end, a combination of political opposition and the lack of a potential partner willing to invest at what the Government considered good value for the taxpayer meant it did not proceed through the Commons.
29. POL also faced technological challenges. Greater direct payment into bank accounts of benefits and pensions meant fewer people were using the Post Office for collecting these benefits. A major decision to continue the contract for the Post Office Card Account offered some breathing space but the change in payment practices continued. One of the features of the relationship between POL and Government at this time was the search for new streams of work for the POL – either Government services or financial services.
30. When it came to Horizon, this meant that issues to do with the proper functioning of the IT system were issues for POL's management. Treating these as "operational matters" had been a matter of established policy for some years. Legislation had separated the ownership and management functions of the Government and the company. It was Government's role to set the strategic objectives for POL and to help see them delivered, but POL was to be free of Government intervention. That was the point of the legislation. Issues to do with the proper functioning of the IT system fell within the scope of the day-to-day running of the business, its operations. It was an operational matter for POL.
31. The Government's right and proper role was that of owner and shareholder. As the Minister with overall responsibility in relation to RMG and POL, it was my job

to lead for the Government in any Parliamentary debates on matters related to these companies, answer Parliamentary Questions, and lead on any relevant legislation. I took no role in the day to day running of these businesses. That was done in each case by the executive teams of those businesses.

32. ShEx exercised the shareholder function on behalf of Government. ShEx was responsible for looking after the Government's shareholdings in a number of publicly owned organisations (Ranging from the Nuclear Decommissioning Authority to Channel Four to Royal Mail).
33. ShEx officials would prepare advisory papers, briefings, submissions on issues relevant to POL and RMG, they would draft Parliamentary answers, sit in on meetings with the management of the two companies, advise my private office on these issues and were generally regarded as the experts on postal affairs within the Department. During my time as Minister, much of the discussion with ShEx was about the future of RMG; issues to do with the sustainability of its pension fund, industrial relations and questions related to the Hooper Review.
34. Ministers receive large volumes of correspondence and documents across their policy portfolios. Ministers are to a very large extent reliant on the objective and impartial advice of officials and their steer as to what is required. They rely on officials to determine what a Minister should review personally, to analyse information accurately and to provide sensible recommendations for action, and to draft responses to correspondence that are consistent with and advance Government policy. Given the breadth of ministerial portfolios and the challenging constraints on time that entails, Ministers must make decisions on the advice given, trusting and with the expectation that officials are competent and have acted with honesty and integrity. Whilst Ministers do and must challenge the advice given when appropriate, the efficient functioning of Government necessitates that Ministers work with the expectation that the information they are given by advisers is given in good faith and in accordance with the Civil Service Code.
35. I relied on ShEx for briefings and, as with other policy areas, expected information on these matters to be true, accurate, and reliable.

36. My common practice at the time I served at the Department, and which I expect was broadly typical for Ministers generally, was that correspondence and documentation sent to the Department for my attention would be received by my private office. My private secretaries would review the documentation and apply their judgment as to how that documentation should be directed. The document may be referred elsewhere; for example, the correspondence sent in November 2009 to Lord Mandelson's office, which I address below, was redirected for my attention.
37. If a document or piece of correspondence was to be dealt with by my office then, depending on the nature and complexity of the issue, it may be addressed directly by my private secretaries, referred to officials for analysis and advice, or referred directly to me.
38. My private secretaries would regularly deal with correspondence on my behalf, and I trusted them to do so. Documents referred to officials would usually be returned with a briefing note containing advice and often with a draft response for my consideration.
39. I believe I met with senior management of RMG and POL every few months. Contact with the relevant officials in ShEx was more frequent. For example, during the Post Office closure programme when there were lots of Parliamentary debates about closures I would see Mike Whitehead, the lead Post Office official within ShEx, quite often. With the Hooper Review and the issues surrounding it I would meet with Stephen Lovegrove, the head of ShEx at the time. I would periodically meet the chief executive of RMG and managing director of POL, as would the Secretary of State, but it was officials from ShEx that had the most regular contact with those companies. The managing director of POL during my time as Minister was Alan Cook. The chief executive of Royal Mail was Adam Crozier.

Response to POL investigations of complaints about Horizon system

40. I had overall policy responsibility in relation to RMG and POL, leading for the Government in any Parliamentary debates on matters related to the companies, answering Parliamentary Questions, giving evidence at Select Committees and so on.
41. Correspondence related to the Horizon system was in most cases referred to POL for answer because they were running the system. The Department would not have held any information about individual sub post offices or the day-to-day operation of the IT system. Where a reply on the matter was signed by me, the substantive information within it would still have come from POL. In the case of Parliamentary Questions about Horizon, these were in most cases referred to POL for answer, mostly in the form of a letter from the Managing Director to the MP raising the questions. Throughout my time as Minister POL maintained its position that Horizon was robust and reliable.

Relevant conversations, meetings, correspondence and briefings about Horizon

42. On 13 January 2009, my private office received a letter from Jacqui Smith MP. She wrote regarding one of her constituents, Julian Wilson, who she told me had been suspended from his position as the subpostmaster at Astwood Bank Post Office. Ms Smith set out that *"the system gives a summary of transactions and a total per week, but not a value per transaction. The charge is that the Post Office is £27k adrift over the last five years"*. Ms Smith goes on to say that Mr Wilson had *"heard of three other postmasters in exactly the same position as him within a six mile radius of Redditch. He states that there are others that he knows of within the West Midlands area. I feel that there could be a system problem here"*. Ms Smith requested that I *"investigate this issue and provide a response for my constituent on this issue"* (WITN10250102, Letter from Jacqui Smith MP dated 13 January 2009).
43. I replied to Jacqui Smith MP through my private office on 9 February 2009. I wrote that *"since March 2001, Government's role in Royal Mail Group – which includes Post Office Ltd (POL) – is that of a shareholder in a public limited company. Under the Postal Services Act 2000, Parliament gave Royal Mail greater commercial*

freedom and Government established an arm's length relationship with the company so that the Board could run the business as it decides best to meet the market developments and changing customer needs. Operational decisions, which include decisions relating to the running of individual Post Office branches are a matter for Post Office Ltd".

44. I went on to say that "*I understand that Glenn Chester of POL has written to you regarding the investigations at the Astwood Bank Branch. As you are aware, POL have procedures in place to deal with issues of this nature and I am assured that the appropriate action has been taken*". I concluded that "*I was informed that Mr Wilson resigned from his position in September 2008 and was, therefore, not invited to be interviewed by POL regarding this matter. In the circumstances I do not believe there is anything more that I can usefully add*" (WITN10250103, Letter from Pat McFadden to Jacqui Smith dated 9 February 2009).
45. Whilst I do not know for sure, I believe that this reply would have been drafted by officials in ShEx. In any event, the information in the reply would certainly have come from ShEx even if the reply itself was drafted by my private office. I would not have had any way of knowing about Glenn Chester of POL writing to Ms Smith, or any of the detail surrounding Mr Wilson's resignation, or any investigations, absent ShEx's involvement. This reply would have been clipped to the underlying correspondence in my ministerial box. I would have read the reply and Jacqui Smith MP's letter and signed it off. I relied upon the information provided to me by officials.
46. I do not believe that I was aware of the JFSA or its work whilst Minister at BERR and later at BIS.
47. I do not recall having conversations with the NFSP or the CWU regarding the Horizon IT system during my time at BERR or BIS. However, I note that George Thomson, General Secretary of the NFSP, made a comment some years later to the Business Select Committee on 3 February 2015, when asked about the Horizon issues, as follows: "*Well, for example, if a sub-postmaster happens to end up being £30,000 short—I made this point to Pat McFadden many years ago when he was Post Office Minister—they think, "Well, I know that I never took that money,*

so it has to be a Horizon mistake.” That is the postmaster’s point of view. However, a member of staff could have misappropriated the money or actually done the transaction wrong.”

48. I do not believe that I spoke to the Secretary of State⁴ regarding the issues this Inquiry is interested in during my tenure. To the best of my recollection, the only interaction I had with Lord Mandelson regarding the Horizon IT system was in respect of the November 2009 correspondence, which I address below.

49. The Inquiry has asked me to look at the set of correspondence at POL00027890. On 24 February 2009, Brian Binley MP wrote to my private office. I believe that letter was received by my private office on or around that date.

50. In his letter, Mr Binley enclosed an email from Rebecca Thomson “*regarding the accounting IT system at Post Office*”. Mr Binley said in his letter that “*the content of her email is worrying*” and that he “*would be very grateful if (I) would address the points she is making and let me know the exact situation regarding this matter*”.

51. The email from Ms Thomson is dated 10 February 2009. The email signature records that she is a reporter at the publication Computer Weekly. I am now aware that Ms Thomson later published an article about the Horizon issues in May 2009, but I did not know that until many years after.

52. In her email, Ms Thomson says “*I have spoken to several current and former sub-postmasters, who say that random flaws in the IT are causing deficits in their weekly accounts, sometimes to thousands of pounds at a time. Their complaint is that, instead of listening to their problems and investigating the software or equipment, the Post Office is making them pay back this money without any investigation into what is going wrong. Neither they, nor I, have any way of proving that it is the IT that is causing the deficits. The problem is that the Post Office refuses even to entertain the possibility that their system could be going wrong*”.

⁴ Baron Hutton of Furness from 28 June 2007 to 2 October 2008; Lord Mandelson from 3 October 2008 to 11 May 2010.

53. Ms Thomson goes on to say *"the consequences for some of the Post Masters have been extremely serious. Of the group I am in contact with, two have been forced to file for bankruptcy. Others have lost their life savings. If post masters cannot pay the deficits back, because their savings have been depleted, the Post Office takes it out of their wages. In desperation a couple of the post masters I've spoken to turned to false accounting: they were not getting help when they asked for it from the company, and they did not have the money to pay the deficits back. So they signed the weekly accounts, affirming the money was there when it was not. The Post Office has then prosecuted these people, although no-one that I have heard of has ever been prosecuted for theft"*.
54. Ms Thomson concludes, *"I know the BERR select committee is currently conducting an investigation into the future of the Post Office, but as a separate matter I'd like if at all possible to talk to you to get your comments on the allegations of these post masters"*.
55. As far as I can tell from the documents this was the first time I was made aware that POL was prosecuting its SPMs in respect of these shortfalls. It was also the first time I became aware that there were complaints regarding POL's investigation of the issues.
56. Brian Binley MP's letter would have been shown to me by my private office with Rebecca Thomson's email clipped to it. I would have read both the letter and the email. I do not remember having any oral discussions with Ms Thomson, Brian Binley MP, Alan Cook or other representatives of POL or officials in the Department or ShEx, regarding the issues raised by Ms Thomson.
57. My private office sent Brian Binley MP's 24 February 2009 letter to Alan Cook, POL's Managing Director on 30 April 2009, which I can see was received by POL on 7 May 2009. The decision to handle the correspondence that way would have been a decision taken by the officials in my private office. The source of the information in the response would have been POL, whether or not it came directly from Mr Cook or via ShEx/the Department.

58. Forwarding this correspondence to POL's Managing Director for reply was in line with the Government's view and practice that this was an issue concerned with the operation of POL's IT system and that this was an operational matter for the Post Office.
59. The Inquiry has also asked me to consider the reply which Alan Cook of POL sent to Brian Binley MP on 22 May 2009 (POL00130687). I did not have any discussions with Mr Cook about his reply.
60. Mr Cook says in that letter that *"over the years since Horizon has been installed we have scrutinised many Horizon transaction records to establish where a discrepancy in the branch accounting may have occurred. This takes place prior to notifying subpostmasters that an error has been made at their branch and asking them to make good the loss, as per the terms and conditions of the Subpostmaster Contract for Services. Any subpostmaster who is unhappy to accept a loss has the opportunity to provide evidence to support why their belief (sic) that they are not responsible for it"*.
61. He goes on to say that *"please be assured that we take the concerns of our subpostmasters extremely seriously. No evidence, however, has been found that shows the Horizon system has caused the errors to occur. The primary cause is found to be mistakes in the input of data by subpostmasters and/or their assistants"*.
62. Mr Cook details the civil proceedings in respect of Mr Castleton, quoting from the judgment of His Honour Judge Richard Harvey QC, dismissing the claim, and saying that *"the losses"* which were claimed in the proceedings *"must have been caused by his own error or that of his assistants"*. He says that the second proceedings were withdrawn following the production of evidence by POL. Mr Cook says that *"in both of the cases referred to above, Post Office Limited defended the claim vigorously and assistance was obtained from Fujitsu... All of these reports proved that there was no problem with the Horizon system that would explain the discrepancies that were reported at these times"*. He concludes

that he is “*satisfied that there is no evidence to doubt the integrity of the Horizon system and that it is robust and fit for purpose*”.

63. The reply from Mr Cook sets out the position of POL at the time in two important respects. Firstly, POL’s emphatic assurance that the Horizon system was, as Mr Cook said, “*robust and fit for purpose*”. Secondly, that the reliability of the system had been proven in court. Some years later many criminal convictions were held to be unsafe and overturned. However, at the time the civil judgment against Mr Castleton and the convictions of others in the criminal courts were used by POL as a proof point of the validity of the Horizon system. Ministers are discouraged from ever interfering in court judgments for obvious and longstanding constitutional reasons.

64. On 21 September 2009, Rosemary Buck of ShEx sent the generic Parliamentary Questions email address an email attaching draft answers to five Parliamentary Questions: question reference numbers 4995; 4998; 4999; 5000; and 5010. She wrote that those answers were approved by Oliver Griffiths of ShEx. These were then passed on to my private office for approval in the normal way (WITN10250104, Email dated 21 September 2009 attaching draft answers to Parliamentary Questions reference numbers 4995; 4998; 4999; 5000; and 5010). My private secretary replied on 6 October 2009 saying that I had cleared all five of the answers noting that answers to question reference numbers 4998 and 5000 had been amended and attaching copies (WITN10250104).

65. Question reference number 5010 is relevant to the Inquiry’s Terms of Reference (WITN10250104). It is a question from Brooks Newmark, the then MP for Braintree, dated 13 October 2009. Mike Whitehead drafted the response which was approved by Oliver Griffiths.

66. I had not received any further reports of issues with the Horizon IT system in the time between Alan Cook’s 22 May 2009 letter and this Parliamentary Question from Brooks Newmark MP.

67. The question from Mr Newmark was, *“to ask the Minister of State, Department for Business, Innovation and Skills, whether he has received reports of errors in the Post Office Horizon system which have led to Postmasters or Postmistresses being falsely accused of fraud; and if he will make a statement”* (POL00364601).
68. The draft answer was, *“the Department has received no such reports. Any issues relating to the Horizon system are operational matters for Post Office Ltd. I have therefore asked Alan Cook, Managing Director of Post Office Ltd, to respond directly to the Hon. Member and a copy of this reply will be placed in the House Libraries”* (POL00364601).
69. My formal reply was provided on 12 October 2009 (WITN10250106, Question from Brooks Newmark MP dated 13 October 2009).
70. The first sentence of the answer looks to be incorrect. It may be that there was an emphasis placed by ShEx on the term *“falsely accused of fraud”* given that the Post Office replies did not accept the accusations were false, or an interpretation of *“reports of errors”* as meaning an internal report from the Department or from within the Post Office, but by that time the Department had received at least two representations from MPs about Horizon and subpostmasters: one from Jacqui Smith MP on 13 January 2009 and one from Brian Binley MP on 25 February 2009. Mr Binley MP reported via Rebecca Thomson’s 10 February 2009 email that SPMs had been prosecuted.
71. On 13 October 2009, Alan Cook, Managing Director of POL, replied to Brooks Newmark MP’s parliamentary question reference number 2008/5010⁵.
72. Alan Cook wrote that,

“the system and the processes around (Horizon) offer a very high level of security and resilience and are designed to ensure that should part of the system or

⁵ The Inquiry has provided me with a copy of this letter UKGI00000028. It is the same as the copy held by my private office WITN10250107, save that a manuscript note has been applied at the top of the first page. That text is illegible to me.

equipment fail that the integrity of the accounting records are maintained. The system has proven to be very robust since its introduction some ten years ago.

The Horizon system was fully tested at the time of the nationwide implementation and all new software releases are also subject to rigorous testing prior to going live in order to assure the accuracy of the accounting processes. Additionally, our ongoing monitoring and control processes ensure that any performance issues in the 'live' operation are quickly identified and resolved at no detriment to individual subpostmasters.

Over the years we have scrutinized many Horizon transaction records to establish where a discrepancy in the branch accounting may have occurred. This takes place prior to notifying the subpostmasters that an error has been made at their branch, and asking them to make good the loss, as per the terms and conditions of the Subpostmaster contract for services. Any subpostmaster who is unhappy to accept a loss has the opportunity to provide evidence to support why they believe that they are not responsible for it. We do take the concerns of our subpostmasters extremely seriously and we do thoroughly investigate matters when they are raised with us but there has never been any evidence found that shows that the Horizon system has caused accounting errors.

In the ten years since Post Office Limited started using Horizon the integrity of the system has also been tested in both the criminal and civil courts and has not been found to be wanting.

I am satisfied that there is no evidence to doubt the integrity of the Horizon system and that it is robust and fit for purpose" (WITN10250107, Reply from Alan Cook, Managing Director of POL to PQ reference number 2008/5010).

73. Alan Cook's response to Brooks Newmark MP's parliamentary question of 10 September 2009 is very similar in content to his 22 May 2009 response to Brian Binley MP's letter of 24 February 2009. It is as emphatic in POL's total confidence in the system and also uses the convictions in the criminal courts to support that position.

74. The third to sixth pages of the document POL00107311 are a letter from Michele Graves, Executive Correspondence Manager at POL to Mr G Ward dated 8 May 2009. Ms Graves says that she is responding to Mr Ward's letter dated 21 April to Alan Cook, POL's Managing Director. I do not believe I have ever seen this letter before.
75. On 19 November 2009 the private office of the Secretary of State, Lord Mandelson, received a letter from James Arbuthnot MP dated 3 November 2009 (UKGI00011504, Letter from James Arbuthnot MP dated 3 November 2009). Mr Arbuthnot wrote regarding correspondence he had received from a constituent, David Bristow of Odiham Post Office. Mr Arbuthnot provided that correspondence. He said that "*I note the Parliamentary Question raised by Brooks Newmark MP on 12 October and the reply dated 13 October from Alan Cook, Managing Director of Post Office Ltd*".
76. Mr Arbuthnot said that "*nonetheless there does appear to be a significant number of postmasters and postmistresses accused of fraud who claim that the Horizon system is responsible, including at least two in my constituency. Given the level of impact this has on the personal lives of these postmasters and postmistresses and their families, often involving bankruptcy and certainly significant financial hardship, I should be most grateful if you would let me have your comments on what can be done to investigate the matter*".
77. On 5 December 2009, I responded to Mr Arbuthnot MP as the Departmental lead in the House of Commons (UKGI00011506, Letter from Pat McFadden to James Arbuthnot MP dated 5 December 2009). I said that "*under the Government's postal sector reforms introduced in 2001, Royal Mail (which includes the Post Office Ltd (POL)) was given greater commercial freedom, as the management and unions had requested, and Government has assumed an arm's length role as a shareholder in a public limited company. Subject to agreeing its strategic plan with us, the Board can structure the business as it decides best to meet the challenges of market development and changing customer needs*".

78. I went on to say that *“the issues raised by your constituent are operational and contractual matters for POL and not for Government. I understand from POL that errors at the branch have been fully investigated and there is nothing to indicate that there are any problems with the Horizon system. The company’s position as regards the integrity of the Horizon system remains as set out in the reply dated 13 October from Alan Cook, Managing Director, to Brooks Newmark MP, to which your letter refers”*.
79. My reply would have been drafted by ShEx officials and as usual I would have relied upon them and my private office to provide accurate information, whether it came from them directly or from POL.
80. By this time there had been several letters and a Parliamentary Question regarding the Horizon IT system. In each case I was advised on the issues arising by ShEx and in each case POL, via ShEx, maintained their complete faith in the robustness of the system. POL operated the IT system. They insisted it was robust and fit for purpose and asserted there was no evidence it was responsible for accounting shortfalls. POL backed up this insistence with reference to court judgments as a proof point of its integrity, lest there be doubt or dispute. It was a position they maintained for some years afterwards.
81. As a government Minister you cannot interfere with judgments of a court.
82. Brooks Newmark MP raised several further Parliamentary Questions on 8 December 2009. These covered the costs of implementing the Horizon system, the mechanisms in place for independent audit of the system prior to implementation and replacement, cost savings achieved, and the disciplinary and appeal procedures for SPMs. The answer given to each was that Alan Cook would respond directly and a copy of his reply placed in the House Libraries.
83. On 23 November 2009, Alan Cook, POL’s Managing Director, responded to Brooks Newmark MP’s questions. Amongst other matters, Mr Cook said the Horizon system had been independently reviewed and that there were various features in place to ensure accounting integrity was maintained. Mr Cook also

provided answers about how an SPM's contract could be terminated for breach of contract and the procedure that would be followed, including appeals.

84. On 12 January 2010, the Deputy Parliamentary Clerk emailed my private secretary with a number of Parliamentary Questions and draft answers for my approval. The email records that if I request a redraft then my office should contact the policy official who drafted the answer (WITN10250108, Email dated 13 January 2010 from Deputy Parliamentary Clerk with PQs and draft answers). I can see from the email that the questions referred to are PQ 802 from Jacqui Smith MP; PQ 2009/798; PQ 2009/806 from Jim Cunningham MP; PQ 2009/786; PQ 2990/787; PQ 2009/800; and PQ 2009/785 (WITN10250108).
85. To the best of my knowledge, the only Parliamentary Question from this group relevant to the Inquiry's Terms of Reference was question reference number 2009/802 from Jacqui Smith MP (WITN10250109, Parliamentary Question 2009/802 from Jacqui Smith MP).
86. The question was to ask, "*the Minister of State, Department for Business, Innovation and Skills, what recent representations he has received from subpostmasters on the effect on them of use by the Post Office of the Horizon computer system; and if he will make a statement*". The question was tabled on 11 January 2010 with a response due by 14 January 2010 (WITN10250109).
87. The draft answer received, which I believe was drafted by Rosemary Buck and Mike Whitehead of ShEx, was, "*I have, in recent months, received a small number of representations from Hon members, and one direct from a subpostmaster, about the Horizon computer system. Issues relating to the Horizon system are operational matters for Post Office Ltd which investigates all concerns raised by subpostmasters about Horizon and remains confident in the integrity of the system*" (WITN10250109).
88. I did have amendments to make to the question reference number 802 from Jacqui Smith MP. I can see that my private office sent my redrafted reply to Ms Buck and Mr Whitehead on 13 January 2010 at 11.18am (WITN10250108).

89. My amendment was as follows, "*I have, in recent months, received a small number of representations from Hon members, and one direct from a subpostmaster, about the Horizon computer system. Issues relating to the Horizon system are operational matters for Post Office Ltd which investigates all concerns raised by subpostmasters about Horizon and will continue to do so if any are raised*" (WITN10250110, Amended reply to Jacqui Smith PQ 2009/802) (my emphasis). I omitted the line, "*remains confident in the integrity of the system*" (WITN10250110).
90. In making that amendment I was saying to POL that they should continue to investigate any reports raised on the issue. I wanted to ensure that POL would not simply refer back to its previous investigations if issues continued to arise for SPMs, but would actively investigate concerns if and when they arose. The actual exchange in the Commons was as follows:⁶

Jacqui Smith

An increasing number of sub-postmasters face action for the misappropriation of funds that, they believe, is based on shortcomings in the Horizon computer system. Given those numbers, does my right hon. Friend agree that it is time for the Post Office to review those cases and that system so that sub-postmasters can be confident that the computer systems that are put in place are there to support them, not to put their livelihoods at risk?

Mr. McFadden

I have received representations about that issue from hon. Members on behalf of sub-postmasters in their constituencies. The Post Office tells me that it has looked into all those complaints, and says that it has faith in the integrity of the Horizon system. However, I am sure that if there are further complaints, the Post Office will properly examine them, as it should do.

Involvement in Horizon issues since May 2010

⁶ RLIT0000218

91. I was not involved with POL on these issues after standing down as a Minister, though at the time of preparing this witness statement (May/June 2024) I have a current constituency case involving a SPM who has asked me to make enquiries about the timing of the redress system being established by Parliament as a result of the legislation that was passed just before the general election was called.
92. The Inquiry has asked me to consider document POL00161954 which is a chain of emails exchanged on 9 July 2013 between Mark Davies, Communications Director at POL, and Sophie Bialaszewski, Public Affairs Manager at POL.
93. I have no knowledge of this email chain. I do not know what the email means by “friendly MP”. I did not have sight of these emails before the Inquiry provided them to me. I do not believe I received any communication about this from POL or anyone else at the time and I did not have anything to do with the Parliamentary Statement referred to in the emails.
94. The Inquiry has asked me to consider document POL00078369. The body of the email suggests that it is an email from Jane Hill, Head of Public Affairs at POL, to me. The information in the subject header suggests this is an email dated 4 August 2015 from Mark Underwood to Jane Hill with the subject “Pat McFadden email 39: Complaint Review and Mediation Scheme Update”.
95. The email suggests there are two attachments, “CEDR Review letter 3107215” and “M134”. I have not been provided with those attachments.
96. Ms Hill says that she writes regarding my constituent Ms Nachatro Kaur saying that she had applied to the mediation scheme and the case was put forward for mediation. She writes that JFSA, “*an organisation advising a number of postmasters in the Scheme, is recommending people not to engage in mediation or in meetings we are offering with individual MPs. This is unfortunate since not engaging will simply result in losing an entirely additional and cost-free opportunity to resolve the complaint they have lodged with us*”. Ms Hill told me that she had

relayed to Ms Kaur that taking part in the scheme does not prevent her from taking further action, that funding for independent legal advice is available, and that she would be sending the attached report from CEDR on the mediations that had already taken place.

97. Miss Hill says that POL had required in July that people who have been offered mediation engage with CEDR within 6 weeks to agree dates such that if they do not respond by 4 September 2015 then their case is considered withdrawn from the Scheme and “*any outstanding issues will be taken forward in accordance with normal business practice*”. She says she attaches the letter as background.
98. I am afraid I cannot assist with these documents. I do not recall them and my constituency office does not keep records going back this far so we have no written record of the case.

Reflections on time as Minister of State

99. POL’s insistence that the Horizon system was robust and reliable was proven over time to be wrong, with terrible human consequences. Their reliance on court judgments to back up that position was also to be proven wrong in the subsequent court actions that were pursued over the years in order to overturn earlier verdicts.
100. Rereading this correspondence now, and knowing the injustice done to so many SPMs, of course I wish I had done more to ask POL if they were really sure their IT system was as robust as they suggested. Yet if I had done so, I suspect they would have continued to insist that it was not to blame for these accounting errors and they would have continued to use the court judgments as proof points. That was what they said in all the replies at the time in very strong terms and was the position they maintained for years afterwards. It was only through pursuing appeals and litigation through the courts that the truth emerged and convictions were overturned as unsafe. It is only now, 14 years on from my time in office, that Parliament has taken the unprecedented step of legislating to overturn the remaining cases which have not been otherwise dealt with through the courts.

Suggestions relating to recommendations on Government oversight of POL and governance, and any other issues

101. The question is how an arm's length body like POL can be held accountable for its actions. The Government is the 100% shareholder. Ministers do not run the Post Office but Ministers answer questions about it in Parliament and are responsible for reporting to Parliament on matters concerned with the Post Office.
102. In terms of the Departmental officials, they were responsible for the day-to-day link between the sponsoring Department and POL. They would have been passing the correspondence to POL and getting any information necessary for Parliamentary answers. I have no evidence or reason to believe that the officials in the Department were receiving any information different to that set out in the replies from POL. Ministers are reliant on the information they get from officials. At no point do I recall officials saying to me that they did not believe these replies or that they thought a miscarriage of justice was underway. I expect this was because they were being told the same thing by POL, as was set out in the replies.
103. At the root of all this was the Post Office's insistence that its IT system was robust and not to blame for accounting errors and their willingness to bring prosecutions through the courts over many years. This resulted in many innocent people being convicted or being held liable for debts they did not owe in the civil courts. Ministers do not intervene in court judgments and cannot overturn court verdicts. The separation of powers between the legislature and the judicial system is valued by all Governments.
104. I pay tribute to the many years of courageous campaigning by the sub-postmasters to overturn these convictions by appealing through the courts. And because of these exceptional circumstances I support the legislation recently passed by Parliament to overturn other verdicts where the appeals have been withdrawn or not been dismissed by the courts.
105. I have referred the Inquiry to Brooks Newmark MP's Parliamentary Questions dated 8 December 2009, Alan Cook's letter of 23 November 2009, Jacqui Smith MP's Parliamentary Question of 12 January 2010 and the documents associated

with my amendment to the draft answer. Those issues have been addressed above.

Statement of truth

I believe the content of this statement to be true.

Signed: GRO

Dated: 20/06/24

Index to First Witness Statement of Pat McFadden

No.	URN	Document Description	<u>Control Number</u>
1	BEIS0000014	Post Office Network – Issues. Key Points & Background Info	VIS00000909
2	RLIT0000219	Post Office Volume 334: debated on Thursday 8 July 1999	RLIT0000219
3	WITN10250102	Letter from Jacqui Smith MP dated 13 January 2009	WITN10250102
4	WITN10250103	Letter from Pat McFadden to Jacqui Smith dated 9 February 2009	WITN10250103
5	POL00027890	Chain of letters dated 2009	POL-0024531
6	POL00130687	Letter to Brian Binley from Alan Cook dated 22 May 2009	POL-0124218
7	WITN10250104	Email dated 6 October 2009 confirming	WITN10250104

		clearance of PQ answers.	
8	POL00364601	House of Commons Parliamentary Question: 2008/5010	POL-BSFF-0196409
9	WITN10250106	Question from Brooks Newmark MP dated 13 October 2009	WITN10250106
10	UKGI00000028	Letter to Brook Newmark from Alan Cook dated 13 October 2009	VIS00000989
11	WITN10250107	Reply from Alan Cook, Managing Director of POL to PQ reference number 2008/5010	WITN10250107
12	POL00107311	House of Commons Parliamentary Questions 2008/5010	POL-0105619
13	UKGI00011504	Letter from James Arbuthnot MP dated 3 November 2009	POL-0150399
14	UKGI00011506	Letter from Pat McFadden to James Arbuthnot MP dated 5 December 2009	VIS00000989
15	WITN10250108	Email dated 13 January 2010 from Deputy Parliamentary Clerk with PQs and draft answers	WITN10250108
16	WITN10250109	Parliamentary Question 2009/802 from Jacqui Smith MP	WITN10250109
17	WITN10250110	Amended reply to Jacqui Smith PQ 2009/802	WITN10250110
18	RLIT0000218	Oral Answers to Questions Volume 503: debated on Thursday 14 January 2010	RLIT0000218

20	POL00161954	Chain of emails exchanged on 9 July 2013 between Mark Davies, Communications Director at POL, and Sophie Bialaszewski, Public Affairs Manager at POL	POL-0150399
19	POL00078369	Email from Mark Underwood to Jane Hill Re Pat McFadden email 39: Complaint Review and Mediation Scheme Update	POL-0074932