

The Rt Hon Kemi Badenoch
Secretary of State
Department for Business and Trade
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London
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Sarah Munby
Permanent Under-Secretary of State
Department for Science, Innovation
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21 February 2024

Secretary of State,

I am writing to you to set out the factual position in relation to the claims in the press from Henry Staunton that someone told him to stall on compensation payments to wronged postmasters. I was the Permanent Secretary in BEIS at the time and I had an introductory conversation with Mr Staunton on 5 January 2023.

It is not true that I made any instruction, either explicitly or implicitly, to Mr Staunton to in any way delay compensation payments. I did not. Neither Mr Staunton's note, nor the contemporaneous note that my office made, suggest otherwise. In fact, no mention of delaying compensation appears in either note. I have attached both notes to this letter. I note that Mr Staunton originally said that there had been a direct instruction. Since he located the file note this seems to have moved to a suggestion of some sort of implied instruction. Such a claim is also not in any way supported by the notes and did not take place.

As the notes record, we discussed Post Office operational funding, not compensation funding. These two areas of spend were separately ringfenced, and it is factually wrong to suggest that cuts to compensation would have improved the Post Office's financial position. The two notes do not indicate I made an implied suggestion that delays should be made, or that Mr Staunton understood me to be making one.

I am able to give you the very strongest reassurance (backed by these two contemporaneous file notes as well as my own recollections on what was said and why - which I set out in detail at Annex A) that I did not at any point suggest to Mr Staunton, or imply to him in any way whatsoever, that there should be delay to compensation payments for postmasters. I did not believe they should be delayed and no Minister ever asked me to seek delays.

Just over 4 weeks after my meeting with Mr Staunton, I moved role to a new Department as part of the Machinery of Government changes on 7 February 2023. Given this, I have not had any contact with Mr Staunton since the conversation described in this letter.

Mr Staunton has never raised with me or anyone else any of these issues at any point in the last year (until the article in the Sunday Times). I am not aware of any report, query or complaint of any kind, formal or informal, that Mr Staunton made at the time or subsequently. He also did not reach out to clarify matters with me, as I would have expected him to do if he had thought he might have been receiving some kind of implicit instruction to delay compensation. His allegations are not borne out by his own note or that from my Private Office.

Subsequent to my conversation with Mr Staunton, £253m additional operational funding including £103m additional funding for the Horizon replacement funding programme (separate to all compensation funding) was provided to POL later in 2023 after the appropriate processes were completed, reflecting work done by officials to directly respond to the request for more operational subsidy that Henry made and we discussed in the meeting.

I am content for this note and the annex describing my recollection of the conversation to be made public if that is judged to be in the public interest.

Yours sincerely,

A handwritten signature in grey ink that reads "Sarah Munby". The signature is written in a cursive, flowing style.

Sarah Munby

Annex A

Notes on the conversation between Henry Staunton and Sarah Munby

Produced by Sarah Munby on 21 February 2024

This document is a response to the characterisations of the conversation between Mr Staunton and me that Mr Staunton has made recently in the media. Some of those interpretations of the file notes are surprising to me and do not at all match my recollections, or, in my view, the notes themselves. This document should be read in conjunction with the contemporaneous notes and is consistent with them. This document is based on my personal recollections of my conversation with Mr Staunton, supported by statements made on file at the time by him and by my Private Office.

The relevant conversation (i.e. that reported in The Times) happened on Thursday 5 January 2023. This was a short introductory conversation soon after Mr Staunton's appointment. I was particularly interested in Mr Staunton's initial views on POL as a business, as we had been pleased to get a Chair who could bring serious retail experience to bear on POL's transformation. I did not see it as an opportunity to give instructions, but rather a first chance to build rapport and understand Henry's views.

Mr Staunton began (when asked for his impressions of POL) by raising his significant concerns about the Post Office as a business. He was concerned that the growing size of the organisation's operating deficit meant that really substantial change was required in order to reach a commercially sustainable position. He told me he envisaged some combination of large-scale branch closures, a significant increase in the taxpayer subsidy to the Post Office's operations, and/or some other form of major transformational change. He outlined a series of specific financial pressures (listed in some detail in his own readout) including deteriorating performance in the parcels business, new regulations, the additional costs of POL responding to the Inquiry, and the rising costs of the Horizon IT replacement programme. He rightly did not mention compensation payments in this list of new pressures, given they were not part of the core POL budget (they were separately ringfenced lines of expenditure, not accessible by POL for any purpose other than compensation payments).

I agreed with this picture of challenge but I wanted to help Mr Staunton understand the new context in which he was operating and which he acknowledged he was then unfamiliar with: the Post Office is not a purely commercial enterprise like those he was used to working with and he needed to work within a government context, where political and electoral pressures around benefit to citizens mattered as much as, or more than, the pure bottom line. I made the point that the options he was presenting – branch closures or large hikes in taxpayer subsidies – were likely to be politically very difficult. Branch closures were completely against Ministerial steers. If he wanted to make real progress and drive strategic change, much more work was needed to present Ministers with something better than a choice between two very unattractive outcomes.

We talked specifically about additional taxpayer funding as a potential solution to the business's commercial challenges, as described by Mr Staunton. As of that point, as you

will know, HMG was providing £50m a year in operational subsidy to support uncommercial Post Office branches (a payment that is completely separate to any money paid out to postmasters as part of the compensation schemes). Mr Staunton did not think this £50m taxpayer contribution was enough given the scale of the operational shortfall POL faced in its core business, and he wanted to understand the prospects for getting a rapid increase in this operational funding. I said we had had a significant debate with HMT about the scale of the POL operational subsidy at the time of the Spending Review, and I thought they would be extremely reluctant to increase this number so soon afterwards without seeing improvement in what they saw as the poor operational performance and management of POL. We discussed the elements of the operational costs that Mr Staunton was keen to emphasise had arisen from historic issues (the Horizon replacement programme and the operational costs of responding to the Inquiry – not the compensation payments themselves which were not part of the issue Henry was discussing). I commented that these two issues still presented challenges because estimates around the costs of POL responding to the Inquiry and the Horizon replacement costs persistently rose above POL's own estimates, which suggested a degree of poor forecasting even for these important and unavoidable line items.

I noted that HMT did not want to create a reliance on taxpayer subsidy in POL and wanted to see a focus on improved commercial performance of the organisation. I also said that while an immediate strategic pivot in the overall commercial strategy was perhaps unrealistic, a long-term plan for sustainable commercial operations was really needed and that it would be required before new subsidy arrangements were likely to be agreed. We agreed Mr Staunton should begin work with POL (and BEIS where needed) to put such a long-term operational transformation plan in place. Our joint understanding was clear: short term financial fixes were likely to be required to address the immediate problems that Mr Staunton had laid out, and this would allow work to be done to develop a more fundamental reset, which would inevitably involve a multi-year turnaround programme. It was in this context that my statements about the likely impact of the election on decision-making were made. None of this discussion about short-term and long-term issues related to compensation payments, as the two notes reflect.

I helped Mr Staunton think through plausible short-term solutions to the gap in operational funding (this section is not really reflected in his file note but is described in some detail in the Departmental one). I said explicitly that we recognised the short-term funding challenge the business faced in its operations, particularly because of additional costs generated by the Horizon IT replacement programme. I said that we were looking at what we could do from Departmental budgets to provide more bridging support to POL's operations while the longer-term strategic plans for the commercial turnaround were being developed for Ministers. I said that any additional financial support to POL's operations would require HMT approval (even if it came from existing BEIS budgets by cutting another item that we would need to find) and any contribution would need to be assessed against subsidy control requirements under the usual rules for managing public money. I am pleased to note that this work was later carried out by officials and additional funding of £253m to POL's operations, including an additional contribution of £103m to the cost of the Horizon

replacement programme, was announced later in 2023. None of this (either Henry's request, or the money provided) related in any way to funding compensation payments.

This constructive introductory conversation about exploring options for additional operational funding (funding which we went on to deliver) could not have been read as an instruction to delay the Horizon replacement, and certainly not as an indication to delay compensation payments.

On the Horizon replacement work, I would not have suggested a delay to the Horizon programme since Ministers at the time were clear that the replacement programme was an important part of the response to the likely findings of the Inquiry. Neither of the readouts suggest I ever said anything about a delay, or that Mr Staunton asked about it or suggested it was an option.

On compensation payments, the discussion around the potential difficulties of providing additional operational funding to POL was wholly focused on the question of further subsidy to POL's core operations. It did not in any way relate to the funding for compensation for postmasters, which was always an entirely separate funding stream. Specifically, compensation costs were a ringfenced budget line, and, as you will know, no public organisation may break a ringfence without explicit HMT clearance. In practical terms, the money was also only provided to POL at the point of expenditure – it did not form part of the day-to-day budgets. This means that even if POL had tried to delay compensation payments (which I have no reason to think they did) it would have not helped them with their broader budgetary challenges (except perhaps to the very limited extent that it might have reduced the administration costs of running the schemes). Ministers at HMT and BEIS were always clear that separate public funding was, and would continue to be, available for postmaster compensation. Mr Staunton is fully aware of the separation of funding streams. The Times today seems to suggest that he thought my comments on the operational budget could have acted as some kind of implicit instruction to delay compensation payments. This interpretation of events really does not make sense given the complete firewall between the two budgets.

As is reflected in both notes, neither Mr Staunton nor I suggested at any point in our conversation that delaying or reducing compensation payments was a possible solution to the problems he was identifying. He did not raise any requirement for more or different money in this area or suggest that he was considering cutting it. I also made no suggestion that this compensation funding be altered, delayed or reduced in any way.

After discussing funding, Mr Staunton and I also discussed the pay of the senior executive team at POL and Mr Staunton repeated the concerns POL had about its executive pay levels. This section of the meeting does not feature in detail in his file note (presumably because of whom he shared it with) and I do not propose to add detail here given the specifics of the details from our own readout are personally confidential to others. I made the point to him that he was not likely to persuade the then Secretary of State on this issue and we agreed he should not focus his introductory meeting with the Secretary of State on

exec pay if he wanted to get the relationship off on the right foot. I gave him some general personal pointers on interacting with the then Secretary of State. We discussed the need to strengthen succession planning at POL and to strengthen the POL Board. This part of the discussion did not, I think, relate to Mr Staunton's claims.

We concluded the meeting by agreeing to work together and to stay strategically aligned where we could. I told him that although I was keen to build a positive relationship with him and for the Department to stay in its appropriate lane as shareholder, he needed to understand that trust in POL was not high in HMG and so they should expect significant scrutiny from us as shareholder.