



# Department for Business, Energy & Industrial Strategy

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Dear Tim,

## STRATEGIC PRIORITIES FOR 2021/22

As in previous years, I am writing to set out our key priorities for you in your role as Post Office Chair for the coming year. We continue to be grateful for your work to date in leading the Post Office, and I am pleased that we can continue to rely on your service and expertise for a further year before your term expires in September 2022.

I am particularly pleased with Post Office's resilience over the last year in responding to the unprecedented circumstances brought on by the Covid-19 pandemic in its continued delivery of essential services across the country to those most vulnerable in our society. We are grateful for Post Office continuing to do its best to meet its geographical access criteria under such difficult circumstances. Credit must be given to you, the Board, the management team and staff, as well as to the postmasters who have performed so well during this difficult period. We are also supportive of the longer-term strategic thinking that the company has completed on the future shape of the network.

2020/21 was an especially challenging year for the company. In addition to the setbacks created by the pandemic, Post Office also faced an unexpectedly large number of applicants to the Historical Shortfalls Scheme (HSS) and slower than expected progress on issues like Belfast Exit, Payment Card Industry (PCI), and the operational changes needed to address the findings of the Fraser judgments. However, the Government recognises the significant commitment and effort put in by the Board, management team and the whole organisation to deal with the multiple challenges the company is facing. In particular, the Government recognises Post Office's significant efforts to deal with its complex legal issues, the successful sale of the Telecom operations and signing a positive new 11-year Mails Distribution Agreement with Royal Mail.

Whilst the Government also continues to recognise the commercial progress that Post Office has made over recent years in improving operating profits, we note that it was envisaged at the start of the current funding period that the company would achieve commercial self-sufficiency by the end of the period and it is unfortunate that, even after accounting for Covid-related impacts, this has not yet been achieved. It remains an

important objective for Government that the Post Office should be able to support itself financially, without the need for ongoing support from the taxpayer.

#### Shareholder priorities

As we move into the new financial year, I know that Post Office is working on responding to the Horizon IT Inquiry, resolving legacy litigation-related issues and developing the commercial and network strategy to help position the organisation for future success. As Chair of the Post Office, we are looking to you to lead the Board and provide support and challenge to the Chief Executive and management team in the delivery of these over the coming year. I would like to share on behalf of BEIS our expectations as they relate to this work:

- 1. Fully engaging with the Post Office Horizon IT Inquiry:** I am expecting that the Post Office Horizon IT Inquiry will require a significant portion of your time during 2021/22 and I would ask that you ensure that your Board and management team continue to fully engage with Sir Wyn Williams and his team in an open and transparent manner. Once the Inquiry has issued its findings, Post Office should report to Ministers on the actions that are being taken to respond to them.
- 2. Working towards resolving historic litigation issues:** The Historical Shortfall Scheme funding has recently been confirmed and Government needs to be kept fully appraised of developments, including any concerns around delivering to the expected cost envelope and/or timeline. As the final funding provision was significantly higher than what was expected, Post Office will need to make sure that the requirements to settle claims expeditiously is at all times balanced with ensuring taxpayers' money is spent appropriately, in line with Managing Public Money. Whilst BEIS officials will maintain a significant amount of oversight due to the size of the scheme, as Post Office will continue to retain primary ownership, the Government expects the Board to be fully engaged in ensuring these requirements are met. Please also continue to keep my officials fully informed of developments around postmasters who have their convictions overturned and seek compensation from Post Office, as well as the separate workers' rights litigation.
- 3. Prioritise cultural change; in particular building a more productive relationship with postmasters.** I know that you are continuing to conduct surveys and focus groups with postmasters and I would be keen to hear how you plan to reflect the feedback and track progress. In my predecessor's letter to you last year, the Department flagged that we would like to see evidence of the support that postmasters have received from Post Office in respect of the commitments made in relation to the litigation settlement, and we are keen that this is shared at the earliest opportunity. We have yet to see anything from the company that provides detailed feedback from postmasters, although we are aware that a consultation exercise was completed recently. We hope this issue is receiving the attention it needs and we look forward to seeing the outcome of the consultation. I know you will share my concerns about the longstanding issue of hard-to-place postmasters as well, and it would be good to see Post Office bring forward a plan for resolving this. I am also keen to see Post Office sensitively manage the roll-out of the new network strategy,

balancing commercial need against the need to address local concerns and any potential impact on protected groups in a sensitive way.

4. **Successfully deliver on the Annual Plan for 2021/22:** The Government has provided a significant funding envelope as part of the 2020 Spending Review and I know that you will want to ensure that the Annual Plan has challenging targets for trading profit, cost efficiencies and cash generation. The accompanying investment programme should include robust controls and I expect you to ensure that it is regularly and rigorously monitored by the Board. Our view at present is that the Board remains focused on trading profit and whilst we are pleased to note tangible improvements on areas such as bonus metrics, we remain concerned about the effectiveness of change spend and cash flow. As many of the Spending Review plans were not supported by developed business cases, we would request that the Board pays particular attention to the progress with respect to Post Office's major projects and that external assurance is obtained where appropriate, and that these considerations are included as a standing agenda item in Board meetings. As you know, the business case for Strategic Platform Modernisation (SPM) will need to be approved by BEIS given its significance.
5. **Develop the company strategy into a coherent Strategic Plan as part of the Spending Review for funding beyond 2021/22:** The 2020 Spending Review was changed to be a one-year funding settlement and therefore we will need Post Office to once again work with the Department and UKGI to develop a new multi-year Spending Review bid. I expect Post Office's funding request to be informed by a detailed multi-year Strategic Plan that maps a route to financial self-sustainability.
6. **Build a diverse Board with the required capacity and capability:** With the terms of two current NEDs expected to expire in the coming year, you should work with BEIS and UKGI to consider appointments to the Board. Diversity should be a key consideration of these appointments. As Chair, I would like you to lead the induction and mentoring of new Board members, noting that the first Postmaster NEDs are due to join the Board shortly.

I note that a request was made in last year's letter to the Chair to improve the use of data and analysis to enable the Board to take decisions grounded in evidence on postmaster economics, particularly around how and where postmasters make money, and at what point they might choose to leave the network. It is our view that there remains significant scope for improvement in the company's analysis and understanding of postmaster economics and I would be grateful if you could work further on this and keep my officials regularly informed of its progress.

As we will soon be reaching the end of the period covered under Post Office's current funding agreement, I would also be grateful if you could provide me with a report on the company's performance over the period, lessons learned and any improvements being made.

Finally, I would also like to bring to your attention the attached note which outlines UKGI's standard Governance Expectations of a Chair. UKGI is issuing this note to the Chairs of all

its assets and - whilst not exhaustive - it should serve as a helpful reminder of best practice.

Thank you again for your continued stewardship of Post Office. I hope to have the opportunity to meet with you soon to hear from you about the latest developments and to discuss this feedback.

Yours sincerely,

**Sarah Munby**

**GRO**

Permanent Secretary for Business, Energy & Industrial Strategy

## **Annex A: Governance Expectations of the Chair**

This letter, issued by UK Government Investments (“UKGI”), sets out the standard governance expectations of Chairs within its portfolio. This is not an exhaustive list of the duties of a Chair, and should be accompanied by a letter, tailored to the needs of Post Office Limited (“POL”), outlining the specific priorities and expectations of both BEIS and UKGI, acting as shareholder. This document does not supersede or alter any responsibilities as set out in POL’s Framework Document, Articles of Association, Funding Agreement or Entrustment Letter.

UKGI, acting as shareholder on behalf of Departments, expects the Chairs of its Assets to lead the Board in an effective and collegiate manner, and adhere to best practice corporate governance standards where possible in undertaking their roles. It is your responsibility, as Chair of POL to lead the Board, and ensure that it undertakes all of its responsibilities as set out in POL’s Articles of Association and Terms of Reference, Managing Public Money and the Corporate Governance Code. The Chair should set the tone from the top of the POL and promote an effective and appropriate culture in both the Boardroom and the wider organisation.

Your responsibilities are to act in accordance with the highest standards of corporate governance, and are complemented by requirements and expectations of you by HM Government. Below is a list of some of the core governance expectations of UKGI regarding your duties as Chair encompassing both of these elements. This list is not intended to be exhaustive, and does not supplant any responsibilities set out in the POL’s governing documentation:

### **Set the Board’s agenda**

You should set the POL’s Board’s agenda in good time ahead of a Board meeting. There should be sufficient visibility of items for forthcoming meetings to allow Board members, Executives, and stakeholders as necessary to prepare and engage with the Board. The agenda should focus upon the POL strategy and any policies as set by BEIS. In addition, the Board’s agenda should interrogate the POL’s ongoing performance, culture, and value for money, all while being cognisant of its overall accountability to the Secretary of State, and ultimately, the taxpayer.

### **Encourage engagement from Board members**

You should encourage Board members to engage with POL both within Board meetings, through active participation in discussions and decisions, and more widely. You should encourage Board members to join Board committees where they can add value. You should support Board members to contribute their expertise where relevant to POL on an ongoing basis. You should foster effective relationships based on trust, mutual respect, and open communication between Board members and the Executive team, both inside and outside of the Boardroom. You should monitor and manage conflicts of interest among Board members in order that the Board may function appropriately, in accordance with the conflicts of interest policies of BEIS and POL.

### **Foster relationships between the Board and stakeholders, including Government**

You should be the principal point of contact between stakeholders and the Board. You should foster constructive relationships with all relevant stakeholders to POL, including postmasters and employees. You should also maintain a constructive relationship with BEIS and UKGI in the course of your work.

### **Develop a strong working relationship with the Chief Executive**

The relationship with the Chief Executive is key to the long-term success of POL. You should provide support and advice to the Chief Executive, while respecting their executive responsibility. You should work with the Chief Executive to consider the strength of the broader executive team. Under your leadership, the Board should consider executive succession planning on a regular basis.

### **Work with HM Government on the composition of the Board, and the appointment of new Board members**

You should consider the composition of the Board in line with the requirements of POL on a continual basis, providing regular feedback to BEIS and UKGI as appropriate. You should work with BEIS and UKGI to consider appointments to the POL Board. You should engage in the appointment process as appropriate as per the agreed framework, and in compliance with rules or regulations governing appointments to the POL Board.

### **Provide mentoring and an induction to new Board members**

You should lead the induction to new Board members on behalf of POL. You should make sure new Board members are introduced to all relevant people both within POL and among stakeholders. This should be done in cooperation with BEIS and UKGI. The induction process should familiarise new Board members with POL and its overall governance framework.

### **You should encourage Board members to develop their knowledge and skills**

You should continually consider the knowledge and skills that the Board requires to discharge its duties to POL, this should be considered in conjunction with UKGI. Where the Board would benefit from additional knowledge and skills, which can be met without the need to recruit new or additional Board members, you should encourage Board members to undertake relevant training and education where possible.

### **Lead the annual evaluation of the Board, which should be externally facilitated at least every three years**

You should ensure that a review of the Board's effectiveness is undertaken on an annual basis. This should be facilitated by an external provider at least every three years. Where the evaluation is not externally facilitated, you should lead the process, gathering feedback from Board members regarding the Board's functioning. You should also consider how stakeholders, such as BEIS and UKGI, can input into the review, to provide comment upon the Board's effectiveness in engaging with Government and stakeholders. You should be responsible for overseeing the implementation of any recommendations arising from a review as necessary.

**Evaluate the performance of non-executive Board members at least annually**

You should undertake a review, at least annually, of the performance of non-executive Board members. This review should consider their contributions to the Board, and the value they add to POL. You should write these reviews and be prepared to share them with BEIS and UKGI in an appropriate manner. A written review of performance may be necessary to support any reappointment decisions for Board members.

**Be subject to an annual performance evaluation**

You should engage with an evaluation of your performance on an annual basis. You should allow the Senior Independent Director to gather feedback on your performance from the perspective of Board members. BEIS and UKGI shall gather feedback from Government and other stakeholders. This will be collated by UKGI and provided to the Principal Accounting Officer in an appropriate manner. A written review of your performance may be necessary to support any reappointment decision.