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*Dear Tom,*

**INSTRUCTION ON PAYMENT OF BONUSES FOR POST OFFICE LIMITED SENIOR LEADERSHIP**

Thank you for your email dated 23 July 2019 informing me of POL's intention to extend performance bonuses to the POL Executive and the wider leadership group of 1,400 members of staff in line with their entitlement under short-term incentive plans (STIPs) and long-term incentive plans (LTIPs). It is my understanding that this will cost the Company around £14 million. As Principal Accounting Officer, I recommend that you do not support the bonus proposal as it currently stands and communicate BEIS opposition to the proposal to the Remuneration Committee (RemCo).

I am extremely grateful to POL leadership for delivering a network of Post Offices that is at its most stable for decades. In doing so, the Company has also achieved profitability thanks to a commercially focused and ambitious Board of Directors and Senior Leadership team, the thousand staff employed by POL and to the tireless work of postmasters, who are the backbone of the network. I also appreciate that while the Post Office is publicly owned, it operates as an independent, commercial business and that responsibility for the payment of bonuses rests with the Board and management of the Post Office.

While it is important for Government to ensure that the Company enjoys the appropriate levels of freedom to exercise commercial judgement, within appropriate delegated authority arrangements, as the sole shareholder the Government takes its oversight responsibilities seriously.

While Shareholder approval is not legally required in this instance, the payment of bonuses should take into account the wider context for the bonus payments in question. In particular, reports of postmasters struggling due to falling remuneration as well as the criticisms levied at POL in relation to the Company's culture, treatment of postmasters and the handling of the litigation cases by the previous legal team, whose conduct of the case has been supervised by the Board and the Executive.

I am aware that, since the first 'Common Issues' judgement was handed down, it has been the Company's first priority to consider the points raised about the management of the contractual relationships with postmasters. I am also aware of the ongoing review of postmasters pay and of POL's intention to increase remuneration for certain banking services. However, while POL is determined to improve the culture and practices of the business, the Judge's comments suggest that further improvements are still very much needed.

I also note that the case has already incurred substantial legal costs and that a cost award has already been made in favour of the litigants by the High Court. It is too early to say how much the final resolution of this matter will cost the Post Office but, as you know, the estimates of potential liability are very substantial.

Taking the picture as a whole, the Department's view is that Executive bonuses should only be paid at a much-reduced amount compared to the proposed maximum until tangible improvements have been made. POL RemCo should also consider a reduction of a lesser kind for the wider leadership team. As such, I would be grateful if you would convey the Department's concerns to RemCo, relaying our request that POL does not proceed with the payments and instead discusses with us what meaningful reduction might be appropriate.

I look forward to discussing this issue with POL leadership and hearing about progress on the implementation of further improvements in the culture of the Company, including training and support for postmasters and reformed contractual procedures, as well as resolution of the litigation and any consequential actions required.

I have discussed this letter with Kelly Tolhurst, Minister for Small Business and Corporate Responsibility, and can confirm that she fully supports the views expressed above.

Please discuss the contents of this letter with the Chair of the Board and the Chair of RemCo.

**GRO**

**Alex Chisholm**