



NFSP OVERSIGHT COMMITTEE PROPOSAL

Draft Report: November 2024

OVERSIGHT COMMITTEE WORKING DOCUMENT (updated 2 December 2024)

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INTRODUCTION

The NFSP has sought to update its 2022/2023 draft proposal for an Oversight Committee. The idea of an Oversight Committee came out of the serious concerns about culture and governance which led to the Horizon scandal. The initial draft was provided by the NFSP to Government and others for discussion and consideration. However, given the evidence which has been heard by the Inquiry across Phases 5, 6 and 7, in particular, the seriousness and urgency of the changes needed in terms of oversight, risk identification and recommendations, the need for such an Oversight Committee has never been greater.

The NFSP will continue to update and promote the Oversight Committee proposal in light of the Inquiry's findings when they are published in due course. However, the NFSP is providing this updated version with background, the purpose and aims, and examples and operation/membership.

Aims and purpose of the Oversight Committee – Executive Summary

The aim of the NFSP's proposal for an Oversight Committee is to expand on the existing Shareholder Relationship Framework that currently exists between the Government and Post Office, whilst retaining its social purpose. The NFSP believes the Oversight Committee would be a vital new tool in the toolkit of Post Office governance. It is used and seen in a number of other public sector areas, including health boards. It is not the creation of an additional layer of meaningless bureaucracy, rather it would be as an active reviewer and interrogator of risk, strategy and delivery of culture and governance improvements, providing checks and balances in a way that evidence to the Inquiry has demonstrated did not happen and has not yet happened.

It is also to ensure the nothing even similar to the Horizon scandal can ever happen again whilst securing the future of the network. As has been heard through the ongoing statutory Inquiry, the lack of expertise, scrutiny and accountability were key elements of how this scandal continued for so many years, with a failure over many years and across different Board members, Chairs and Senior Management to either identify risks or ask questions which would have identified risks to the business and avoided the scandal, or, at least, prevented it from getting worse.

Postmasters invest in the network via their retail businesses, which host post offices. However, their ability to understand or feed into the short and long-term strategy of Post Office Ltd is limited, as is that of the public, who are the ultimate owners and users of the Post Office. For the NFSP, there remain questions over whether Government as the Shareholder and Post Office as the operator, can, on their own, make effective changes in governance and culture and ensure the oversight necessary for proper safeguarding of the investment Postmasters make in the network or not to act in a manner that is not actually a detriment to the investments of Postmasters. It is therefore

the aim of this proposal to bring together a committee of people with specific Post Office knowledge, alongside those from a wider social perspective to ensure the social purpose of the Post Office remains key.

The relationships between Post Office, Government, representative bodies and consumer groups need to be repaired following the damage done by the Horizon scandal and the cultural and governance failures which led to it, as well as the ongoing failure to transform culture and governance. It is true to say that the reputation of the Post Office has been severely impacted by past and present events. The Oversight Committee is proposed as a way of repairing the relationships, restoring public and Postmaster trust in Post Office.

The preferred option in terms of ownership of the Post Office is via mutualisation, however, the financial stability of the Post Office must be secured first to ensure feasibility. The secondary aim of this proposal therefore is to prepare the ground for mutualisation.

Background to governance of Post Office

The Post Office separated from Royal Mail (RM) in 2013 when RM was privatised. Post Office remained a state-owned public corporation, accountable to the UK Government via UK Government Investments (UKGI). UKGI is an agency of Treasury and ensures public service requirements and financial performances are met. Parliament, via the Department of Business and Trade (DBT), oversees the organisation and it is treated as being “arms length”.

A Framework Document was drawn up between BEIS (now DBT) and UKGI in collaboration with POL, and covers: (i) Certain parameters within which POL is expected to operate; (ii) Certain obligations with which POL is expected to comply; and (iii) Certain aspects of the relationship between the Shareholder, the Shareholder's Representative and POL and how it is expected that the Shareholder, the Shareholder's Representative and POL will interact with each other. The Agreement is expected to be reviewed every three years.

The Secretary of State holds a “Special Share” in POL, and within these rights and privileges, can attend or speak at any meeting, however the position does not hold voting rights. For the Oversight Committee to be adopted, the Secretary of State would have to approve this.

The governance of Post Office is overseen by a board of directors, responsible for ensuring the organisation meets its objectives. The postal market is regulated by Ofcom, which ensures that Post Office keeps to its set universal service obligations (USO), and that postal services are available to all communities.

The Government and Post Office

UKGI manages the government's portfolio, with Post Office being one of 17 government shareholdings. The UKGI role on the Post Office board combines the role of company director with the role of government representative. Combined, these roles appear at times to be in conflict with each other, which could impact on information flow, and it has been seen through evidence to the Inquiry that Ministers and their senior civil servants were not being given full and accurate information about the Horizon issues. As an example, Greg Clark, Secretary of State for Business 2016-19, highlighted in his evidence to the Inquiry the failure of UKGI to share with Ministers the Second Sight report, and the lack of Board confidence in the then Post Office Chief Executive, Paula Vennells.

The government holds both 'hard and soft levers of power' in respect of Post Office, both of which need to be exercised with caution. An additional element is that UKGI do not themselves capture Post Office risks. Instead, Post Office reports any risk to DBT as sole shareholder, which can leave the possibility of UKGI/DBT/Government not knowing the risks.

Current Postmaster Representation

There are currently two formal representative voices for Postmasters who both hold a contract with Post Office:

- The National Federation of SubPostmasters (NFSP)
- Postmasters NEDs

Current Postmaster views of Post Office

A lack of governance is not the only factor within Post Office. The behaviour of Post Office management over recent years has resulted in a significant lack of trust in the Post Office by many Postmasters, as depicted via the 2023 Postmaster survey which found:

- a 9% decrease on how Postmasters felt valued as a business partner of Post Office
- a 14% decrease on how supported a Postmasters feels by Post Office
- a 12% decrease in the number of Postmasters who believed Post Office were genuinely trying to improve the relationship.

Yet despite these figures, the Post Office Board rewarded senior management with bonuses in 2023 which were greater than, or in some cases double, the average

Postmaster earnings, all overseen and signed off by Board and government (discussed later in this document).

In 2024, Postmaster perceptions of Post Office continued to erode, as found via the 2024 YouGov Postmaster Survey, commissioned by the Inquiry, which found:

- 48% felt dissatisfied with their role as a Postmaster
- 72% reported feeling undervalued by POL
- 74% disagreed that the POL board understands the concerns of Postmasters

Current Postal Landscape

In addition to the past scandals and the ongoing erosion of Postmaster trust in the Post Office, is a postal landscape undergoing significant change and challenges. This changing environment, and the very apparent need for greater scrutiny over the government subsidy to ensure the viability of the network, means that an open and transparent oversight is imperative.

In November 2024, POL Chair Nigel Railton, announced the launch of a five-year strategic plan for the Post Office. At this present time, the plans have not been made publicly available, however it provides a roadmap for the next five years, through which a new governance process could test the strategy and scrutinise decision-making.

In addition, it appears from evidence to the Inquiry that there are real questions as to ability of Post Office and Postmasters to rely on the current Horizon system and real concerns about the procurement, design, cost and delivery of its supposed replacement, NBIT. A fit for purpose IT system which delivers what Postmasters and the public needs is an absolute priority, but it appears from evidence to the Inquiry that even now there is inadequate knowledge, understanding or scrutiny by the Board and Government of this vital project. The Oversight Committee is a way in which questions about such issues would be raised and the issues interrogated and reported on.

OVERSIGHT COMMITTEE PROPOSAL

As set out, given the clear governance problems within the Post Office Board and the lack of Postmaster trust in Post Office, it is clear that confidence urgently needs to be restored. Postmasters and relevant interested representatives need to be involved in future strategy given the level of investment they provide, and key decisions scrutinised by those with the relevant knowledge.

Purpose of the Oversight Committee

The purpose of this proposal is to expand on the existing Shareholder Relationship Framework which currently exists between the Government and Post Office, whilst also protecting its social purpose such as: a sense of belonging within communities and posting and banking accessibility to rural communities.

These proposals also seek to ensure that a situation similar to the Horizon scandal is never able to occur again, whilst securing the future of the network. It must be noted that Postmasters invest in the network via their retail businesses, which host a post office. However, their ability to understand or feed into the short and long term strategy of POL is extremely limited. There remain questions over whether Government as the Shareholder, and Post Office as the operator, make strategic decisions that safeguard Postmasters investment, or act in a manner that is actually detrimental to Postmasters investment.

One of the main purposes is to ensure the long-term strategy for POL is adhered to in line with the needs of stakeholders.

Finally, a key purpose of this proposal is to deal with the damaged brand and breakdown of trust of the organisation. Ultimately, this would begin with a 'fresh start', however the key to rebuilding confidence with all stakeholders would be to ensure thorough scrutiny of all decisions to ensure a similar incident to the Horizon Scandal could not ever occur.

Aim of the Oversight Committee

The aim of this proposal is ensure a viable post office network for future generations, with stakeholder trust reestablished in the POL leadership.

The preferred option in terms of ownership of the Post Office is via mutualisation, however, the financial stability of the Post Office must be secured first to ensure feasibility. Therefore, the secondary aim of this proposal is to prepare the ground for mutualisation.

A lack of expertise, scrutiny and accountability were found to be key elements of how the Horizon scandal continued for so many years. The Oversight Committee sits outside of POL, which will enable constructive challenge. The aim of this proposal to bring together a committee of people with specific Post Office knowledge, alongside those from a wider social perspective, to ensure all voices are heard, and key decisions scrutinised.

Key aims

- To review and, where relevant and appropriate, challenge the strategy of Post Office and ensure the strategic goals are achieved
- To identify potential risks, interrogate those risks and report to the Board and Government what action the Oversight Committee consider may need to be taken
- To enhance the role of the Government as sole shareholder thereby protecting the public interest and taxpayers' money while working with Government and Post Office to secure the future of the network
- To ensure the Government uses its powers to improve the culture at POL, rebuild trust in the Post Office brand and improve transparency and corporate accountability
- To ensure the Post Office's current IT system is externally audited, that any improvement recommendations are implemented and to ensure the delivery of a modern IT system fit for purpose by interrogating the procurement, design and delivery for such a System.
- To demonstrate that a diverse group of people with a range of interests in the success of Post Office can work together successfully and in the public interest for the needs of the network prior to mutualisation.

The role of the Oversight Committee

Examples of the role an Oversight Committee can play within the governance structure of an organisation, involve ensuring:

- Due diligence takes place before key decisions are made
- Policies and strategies are being implemented as intended
- Key risks are identified, monitored, and mitigated
- Business processes and systems are working well
- Expected results are being achieved
- Value for money is obtained
- Activities comply with policies, laws, regulations, and ethical standards
- Developing areas of concern are being dealt with

- Assets are being safeguarded
- Continuous improvement is taking place
- Consideration of the annual board effectiveness review and ensure gaps of knowledge are rectified

Committee Membership

The Charity Governance Code proposes that a Board should comprise of between 5-12 trustees, however, given the number of stakeholder bodies, our proposal would be for a minimum of 12.

The Oversight Committee is to include representatives of all Post Office stakeholders. The membership below is proposed to ensure a wide range of interests and views are represented.

- Government DBT civil servant 1
- Membership bodies/unions (dependent on number represented)
 - NFSP 1
 - CWU 1
 - Unite 1
- External legal representation 1
- Representative bodies for:
 - Older people 1
 - Those with disabilities 1
 - Rural network 1
 - Economically deprived 1
 - Consumer champion (CA) 1
- Temporary role 1

It is proposed to have one temporary role for individuals who could offer advice on specific issues pertinent to the agenda.

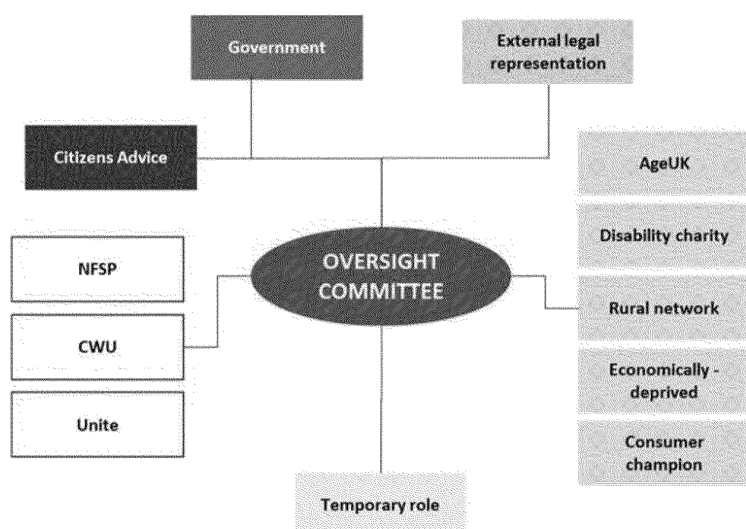


Diagram 1: Organisation chart of committee members

Meeting Frequency

- Following each POL Board Meeting to scrutinise the outcomes and decisions made
- Annually to ensure alignment to Group Strategic Plan and to oversee bonus process
- By exception when issues arise, past such examples being Inquiry non-disclosure and Bonusgate'

What the Committee will use as its foundation

- Equality legislation
- Access to cash legislation
- Access Criteria
- Postal Services Act 2000 and 2011
- Ofcom and regulatory bodies annual workplan
- Post Office's Business Plan
- Government subsidy
- Government policies
- Social purpose of the Post Office
- Services of General Public Interest
- Devolved government compliance
- Shareholder Relationship Agreement

What the Oversight Committee offers that isn't currently met

- To prepare for mutualisation or similar
- To ensure the transparent distribution of subsidy is where the network most needs it
- To ensure future viability of the network
- To offer a solution to the findings to be shared by Sir Wyn in 2025
- Scrutiny of the daily running of Post Office – currently only limited access to strategy and financials
- To protect the investment made by Postmasters
- To offer key invaluable insight from those at operational level, which can be fed into short / medium term strategy
- Ensure The Seven Principles of Public Life (Nolan Principles) are adhered to in all aspects of Post Office decisions
- Ensure the Hillsborough Law Duty of Candour, due to be passed in April 2025, is adhered to within all decision-making

Suggested scope for oversight committee

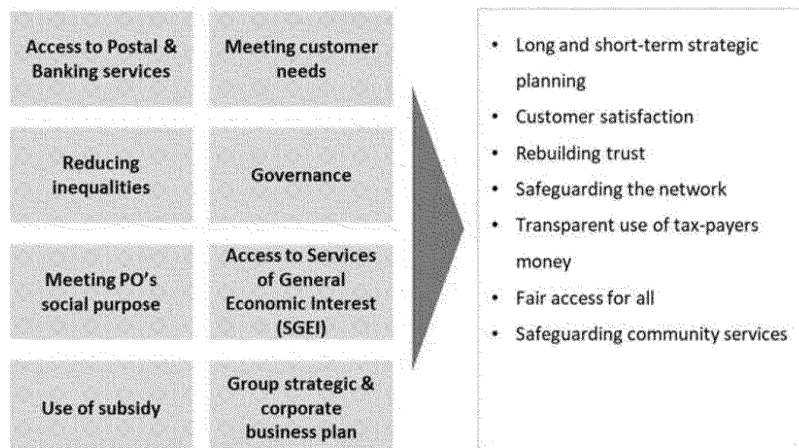


Diagram 2: Scope of Oversight Committee

Proposed hierarchy structure for oversight committee

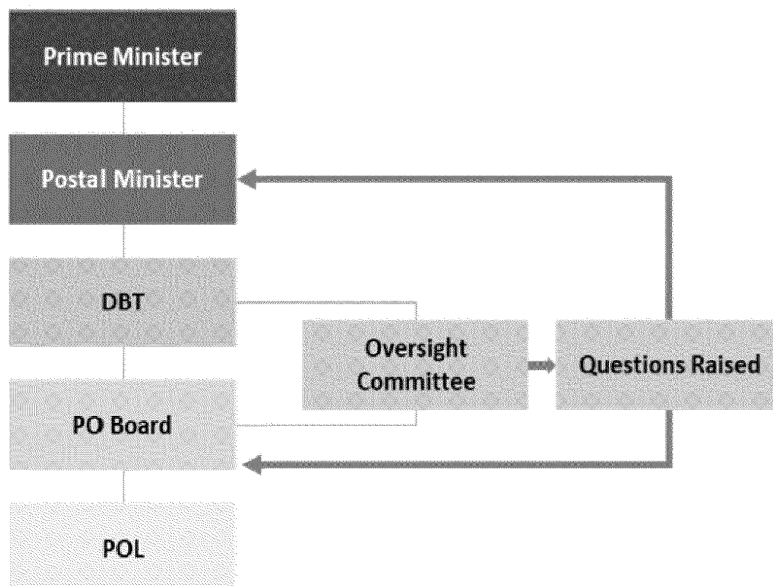


Diagram 3: Oversight Committee hierarchy structure

The structure above shows that this proposal does not insert another level of hierarchy, just of scrutiny. If serious issues are raised, the committee should have direct access to the Postal Minister or the POL Board.

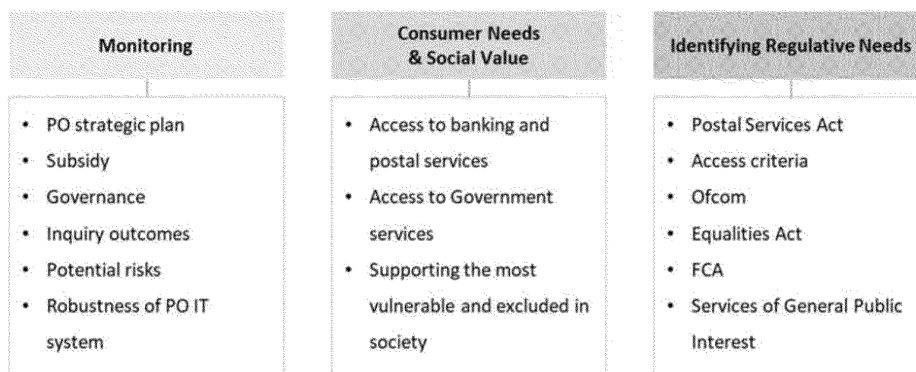


Diagram 4: Three scrutiny columns

Monitoring

It is proposed that sub-groups be formed to allow time and expertise to properly scrutinise key areas. These would be:

- Finance & Legal
- Operations and culture

- Strategy
- Stakeholder and social value needs
- IT
- Risk

Measuring success

A key outcome of successful implementation will be early identification of issues and concerns throughout the network. As success is subjective, it is important to establish what success looks like to stakeholders when it comes to the Post Office.

As Post Office has social purpose at its core, any measurement of success must include this as a key performance indicator. This social purpose has to include the Post Office's ability to maintain a nationwide network providing services of general public interest (SGPI's). These SGPI's include:

- *Mails* – At present this is a provision of access to postal services which the Universal Service Obligation (USO) provider is required to provide via both legal and regulatory conditions and directions. This needs to expand beyond the USO to ensure a national access to a broad range of mails services, especially in rural locations
- *Banking* – whilst at present, banking services are limited to basic community facilities such as cash withdrawals and depositing of cash and cheques, it is important that the needs of consumers around the country, in terms of wider banking services are met.
- *Bill payments* – those who rely on cash on a day-to-day basis, or the digitally excluded require an easily accessible face to face provision
- *Government and Local Authority services* – all demographics require access to government and local provision within their locality

In October 2024, Post Office Chair Nigel Railton, launched a five-year strategic plan for the Post Office, with aims to deliver by 2030:

- A £250m increase in overall Postmaster remuneration
- Strengthening the Postmaster voice across POL
- Enhance support from POL

These medium-term aims should be included within the measurement of success

Post Office/Government

Post Office Limited is classified as a 'Public Non-Financial Corporation' under the Office for National Statistics national account system, and BEIS (now DBT) is its sponsoring department. As previously highlighted, the Secretary of State was granted a Special Share in Post Office with the rights and privileges set out in the Articles.

As a public corporation, the Post Office Board retains responsibility for the operations of the Post Office. Neither the Shareholder nor the Shareholder's Representative have any involvement in the day-to-day operations of Post Office or in the management of its network of post offices and staff. Whilst the Post Office Board retains operational control, it is accountable to the Shareholder for the performance of Post Office and is required to seek consent for certain matters, as set out in the Articles.

The Oversight Committee does not seek to take the ownership or control of day-to-day operations from the Government or POL, instead the proposal is to insert a scrutiny function between the Board and government as seen in diagram 3.

BONUSGATE: A CASE STUDY

As a result of past actions, there is real benefit for Postmasters and the public in an improved culture.

An example of an incident from 2023, involving senior management awarding themselves large bonuses (#Bonusgate) further eroded Postmaster and the public's confidence in the institution. Parts of these bonuses had apparently been triggered by allegedly achieving the assistance which had been required by the Inquiry (which had not actually been achieved) and for an improved relationship with Postmasters (which was measured from the results of only two survey questions).

The moral and ethical argument of basing bonus metrics on helping a statutory Inquiry dealing with the mistakes of the Post Office would be apparent to most, yet these metrics were approved during a lengthy review process. The image below shows a process map of how the bonus metrics were approved, alongside possible missed opportunities to flag these.

Current Process

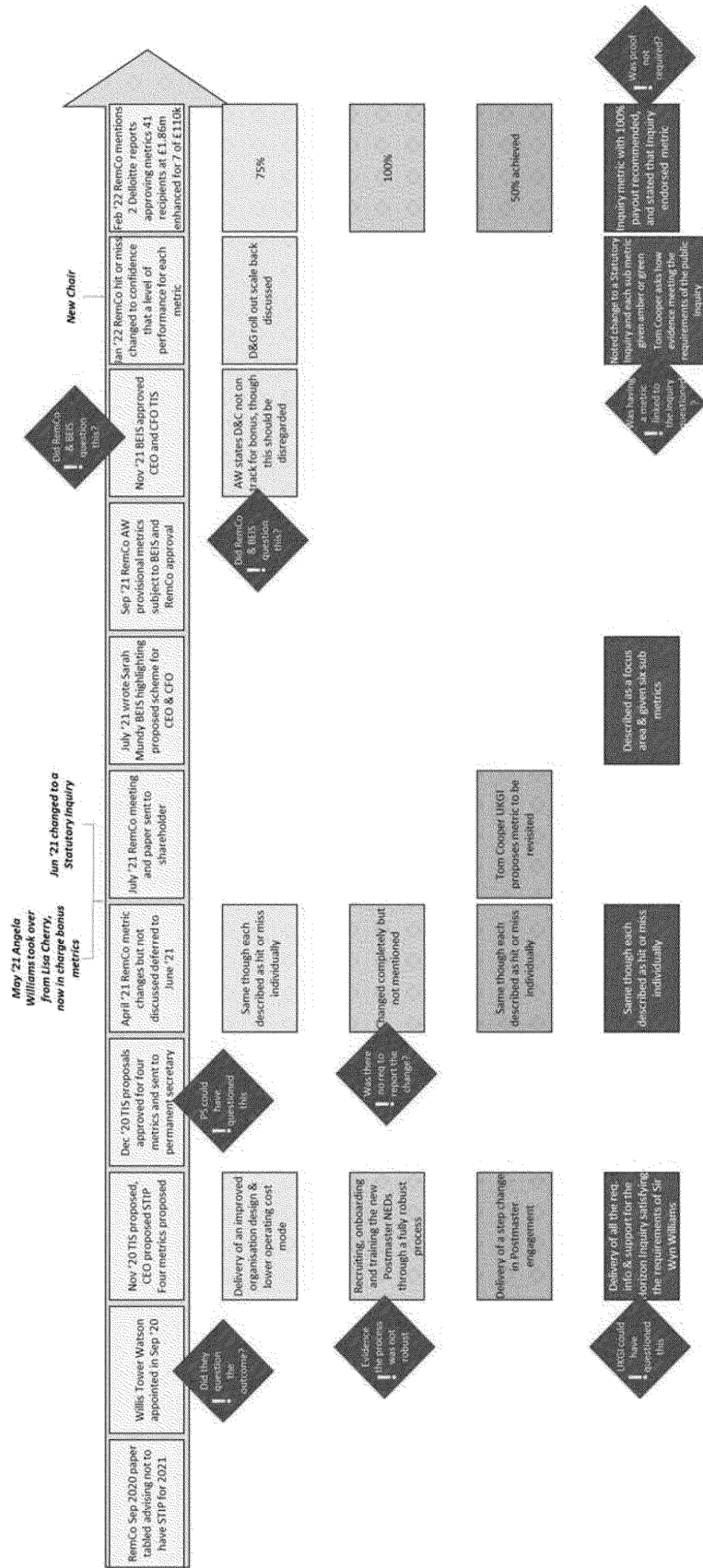


Diagram 5: Bonusgate process map

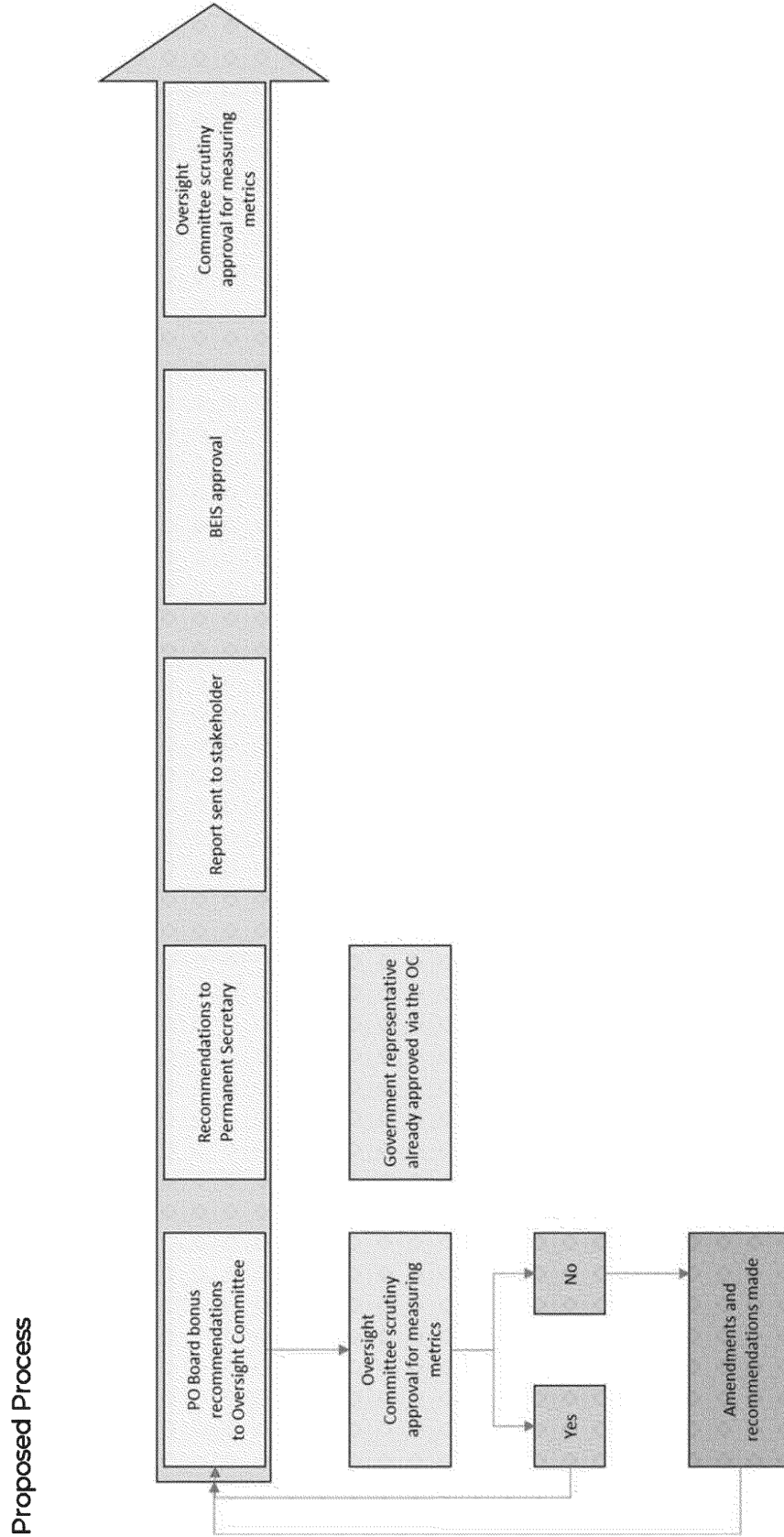


Diagram 6: Bonusgate process using the Oversight Committee process

NEXT STEPS

- To review the Inquiry recommendations when the Chair's Report is issued
- To review the Green Paper findings
- To review Post Office's strategic/transformation plan
- To ensure delivery of Grant Thornton Post Office Governance Review for the next 12-18 months, it being essential for foundational governance documentation to enhance clarity by being reviewed and updated