

# Board Effectiveness Review

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## Executive Summary

### Context

The last Board Effectiveness Review (BER) was carried out by the previous Chairman, Alice Perkins, in March 2015. The report generated by this review is attached at Appendix 1, for your information. This was the second internal review carried out since the establishment of the Board in 2011.

It was stated in the 2014/15 Report & Accounts that 'an externally facilitated Board effectiveness review will be carried out in 2016'. This would be the first externally facilitated review since separation from Royal Mail Group (RMG).

### Questions addressed in this report

1. What is the rationale for carrying out an external BER?
2. What procurement options are available for the Review?
3. What should the BER Terms of Reference include?
4. What are the next steps and how will the process be managed?

### Conclusion

1. It is recommended that an external BER be undertaken in late 2016, reporting in time for inclusion in the Report and Accounts for 2016/17.
2. The Nominations Committee is asked to decide which of the two procurement options it would prefer.
3. Based on the criteria set out in the report, and the themes highlighted in Appendix 3, the Committee is asked to delegate the drawing up of the BER Terms of Reference to the Company Secretary for approval by the Senior Independent Director.
4. Depending on the procurement process chosen, the Committee is asked to delegate the management of the procurement process to the Company Secretary, with approval for the choice of bidders and evaluation matrix delegated to the Senior Independent Director.

# The Report

What is the rationale for carrying out an External Board Effectiveness Review?

1. The Post Office is not a FTSE 350 Company and is therefore not caught by The UK Corporate Governance Code 2014, which states that 'an externally facilitated BER should take place at least every three years'. However an external BER is good practice, and the rationale for stating in the 2015/16 Report & Accounts that the Company would undertake an external BER in 2016 was to ensure an independent view of the Board's performance.
2. There are four main reasons for undertaking board evaluations:
  - the need to address specific issues;
  - the need to benchmark performance against other companies;
  - the need to ensure that the Board is doing the best it can; and
  - the need to be seen to be reviewing performance.
3. The BER should identify strengths and weaknesses and enable the Board to make changes that positively impact performance. It will give an external perspective and may be challenging as well as reassuring to the Board and Directors.
4. The changes in Post Office Board Directors over the last year mean that a BER carried out as late as possible in 2016 would probably be most beneficial.

What procurement options are available for the Review?

5. Because of the value of the contract there are two options for the procurement of this service.
  - i. OPTION 1: A competitive exercise asking 3 firms to bid for the work and assessing each bid against an agreed evaluation matrix. (Example shown at Appendix 2). The choice of the firms would need to be seen as fair and equitable. This option is sometimes used for consultancy procurement and although contains a small risk of procurement challenge this is less likely because of the value of the contract.
  - ii. OPTION 2: The use of the Government Consultancy One framework agreement. Which is in place to enable government departments and Public Sector bodies to procure work through pre-agreed contracts and rate-cards. Consultancy One divides different types of work into Lots and each Lot has a pre-approved list of firms amongst whom assignments can be tendered. Everyone in a specified Lot, which can be between 10 and 20 firms has to be offered the chance to bid. The Lots are made up of a mix of firms often including some of the Big Four but also including medium sized firms. The rates available are often very competitive and there is no procurement risk as a full OJEU compliant process has already been followed.

The procurement process for both options would take about two months to complete.

What should the BER Terms of Reference include?

6. The objective of the BER is to understand how the Board works, how it could be improved, and how this benchmarks with other boards. The review would include independent input from each Board member, the Company Secretary, (and the Group Executive if required).
7. The review would specifically analyse; the Board dynamics; how the Board uses its time; the effectiveness of Board meetings (organisation & papers); and the relationship with the Company.
8. The review should also include an appraisal of the Chairman led by the Senior Independent Director.
9. A proposed list of themes is show as Appendix 3.

What are the next steps and how will the process be managed?

10. The Nominations Committee decide on its preferred procurement option 12/4  
Board is informed of the process under AOB at the Board meeting on 24/5  
Terms of reference are drawn up, and approved by the SID 31/5  
Bidders are selected, and approved by the SID 31/6  
Bids received and evaluated. Successful bidder chosen 31/8  
Board updated on the progress 29/9  
Dates set for the interviews 10/10  
BER undertaken to be completed by 30/11  
Report back to the January Board 31/1
11. The Company Secretary would manage the process on behalf of the Nominations Committee and keep the Committee updated if any issues arise.

## **Appendix 1: Evaluation of the Effectiveness of the Post Office Board – March 2015.**

### **1. Process**

Following the first full Board evaluation carried out in summer 2013, the current Board evaluation was carried out by the Chairman based on interviews with all Board Directors and the Company Secretary in January and February 2015. It takes account of feedback from some members of the ExCo.

The key findings are set out below. The Chairman is separately giving feedback to the individual Directors on a personal basis.

### **2. Context**

Prior to the beginning of this evaluation, the Chairman had announced her intention to stand down at the end of July after 4 years in the role. The SID had also let it be known that he did not intend to extend his term beyond his 4 year term which would end in the autumn.

A new CFO had joined the Board in January.

Discussion about the future composition of the Board should be seen in the light of these changes.

### **3. Overall Effectiveness**

In general, the consensus was that the Board was continuing to grow in terms of its effectiveness and was doing “pretty well” at addressing the right issues in the right way in the best interests of the business and its shareholder.

The change of CFO provided a very positive opportunity to improve matters further and to rebalance the respective contributions of the non-executive and executive Directors. The Board should take conscious advantage of this.

The introduction of the new-style CEO report at the beginning of each meeting, providing an overview of the business and progress in implementing its strategy, was regarded as a significant improvement in terms of giving the non-executives an understanding of how things stood, and focussing the rest of the meeting. The non-executives attached great importance to the CEO owning the content of that report and opening the meeting by drawing out the key issues from her personal perspective so that they could support her and her team more effectively.

Several Directors said that it was important for the Board to focus its time and attention primarily on the issues which are key to the future success of the business in particular revenue growth (eg mails, financial services and digital). The Forward Look for future Board agendas could be used more effectively to ensure this happens.

Several Directors commented on the danger of the Board getting drawn into too much detail and becoming too “executive”. This had often happened where the executive’s contribution on an issue had not been strong and it was thought that the style and contribution of the new CFO could help the Board control that tendency where it was inappropriate. It was also suggested that where individual Directors were particularly interested in the detail of a particular issue, they should be encouraged to take this off-line.



There is a specific question about how “intrusive” the non-executives should be in relation to regulatory/compliance matters in relation to financial services on which there are different views round the Board table. The Board should discuss this. A couple of Directors wondered whether the Board had become more risk averse and whether this was detracting from the need to drive growth. On the other hand, it was suggested that a more explicit articulation of key risks facing the business eg on a quarterly basis, might be helpful.

Overall, the executives value the Board’s contributions especially on the commercial agenda. The NEDs were all thought to be well engaged in the business, knowing the key people and talking to them outside meetings when appropriate. The level of challenge is thought to be right but it was suggested that the Board could be more forthcoming with praise where it was due.

Many people commented on the dynamic around the Board table which they thought was very good. There were no “egos” on display; differences were aired frankly and it was felt that the non-executives did not pull their punches. The best discussions were those where the papers were clear; had been properly digested by everyone; taken as read; and the non-executives’ questions and concerns were aired at the outset so that the discussion covered these thoroughly. The Chairman was recognised as someone who encouraged debate but it was suggested that she could sometimes bring discussions to a conclusion more briskly.

One Director commented that it was important that there was no loss of energy in the Board in the period before the current Chairman and SID stood down.

#### **4. Organisation of the Board**

Recently, Board agendas had become very packed and energy levels had flagged in the afternoons. The inclusion of a speaker during the lunchtime session had put further pressure on the use of time. Several people requested a clear break of at least 30 minutes for lunch. One Director suggested that meetings should be limited to 4 hours and another that the Board could sometimes meet the evening before the formal meeting to discuss issues which did not need to be decided formally, thus taking some pressure off the agendas.

It was generally thought that the Board papers had deteriorated in quality - they were far too long and insufficiently clear. One Director commented that the volume of papers for each meeting was about 4 times the volume of papers for other Board meetings attended. It was unclear who owned the quality of what came to the Board. Further work is needed here.

It was also suggested that the Board might meet in different Post Office venues as it had in the past, where there was business activity with which it could usefully engage.

#### **5. Composition of the Board**

With the forthcoming change of Chairman and SID, it is agreed that maintaining continuity amongst the remaining non-executives is important for the business. The new SID will need to complement the experience of the new Chairman so that between the two of them, they cover both the commercial and the government waterfronts. Given the range of business issues with which the Board needed to engage, there might be a case for adding an additional non-executive in the longer run. It would be helpful to recruit to the Board people who had IT and digital skills as well as knowledge of mails, and to broaden the diversity of the group.

## 6. Sub-Committees

The Remuneration and Nominations Committees were working well, addressing the right issues at the right time and reaching clear decisions when required.

The Audit and Risk Committee had taken longer than had been hoped to get to grips with some important key issues, such as risk, but progress had been made. The new CFO would put his stamp on this, and other changes in personnel would help here. There is an issue, raised below, about the extent to which the ARC should engage in the financial services side of the business.

Members of the ARC are clear that meetings need to take place face to face rather than on the telephone and this has been addressed in the planning of future meetings.

The Pensions Sub-Committee had broken the back of its original agenda and in the future, should not need to meet more than a couple of times a year. But it was agreed that it should remain in existence and should be accorded appropriate executive support.

The two non-executive Directors on the Financial Services Sub-Committee both take the view that it should be wound up once the POMS Board is fully up and running under the Chairmanship of Steve Ashton. They believe that the Sub-Committee falls into the trap of becoming inappropriately executive; that the current arrangements allow for a lack of clarity about the role of the ARC in respect of FS matters and that the Sub-Committee is not a good use of non-executive time.

Instead they suggest that post Hawk:-

The POMS Board should take responsibility for all "in scope" insurance matters with updates provided to the ARC on an agreed basis to ensure that the ARC continues to have a company-wide oversight of this area of business;

The ARC should take responsibility for non-POMS related FS matters in a discrete section of its meetings to which at least one BoI representative should be invited alongside Nick Kennet and his team. Tim Franklin has offered to meet Nick Kennet ahead of each ARC meeting to ensure the right level of non-executive scrutiny and avoid detailed presentations or discussions.

This issue needs to be discussed and a way forward agreed with all concerned.

## 7. Issues

**The focus of the Board's time and use of the Forward Look in planning this. Board members to flag when they think the non-executives are in danger of becoming too executive.**

**The Chairman to be quicker on drawing discussions to a close.**

**The length of meetings and use of afternoons/evenings before the formal Board meetings.**

**The quality of Board papers and who is responsible for assuring this.**

**The Board's role on financial services regulation/compliance.**

**The future of the Financial Services Sub-Committee post Hawk.**

**In the longer term, after the appointment of the new Chairman, the size of the Board and possible widening of skills and experience represented.**

**Alice Perkins**  
**Chairman**

**Appendix 2: Example Evaluation Matrix**

<b>Project Name</b>	Board Evaluation Review			
<b>Supplier Name</b>				
<b>Date of completion</b>				
<b>Evaluation criteria</b>	<b>Score</b>	<b>Weighting</b>	<b>Weighted Score</b>	<b>Comments</b>
Suitability of Approach and Methodology		2	0	
Previous experience of undertaking similar assignments		2	0	
Quality and appropriateness of proposed team		2	0	
Appropriateness of suggested timelines.		1.5	0	
Approach to knowledge transfer.		1.5	0	
Quality of submission and enthusiasm to win the work		1	0	
<b>Total Score</b>			<b>0</b>	
<b>Legends</b>				
<b>Scoring</b>	<b>Weighting</b>			
1:Very Poor	1:Less important			
2:Poor	1.5:Important			
3:Good	2:Crucial			
4:Very Good				
5:Excellent				

### **Appendix 3**

#### **Proposed Themes for the BER for inclusion in the TOR.**

The BER will typically ask the individual Board members, the Company Secretary, (and selected Executives, if required), for input on the following topics:

- Board composition, skills and diversity.
- Board induction, development and training.
- Board succession planning
  
- Board behaviour, relationships and challenge.
- Board leadership, individual contribution and effectiveness.
  
- Board meetings, their conduct, focus and priorities.
- Board support, papers and information quality and provision.
- Board Committee effectiveness and how Committees keep the Board updated
  
- Board contribution to company strategy
- Board contribution to company performance.
- Board understanding of the company's business, regulatory environment and competition.
- Board understanding of risk management and mitigation.
  
- Board stakeholder and shareholder engagement.