

Witness Name: Peter Corbett

Statement No.: WITN11160100

Dated: 14th October 2024

POST OFFICE HORIZON IT INQUIRY

FIRST WITNESS STATEMENT OF PETER CORBETT

I, Peter Corbett, will say as follows:

Introduction

This witness statement is made to assist the Post Office Horizon IT Inquiry (the “**Inquiry**”) with the matters set out in the Rule 9 Request dated 7 August 2024 (the “**Request**”).

Background

1. I qualified as a Chartered Accountant in 1983, working for a firm of accountants (Arthur Young, now part of Ernst and Young). I then spent 17 years working for Sony Music in the UK, USA and Germany, where I held a variety of positions of gradually increasing seniority, most recently as Senior Vice President, Finance, Operations and Administration for Germany, Switzerland and Austria.
2. In May 2001 I joined the Consignia Group, which subsequently changed its name to Royal Mail (RMG). I was seconded to Post Office Network initially and then Post Office Ltd (POL) from October 2001 where I served as Finance Director until June 2009.
3. Whilst at POL, I was also a Trustee of 2 charities and for 3 years was a Public Member of Network Rail.
4. After leaving POL I worked as Finance Director and subsequently Chief Executive of a charity for people with sight loss (Thomas Pocklington Trust) until my retirement in 2019. For the last few years, I have been a **GRO** for my wife, who has **GRO**, and her parents, who live with us, **GRO**
GRO

The corporate structure

5. POL was a limited company and subject to the requirements of the Companies Acts. Its board of directors was responsible for oversight of all matters relating to the company's business and operation.

6. POL was created in October 2001 by bringing together 3 of the c. 20 RMG business units, Post Office Network, Network Banking and Cash Handling and Distribution. This created an entity which was similar to a previous organisation, known as Post Office Counters Ltd.

7. The creation of POL ringfenced its lossmaking business in a separate legal entity, which was a wholly owned subsidiary of RMG/H, which in turn was wholly owned by the government. Initially POL's statutory directors were senior directors of RMG, and this had also been the case in prior organizational structures, including those periods when the Horizon contract was entered into and the system was implemented. Following the appointment of David Mills as CEO (c 2002 I think), the RMG directors stepped down and the POL executive team members became also its statutory directors.

8. POL was a huge business, much larger than its turnover of c.£1.2 billion might suggest; this is because it was an agency business, i.e. it did not have its own products (except the postal order) but provided services on behalf of a number of clients, in particular the DWP – mainly benefit payments going out – and

Girobank – mainly cash and cheque receipts being paid in, plus of course Royal Mail , which owned all the postal products. POLs turnover of c. £1.2 billion represented the fees charged to clients; the actual annual gross value of business transacted was, at its peak, close to £100 billion, although this did reduce as benefit payments were gradually paid directly into recipients' bank accounts. Additionally, POL had significant working capital, mainly in the form of cash at branches and cash centres, to the value of c. £800 million.

9. Given the nature and size of POL, many responsibilities were necessarily delegated to one or more Directors or Senior Managers and teams of experts. Generally, operational matters were dealt with by individual directorates and strategic matters by the board, with the board also receiving periodic updates on operational matters of particular significance. It was common practice to copy Directors and Senior Managers on correspondence for information in appropriate circumstances, but it was understood that it was the responsibility of the direct addressees to deal with the matter.
10. The significance of the fact that POL was ultimately solely owned by the government was, principally, that because POL was heavily lossmaking, it was always subject to government funding support, which necessitated an additional level of involvement and oversight from the DTI.
11. Whilst POL was a direct subsidiary of RMG/H, it did not receive any funding from RMG/H. RMG/H asserted that it would have been in breach of its fiduciary

duties to its shareholders if it had put money into POL with no realistic prospect of getting it back, and that government must fund POL directly.

12. POL was however subject to operational control and oversight from RMG/RMH. In particular, all significant business cases and contracts were subject to review and approval by RMG/RMH. Additionally, POL was obliged to use a number of “shared services” provided by RMG/RMH, including for many years the Legal dept.
13. Responsibility for monitoring the Horizon IT system sat with POL and specifically the IT Directorate. Given the material significance of the Horizon system, both in terms of its high cost and relatively high level of errors, it was also a regular subject of discussion at POL ET and Board meetings.
14. Responsibility for criminal prosecutions and civil proceedings sat with the Operations directorate, which was responsible for management of all branches. The Security team, which included the Audit and Investigations team was part of the Operations Directorate, apart from a brief period when this team was part of the Finance Directorate. This was supported by the Legal Dept (which for most of my time was an RMG/H shared service). Proceedings against individual SPMs were not discussed at board or ET meetings.

My role

15. My key responsibilities as Finance Director were –
- a) To ensure that the company had sufficient funding to carry out its operations
 - b) To develop and implement plans to improve the profitability of the business to achieve at least breakeven and then an adequate level of profit to ensure sustainability
 - c) To safeguard the assets of the business
 - d) To maintain books and records to meet the company's statutory and contractual obligations.
16. Ensuring the adequacy of funding was a constant struggle as POL was heavily lossmaking and reliant on funding injections from government. Historically, POL (and its predecessor organisations) had the benefit of contracts with a range of government depts, and Royal Mail, which included a mix of fixed and variable income elements which broadly mirrored the cost structure of POL. These contracts also enabled it to generate a modest profit, sufficient to fund ongoing capital and working capital needs. However, this was changed by 2 key factors. Firstly, government depts, and Royal Mail, became increasingly unwilling to provide fixed elements of revenue and pursued significant reductions in the value of their contracts with POL. Secondly, POL was obliged to accept the Horizon contract which added over £100 million to its cost base

without any financial benefits. As a result, when I joined the company it was losing c £130 million per year, and this was set to get worse with ongoing loss of revenue streams, most notably the DWP plans to migrate benefit payments to bank accounts, which threatened to deprive POL of c £300 million in annual revenue and £800 million in working capital funding (to fund the cash in branches which was used to pay benefits).

17. The principle focus of my activity was therefore to develop plans to enable the company to get to breakeven, by reducing costs faster than we lost revenue. There were of course also attempts to develop new alternative revenue streams, but these were not adequate to replace lost traditional revenue streams. These plans inevitably included closing a large number of branches. This was an ongoing discussion with the DTI. Typically, funding agreements were eventually reached for 3 year periods which included less funding than we really needed and which allowed fewer branch closures than we had recommended. To try to balance the books we had to find cost savings in other areas.
18. I was not involved in oversight of legal or problem management teams.
19. For a short period, I was involved in the oversight of the security team, which included the investigations team. During that time, I queried the level of resource allocated to investigations and prosecutions. I expressed the view that we should reduce the level of prosecutions and instead focus on doing

routine audits on a more regular basis – at that time we were unable to cover the network more often than once every six years. I was informed that POL had established procedures for dealing with these matters which they did not want to change. Shortly after this it was decided to move oversight of the security and investigations teams back into the Operations Directorate.

20. I was not involved in discussions relating to any individual subpostmasters, nor the distribution of information relating to the reliability of Horizon.
21. Legal expenditure for prosecutions and civil proceedings against subpostmasters was monitored as part of the Security team's budget (as far as I recall).
22. As I recall, the POL Risk and Compliance committee was established following the appointment of Sir Mike Hodgkinson as Chairman with the intention of mirroring the governance structure in RMG where appropriate, and in particular to give some oversight of compliance issues regarding POLs emerging financial services business. It received reports from the Financial Services Compliance team, Product and Branch Accounting, Security and other teams as may be relevant from time to time. It did not have oversight of matters relating to individual subpostmasters.
23. I only attended RMH and RMG board meetings occasionally, usually when a major POL business case was being discussed.
24. The POL board typically received reports from each of the directors, written or verbal depending on the context. The POL board would consider the current performance and future strategy for the company.
25. The POL board typically had one member with specific responsibility for IT

with appropriate technical knowledge.

26. At the time I joined the group I was not aware of the criminal prosecutions. During my time with the group, I was not aware of any evidence that these might be unsafe.
27. The POL board discussed the Horizon IT system periodically in relation to a) its high cost which we could not afford and b) the relatively high level of errors which required a large team to be maintained (c 300 people) to correct them.
28. Government oversight of POL was maintained by periodic meetings between directors and DTI officials, in which I was regularly involved. These usually revolved around funding requirements and the size of the network. There were also meetings between the CEO and the Minister, in which I was not involved.
29. The main concerns of government appeared to be to spend as little money as possible and to minimize branch closures. MPs all seemed to be keen to avoid branch closures in their own constituencies.

The Horizon system

30. When I joined the group, I was aware that the Horizon system had recently been implemented, was very expensive – which was a big problem – and that a large number of errors arose which needed to be manually reviewed and corrected. I do not recall the term “BED”.
31. The Horizon system was operated by Fujitsu and was effectively a “black box”. It was monitored for POL by an IT team (within what was then called the

Change Directorate). There were a small number of internal experts who understood what happened within the black box, to whom questions were asked when necessary. Such training as was provided was principally focused on the operation of Horizon at the counter.

32. POL provided approx. 200 products and services on behalf of a range of mainly government clients, plus Royal Mail, Girobank and a few others. A number of different processes were required to transact these products and services which added to the complexity of the Horizon system. Some products could not be processed using the Horizon system at all (e.g. the new financial services products) and some could only be partly processed using Horizon and other processes needed to be completed manually
33. Whilst it was known that there were a large number of errors, we believed that these were appropriately corrected afterwards by POL teams (mainly Transaction Processing which later changed its name to Product and Branch Accounting).
34. I do not recall any briefing on the detail of the Horizon contract. I was not aware of the specific clauses in the contract.

The IMPACT programme

35. I was asked to be the “sponsor” of the Impact Programme, which was designed to address some of the key issues and inefficiencies in Horizon and the other systems and processes needed to manage the transactions of the business. I was not personally involved in the detail of the design or implementation; this was managed by teams from across the IT, Operations and Finance

directorates. My role was to provide a level of oversight and to ensure that the programme had appropriate objectives and was appropriately managed to achieve them. Day-to-day activities were managed by the Programme Manager and progress was periodically reviewed at Programme Board meetings, which I chaired.

36. The programme was designed to bring financial benefits to POL in the form of reduced Horizon contract costs, reduced other IT costs, fewer errors and reduced staff to deal with errors.
37. The Horizon system had very limited management information capability. As far as I recall, it basically produced information showing the volume and gross value of transactions carried out. In order to determine how much of this value belonged to the client, what was the fee due to POL and what was the amount due to be paid to subpostmasters, further systems and processes were required; these processes had evolved over time in different ways for different clients and were inefficient, over complicated and required significant manual input. The Impact programme sought to streamline and automate these processes. This is, I believe, what was intended by the terms “more robust accounting system” and an “authoritative source of transaction data, which will enable more effective debt management”.
38. I do not recall the fact that SPMs would no longer be able to place disputed discrepancies in a local suspense account being discussed at POL. RMH or RMG boards. It was discussed principally with the Operations Director to ensure that he agreed that this change was necessary and appropriate.
39. When the Horizon contract was being renegotiated with Fujitsu, my view was

that we were most likely to get the best deal from Fujitsu if they believed that we had a possible alternative plan; given the long timescales that would have necessarily been involved in such a plan, the closer we got to the end of the contract period the less credible it would have become.

40. From time-to-time differences were found between systems. When appropriate these were reported to me for information, for example, I was informed by Rod Ismay in February 2009 that there were some differences between POLFS and Horizon and that and they were being investigated and that he would follow them up and resolve them, which to the best of my recollection is what happened.
41. I was of the opinion that the Horizon system, with the manual review and correction of errors, provided an adequate system, albeit a cumbersome and expensive one, and I was not aware of any evidence to the contrary.

Civil proceedings against Ms Wolstenholme (Cleveleys)

42. I had no personal involvement in the Cleveleys case (*POL v. Wolstenholme*), although I accept that I was at least once copied for information on correspondence. I do not recall the email from Mandy Talbot dated 28 July 2004. Reading it now, I would infer that she is covering all theoretical bases. I do not recall being involved in any discussions or conversations on this matter.

Civil proceedings against Mr Lee Castleton

43. I had no personal involvement in the proceedings against Lee Castleton.

44. I do not recall any involvement in discussions about external experts.
45. I do not recall the email from Rod Ismay to me on 22 January 2007 saying that “[t]he Judgement has entirely vindicated the HORIZON system”. This email appears to have been forwarded to me for information only and duly noted.
46. I was not aware of the detail of any individual subpostmasters case.

General

47. I believe that we provided sufficient information to the board on Horizon and related issues during my time with the group (2001 to 2009), based on the knowledge and resources that we had at the time and given the other priorities which we were dealing with, in particular trying to maintain the solvency of the company and reduce the level of operating losses. The issues with the Horizon system which, I understand, subsequently came to light were not known during my time.
48. My personal view, which I expressed at the time, was that prosecutions were, at least in some cases, an unnecessary and inefficient use of resources. The prevailing view seemed to be “we’ve been given these powers for a reason so we had better use them”. This is possibly because, as an agency business, POL was handling large amounts of money that belonged to other people and organisations.
49. I am not in a position to comment on the disclosure of information to SPMs being prosecuted as I was not personally involved in it.

STATEMENT OF TRUTH

I believe the contents of this statement to be true.

Signed:

GRO

Dated: 14th October 2024