

THE POST OFFICE HORIZON IT INQUIRY**RESPONSE TO THE INQUIRY'S INFORMATION BATCH REQUEST 002 TO THE DEPARTMENT
FOR BUSINESS, ENERGY & INDUSTRIAL STRATEGY & UK GOVERNMENT INVESTMENTS
LIMITED**

This document is prepared in response to the Inquiry's second request for information, dated 16 December 2020. That request was addressed to the Department for Business, Energy & Industrial Strategy ("**BEIS**" or "**the Department**") and UK Government Investments Limited ("**UKGI**"), and has been prepared as a joint response. It is inherent in such a response that the information set out herein is known to one or other of its contributors, but not necessarily both.

The Inquiry's questions, and the answers thereto, are set out in turn below. To assist the Inquiry with understanding the context of certain of these responses, a glossary of certain specialist terms is annexed for the purposes of questions 1 to 7, and the below paragraphs (A) to (G) set out the framework relevant for each of questions 1 to 5:

- (A) Government funding for Post Office is contractualised through a funding agreement agreed between the sponsoring department, BEIS / BIS / DTI, and Post Office Limited ("**POL**"). The funding agreement sets out the obligations on POL with respect to network obligations, conditions for release of funding and reporting requirements. The funding agreement does not go into the details of POL's strategy, i.e. it is a contractual document. Each funding agreement agreed with POL does, however, refer to a strategic plan which details POL's objectives for the funding period covered by the relevant agreement and the steps it plans to take each year to deliver this. The strategic plan includes POL's investment plans for the relevant period, including, where relevant, any explicit plans POL has to invest in Horizon / IT infrastructure.
- (B) The draft strategic plan is approved by the POL Board. Underlying each strategic plan is further detail on the financial and operating assumptions supporting the plan, which is interrogated by the UKGI shareholder team ("**Shareholder Team**") before any plan is approved (by the Secretary of State for Business, Energy & Industrial Strategy (the "**Secretary of State**")) and the funding agreement signed. In recent years, this process has included external assurance from KPMG.
- (C) POL also produces, as part of its normal budgeting process, an annual plan for the relevant year. Where the funding period covers a period of more than one year, the annual plan(s) during that period also need to be approved by the Secretary of State and any advance of funding is subject to such approval. POL's annual plan is a budget for the forthcoming financial year, which will include expected expenditure on, among other things, investments. The annual plan will reflect changes in the business environment and changes in POL's results since the strategic plan was submitted. As a result the annual plan represents a developed position from that in the strategic plan, which may have been drafted up to three years previously.¹
- (D) Through each funding agreement, government provides two principal² types of funding to POL:

¹ In providing a response to questions 1-7, UKGI and BEIS have set out details contained in the relevant strategic plans for each funding period (where possible). The review of annual plans is ongoing, and to the extent any additional relevant information is identified, this will be supplied to the Inquiry in due course.

² We note that in some years, other types of funding are made available, for example as described in question 1 below. In the 2021/22 period HMG funding is also improving the company's liquidity to cover various matters including the effect of COVID-19 on POL's financial performance.

- i. Network Subsidy – to be used by POL to fund the direct and indirect costs associated with the part of the network that is loss-making; this includes a share of Horizon / IT infrastructure running costs for that part of the network
 - ii. Investment Funding – to be used by POL to fund the investment initiatives outlined in its strategic plan; this has sometimes included investment in Horizon / IT infrastructure as detailed in the specific questions below.

- (E) Investment funding provided by government only makes a contribution to the investment plans outlined by POL in its strategic plans. As POL’s plans will evolve during each funding period (in common with any business operating in a competitive market), and given POL has a large measure of operational independence from government, government does not hypothecate such funding, i.e. funding is not pledged or bound to specific activities, although it does prohibit expenditure on certain items. This is usual for arms-length bodies including public corporations (such as POL). Government’s priority has always been to ensure the viability of the Post Office network. POL therefore remains responsible for the management and allocation of its overall budget, subject to the monitoring and constructive challenge, where relevant, of the Shareholder Team.

- (F) The funding agreements and strategic plans represent the information used by BEIS when making a funding decision in relation to POL and are the basis on which State aid approvals were sought. The responses below therefore focus on these two documents.

- (G) For completeness, though not directly relevant to the responses below, in addition to this funding, since 2003 BEIS has provided a working capital facility to POL to assist in financing POL’s cash requirements in the branch network. In recent years, this has provided financing of up to £950 million. In addition, since April 2019, BEIS has provided a £50 million intraday revolving credit facility to cover unexpected short-term fluctuations in cash flow. This facility has never been drawn. Both facilities are for working capital purposes and are not intended to be the source of funding for investment spending or as a subsidy to pay for loss-making branches. Neither facility reserves funds to Horizon / IT.

1. In 2007, the Government gave £1.7 billion subsidy to Royal mail Group to turn profit by 2011. This was used to invest across the network of POL, Royal mail Group and Parcelforce [source].

- **What of this subsidy was explicitly reserved to POL? And what were the terms attached to POL's funding/budget lines from HMG, if any?**
- **Was Horizon/IT infrastructure referenced as an area for investment?**

1.1 On 16 May 2007 the Department of Trade and Industry ("DTI") signed a Funding Agreement³ with POL, Royal Mail Group Limited (POL's immediate parent) and Royal Mail Holdings plc (POL's ultimate holding company) for a £1.7 billion funding package providing funding for POL up to the financial year ending in 2011. This funding was for POL, noting that POL was a member of the Royal Mail Group and that Royal Mail Group parties were also signatories to the funding agreement. The funding was made in the context of a prior twelve-week national consultation on the proposals for the future of the Post Office network and the anticipated restructuring needed to reduce losses.

1.2 The funding was broken down as follows:

- Network Subsidy of £750 million (being five years of £150 million per annum, which included 06/07's £150 million subsidy that had already been paid);
- Investment in transformation of £841 million (£376 million of which had already been paid); and
- The balance as debt funding under POL's working capital facility.

1.3 The Network Subsidy was to be used by POL to maintain that part of the network that was loss-making and meet the direct and indirect costs of services of general economic interest over that community network. As all branches maintain at least one Horizon terminal, some of this funding will have gone towards maintaining Horizon in these branches. However, based on the available information Horizon / IT was not specifically referenced as an item to be funded, nor was the funding hypothecated.

1.4 The Investment Funding (described in the Funding Agreement as "Government Investment in Transformation") was, according to a Briefing Pack for Minister McFadden, the then Minister for Postal Services, allocated to POL to modernise and restructure the network through the closure of up to 2500 branches, and it was at this point that the proximity based "Access Criteria" were introduced. Other plans included transforming the Crown Branch network, which was heavily loss-making, and introducing more flexible "outreach" services (such as mobile vans or services in pubs, to serve rural communities on a part time basis).⁴ These measures aimed at "*reduc[ing] losses and increas[ing] the network's competitiveness while ensuring that the social needs of rural and disadvantaged communities continue to be met.*"⁵ However, the allocation of funding to each measure was not pre-determined, as POL was to undertake work following the public consultation to establish the future shape of the network. While it is implicit that IT spend would be necessary in the course of the transformation project, the available documents do not indicate that Horizon/IT infrastructure was referenced, directly or indirectly, as an area for investment.

1.5 The terms on which this funding was granted to POL were set out in the May 2007 Funding Agreement. The principal conditions attached to the release of funding in each year were that: (i) all necessary State aid clearances had been obtained for the making of any payment; and (ii) any necessary statutory instrument had been passed by affirmative resolution.

³ Funding Agreement dated 16 May 2007 (index number 1)

⁴ p4, bullet 1 and p5, quotation, of Briefing Pack for Minister McFadden, the then Minister for Postal Services, dated 03 July 2007 (index number 2) and <https://publications.parliament.uk/pa/cm200708/cmselect/cmberr/memo/1091/ucm202.htm>

⁵ p8, bullet 4 of Briefing Pack for Minister McFadden, the then Minister for Postal Services, dated 03 July 2007 (index number 2)

- 1.6 In addition to obligations in relation to network maintenance and transformation programme noted above, other terms in the Funding Agreement relate, among other things, to: commitments in respect of employee incentive arrangements; updates to Royal Mail Group Limited's strategic plan; compensation for postmasters whose branches were closed as a result of network transformation; POL's commitment to maintain the core network and improve the profitability of a number of branches such that they are run on a breakeven basis; and POL's commitment to consult on local changes to the Post Office network.

2. In 2010 the Government committed £1.34 billion of funding to POL up to 2015 to enable it to modernise its network.

- **What terms did HMG attach to the grant of this funding, if any?**
- **Was Horizon/IT infrastructure referenced as an area for investment?**

2.1 The £1.34 billion funding committed by the government in 2010 was in the form of 2 funding agreements:

- £180 million funding was agreed in March 2010 relating to financial year 2011/12; and
- £1.155 billion funding was agreed in October 2010 for the financial years 2012/13 to 2014/15.

2.2 The initial agreement was put in place to ensure POL had access to sufficient funding for the accounting period up to and following the May 2010 General Election, with the subsequent agreement put in place for the longer term, following the General Election.

The March 2010 Funding Agreement

2.3 On 24 March 2010 BIS signed a Funding Agreement⁶ with POL, Royal Mail Group Limited (POL's immediate parent) and Royal Mail Holdings plc (POL's ultimate holding company) for £330 million funding for the two years 2010/11 (£150 million) and 2011/12 (£180 million), superseding the earlier funding agreement agreed in 2007 which included the £150 million funding for 2010/11. Since this £150 million had already been announced, this is not included as part of the £1.34 billion total.

2.4 The £180 million in respect of 2011/12 comprised Network Subsidy only, to fund the cost of that part of the network that was loss-making. The terms of the agreement were similar to the October 2010 Funding Agreement (described below), but, as this was a one-year agreement for funding pending the outcome of the 2010 General Election, it made limited reference to POL's strategy. There was no explicit reference to Horizon specifically or IT generally, though as all branches maintain at least one Horizon terminal, some of this funding will have gone towards maintaining Horizon in these branches.

2.5 This Funding Agreement also included £6.7 million funding for an adjustment which related to payments for POL's contract with the Department for Work and Pensions for delivery of the card-based benefits payment service. It also included a commitment for POL to undertake a consultation on banking services, with a view to increasing banking services available through the Post Office network.

The October 2010 Funding Agreement

2.6 On 25 October 2010 BIS signed a Funding Agreement⁷ with POL, Royal Mail Group Limited and Royal Mail Holdings plc for £1.155 billion funding for the three years 2012/13, 2013/14 and 2014/15. This was made up of:

- £570 million Network Subsidy; and
- £585 million Investment Funding.

2.7 The Funding Agreement was made in the context of the introduction of the Postal Services Bill to the House of Commons on 13 October 2010, which contemplated the separation of POL from Royal Mail Group Limited as part of the latter's privatisation.

2.8 The Network Subsidy was to be used by POL to fund the operating and investment costs associated with maintaining a network of more than 11,500 branches, many of which were loss-making. For

⁶ Funding Agreement dated 24 March 2010 (index number 3)

⁷ Funding Agreement (including Strategic Plan and Entrustment letter) dated 25 October 2010 (index number 4)

these purposes, POL's costs included the direct costs of running its branches (e.g. the costs incurred by POL for its directly managed branches), payments to postmasters of franchised branches and a contribution to POL's central costs. As all branches maintain at least one Horizon terminal, some of the branch-related funding (both directly managed and franchised) from this Network Subsidy will have gone towards maintaining Horizon in these branches. Central costs also included branch IT, a large proportion of which related to Fujitsu who operate the Horizon system. However, Horizon / IT was not specifically referenced, nor was the funding hypothecated.

- 2.9 The Investment Funding represented BIS's contribution to POL's investment plans over the three-year funding period which, at the time of entering into the Funding Agreement associated with this commitment, totalled £805 million. Given the loss-making position of POL at this time, and the correspondingly small amount of cash generated by the business to fund these investments, BIS's funding accounted for ca.73 per cent. of POL's investment budget for the three years to enable POL to begin, among other investments, the implementation of a network-wide programme of branch modernisations (a strategy that was referred to as Network Transformation). As POL's plans were expected to evolve over the period, as it responded to opportunities or challenges in its markets or risks like any business operating in similar areas, this funding was not hypothecated.
- 2.10 Some of this £805 million was, according to POL's strategic plan⁸, expected to cover maintenance investment in POL's network, alongside Network Transformation and other transformation projects the business had planned at the time; and it was anticipated that a portion of these funds would be spent on IT. This included ordinary course set up costs for Horizon, networks and IT hardware in refurbished or new branches that participated in Network Transformation. POL's plans also included investment in IT more generally, comprising, among other things, "*core Horizon system development (including preparation for replacement), introduction of unified branch engineering and rationalisation of branch telecoms*"; "*development of new point of sale and other systems to support new branch operating models*"⁹ (i.e. Network Transformation introduced two new branch formats to the Post Office network, Mains and Locals, and at the time POL was also considering introducing a further new model, Basics¹⁰); and improved management information provision including "*the introduction of a Customer Relationship Management system*".¹¹
- 2.11 The terms on which this funding was granted to POL were set out in the October 2010 Funding Agreement. The principal conditions attached to the release of funding in each year were that: (i) all necessary State aid clearances had been obtained for the making of any payment; and (ii) relevant milestones had been achieved. In each year there were three milestones POL had to meet:
- **Network Size and Scope:** Based on the then most recent report submitted to the House of Commons library, that POL's network continued to number at least 11,500 Branches and that this network continued to meet the access criteria as also set out in the Entrustment Letter;¹²
 - **Annual Plan:** That POL had presented an implementation plan for the forthcoming financial year setting out the steps it was going to take in respect of the strategic plan (or any agreed variation of the strategic plan) for that same period. This was required to include information on POL's: implementation plan to deliver the strategy; its annual budget, including investment

⁸ Strategic Plan appended to Funding Agreement (including Strategic Plan and Entrustment letter) dated 25 October 2010 (index number 4)

⁹ p14 of Strategic Plan appended to Funding Agreement (including Strategic Plan and Entrustment letter) dated 25 October 2010 (index number 4)

¹⁰ p10-11 of Strategic Plan appended to Funding Agreement (including Strategic Plan and Entrustment letter) dated 25 October 2010 (index number 4)

¹¹ p14 of Strategic Plan appended to Funding Agreement (including Strategic Plan and Entrustment letter) dated 25 October 2010 (index number 4)

¹² Entrustment Letter dated 24 March 2010 (index number 5)

plans for the relevant year; its network strategy; and a reconciliation of the implementation plan to the strategic plan;

- **SGEI Statement:** That POL had presented BIS with a statement (to meet European Commission requirements under the terms of the UK government's State aid approval) setting out the cost of delivering certain of POL's network obligations to ensure that POL had not been 'overcompensated' for delivering these obligations for the most recently completed financial year; and
- **Network Contract:** Additionally in the first year only, POL had to demonstrate that it had developed a replacement subpostmaster contract.

2.12 Other terms in the Funding Agreement relate, among other things, to: employee incentive arrangements; payments to postmasters whose branches were closed as a result of Network Transformation; POL's commitment to consult on local changes to the Post Office network; and the prohibition on entering into Joint Ventures by POL without consent.

3. In 2013 Government committed an additional £640 million of funding for 2015-2018 for POL to complete its network modernisation [source gov.uk story – ‘post office secures additional govt investment to complete branch modernisation’].

- **What terms did HMG attach to the grant of this funding, if any?**
- **Was Horizon/IT infrastructure referenced as an area for investment?**

- 3.1 On 27 November 2013, BIS committed £640 million funding to POL for three years (2015/16, 2016/17 and 2017/18). This was made up of:
- £280 million Network Subsidy; and
 - £360 million Investment Funding, principally to enable POL to complete Network Transformation.
- 3.2 As usual, some of the Network Subsidy will have gone to maintaining Horizon / IT (though it was not hypothecated).
- 3.3 The Investment Funding represented BIS’s contribution to POL’s investment plans over the three-year funding period which, at the time of entering into the Funding Agreement¹³ associated with this commitment, totalled £808 million (of which £423 million related to Network Transformation and £384 million to other investments). In line with previous periods, this funding was not hypothecated.
- 3.4 The November 2013 Funding Agreement set out the terms on which this funding was granted to POL. The principal conditions attached to the release of funding in each year were that: (i) all necessary State aid clearances had been obtained for the making of any payment; and (ii) relevant milestones had been achieved. In each year there were three milestones POL had to meet. These were similar to the 2010 agreement, namely maintaining a network size and scope, providing an annual plan and providing an annual SGEI statement, but excluding the network contract milestone.
- 3.5 This Funding Agreement also included an additional right for BIS to request information in monitoring POL’s progress in delivering the strategic plan, and a corresponding obligation on POL to use its reasonable endeavours to provide such information. This was indicative of the developing relationship between BIS and POL and increased monitoring of POL spending and prioritisation of funding by BIS.
- 3.6 Other terms in the Funding Agreement relate to *inter alia*: employee incentive arrangements; payments to postmasters closing their branches as a result of Network Transformation; POL’s commitment to consult on local changes to the Post Office network; and the prohibition on entering into Joint Ventures by POL without consent.
- 3.7 According to POL’s 2013 strategic plan,¹⁴ it was anticipated that some of the £423 million for Network Transformation would form investment into Horizon / IT, including to “*implement IT systems to support the growth in new products and services, and replacement of the existing point-of-sale system (“Horizon”) to make it fit for the future*”.¹⁵ This sum was also expected to cover maintenance investment in POL’s network and other transformation projects the business had planned at the time. Therefore a portion of these funds would be allocated to ordinary course spend on IT, including set up costs for Horizon, networks and IT hardware in refurbished or new branches that participated in Network Transformation.
- 3.8 In light of challenges POL had faced in the period between it proposing its strategic plan in 2013 (the final draft of which was dated 20 November 2013) and the start of the funding period in April 2015 (in particular material shortfalls in revenues in Government Services and Telecoms markets) in July 2015 POL presented BIS with a draft replacement strategic plan, to which the Secretary of State

¹³ Funding Agreement dated 26 November 2013 (restated and amended on 27 January 2015 in response to the UK Government’s discussions with the European Commission on its State aid notification for POL) (index number 6)

¹⁴ Strategic Plan & Funding Requirement dated 23 November 2013 (index number 7)

¹⁵ p49 Strategic Plan & Funding Requirement dated 23 November 2013 (index number 7)

agreed.¹⁶ This included plans for the roll-out of a new branch-based IT system, under the name Front Office, to replace Horizon. This was intended to provide a *“Stable, resilient IT system which can respond more flexibly to future competitive requirements”* by the end of 2017/18. However, the plan reserved the possibility that POL would extend its relationship with Fujitsu *“as contingency for Front Office roll out”*.¹⁷ In February 2016, POL extended its Horizon contract with Fujitsu for 6 years ending in March 2023. The November 2013 Funding Agreement was restated attaching the July 2015 replacement strategic plan.¹⁸

¹⁶ Post Office Three Year Plan dated July 2015 (index number 8)

¹⁷ Slide 18 of Post Office Three Year Plan dated July 2015 (index number 8)

¹⁸ i.e. it was agreed by the parties that the existing Funding Agreement would continue to apply but with the new strategic plan as its basis, rather than the original 2013 strategic plan.

4. What was HMG funding, if any, approved for POL in the period 2018 – 2020?

- What terms did HMG attach to the grant of this funding, if any?
 - Was Horizon/IT infrastructure referenced as an area for investment?
- 4.1 On 20 December 2017 BEIS committed £370 million funding to POL for the three years 2018/19, 2019/20 and 2020/21, made up of:
- £160 million Network Subsidy; and
 - £210 million Investment Funding, to enable POL to continue investing in its business and the modernisation of its network.
- 4.2 The Investment Funding represented BEIS's contribution to POL's investment plans over the three-year funding period which, at the time of entering into the Funding Agreement¹⁹ associated with this commitment, totalled £445 million. In line with previous periods, this funding was not hypothecated.
- 4.3 POL's investment plans, as set out in its strategic and financial plan,²⁰ included spend across five core categories. One of these related to building "*innovative, flexible and secure IT*", and had a budget at the time of £80-90 million. It was centred around three principal areas: (i) replacing end-of-life branch hardware, investing in improving security and addressing system outages / improving resilience; (ii) transitioning POL's physical data centres (servicing Horizon) to a cloud-based solution; and (iii) restructuring the IT operating model to take back control of core functions and reduce cost.²¹ Horizon was identified as outdated, "*leaving [POL] unsupported by suppliers or exposed to unacceptable cost demands and operational risks*".²² It was noted that POL had suffered severe outages, and that incidents would continue without investment. The other investment categories also included aspects of IT hardware and software spend (e.g. self-service kiosks in branches, the creation of an 'agent hub', digitisation of POL's Financial Services business, investment in digital identity and IT-enabling investments to facilitate headcount savings and new management information systems).
- 4.4 The terms on which this funding was granted to POL are set out in the April 2018 Funding Agreement. The principal conditions attached to the release of funding in each year were that: (i) all necessary State aid clearances had been obtained for the making of any payment; and (ii) relevant milestones had been achieved. In each year there were three milestones POL had to meet. These were similar to the 2010 and 2013 agreements, including maintaining specified network size and scope, and providing an annual SGEI statement.
- 4.5 This Funding Agreement also included the provisions introduced in 2013 in respect of BEIS's right to request information, and POL's obligation to provide such information. In addition, POL was required to provide information on expected spending ahead of each quarterly drawdown of funding and report on how spending compared to / reconciled with the Strategic Plan.²³
- 4.6 Other terms in the Funding Agreement relate to *inter alia*: provision of quarterly strategic and financial reporting information; employee incentive arrangements; POL's commitment to consult on local changes to the Post Office network; and the prohibition on entering into Joint Ventures by POL without the Secretary of State's consent. In addition, at the Secretary of State's discretion, BEIS also had the explicit right to withhold, suspend or require the repayment of funding under certain conditions (e.g. non-compliance with the terms of the Funding Agreement, error, negligence, illegal activities, etc.).

¹⁹ Funding Agreement dated 16 April 2018 (index number 9)

²⁰ Post Office Strategic and Financial Plan 2018-2020 (index number 10)

²¹ Slide 6 of Post Office Strategic and Financial Plan 2018-2020 (index number 10)

²² Slide 3 of Post Office Strategic and Financial Plan 2018-2020 (index number 10)

²³ These reporting / monitoring arrangements are described in more detail in the response to question 32.

5. The Spending Review of 2020 contains a bid, and settlement for the Post Office Limited.

- **What terms have HMG attached to the grant of this funding, if any?**
- **Has Horizon/IT infrastructure referenced as an area for investment?**

- 5.1 On 25 November 2020 BEIS announced a commitment of £227 million funding to POL for 2021/22, subject to documenting and approving the contracts between the parties. This is to be comprised of:
- £50 million Network Subsidy; and
 - £177 million of Investment Funding, to enable POL to continue investing in its business and the modernisation of its network.²⁴
- 5.2 As POL's plans will be subject to a degree of change (POL had to submit a strategy in line with HM Treasury Spending Review timelines, which meant some parts of its plans for 2021/22 were not fully developed by the time they were submitted), and since POL will need to respond to opportunities or challenges in its markets, in line with previous periods this funding is again not hypothecated.
- 5.3 POL set out its investment plans in its funding submission dated 28 August 2020. POL's plans include spend across four core categories. One of these is IT focused. As previously, it referred to building "*innovative, flexible and secure IT*", with this plan centred around three principal areas: (i) investment in a replacement for the Horizon system in preparation for POL's contract with Fujitsu ending; (ii) continuing to transition POL's physical data centres to a cloud-based solution; and (iii) a number of smaller projects designed to maintain and improve POL's IT infrastructure and provision. Other categories include IT hardware and software spend (e.g. self-service kiosks in branches, data analytics and investment in digital identity). Many of these investment initiatives are multi-year projects which will not be completed in 2021/22.²⁵
- 5.4 The terms on which this funding will be provided to POL will be set out in a funding agreement, which as of February 2021 is in the process of being agreed between BEIS and POL. It is expected that it will be agreed before the start of April 2021. The documents are likely to be similar in structure and substance to those in previous years.

²⁴ See response to Question for Department for Business, Energy and Industrial Strategy tabled on 6 January 2021 at <https://questions-statements.parliament.uk/written-questions/detail/2021-01-06/133984>.

²⁵ We note that the funding agreement for 2020 is still being agreed between BEIS and POL. Once it is finalised, BEIS/UKGI will aim to provide the Inquiry with the relevant sections of the funding agreement and strategic plan, subject to POL's consent.

6. What was HMG funding, if any, approved for POL between 1999 – 2007?

- **What terms did HMG attach to the grant of this funding, if any?**
- **Was Horizon/IT infrastructure referenced as an area for investment?**

6.1 In 2007, the government stated publicly that it had, in the period prior to 2007, made an investment of £2 billion in the Post Office network to help it adapt to the changing needs of customers and to the marketplace in which it operates. This included:

- £500 million investment in the Horizon project to bring modern computer systems into every Post Office in the country for the first time. Aside from updating the point of sale IT infrastructure, this was also to enable POL to launch a range of new products including the ability for customers to access their bank account via the Post Office;
- An annual subsidy of £150 million from 2003 to support the rural network;
- £210 million to compensate exiting subpostmasters during the urban reinvention programme (a branch closure programme undertaken around 2003);
- £25 million to enable POL to pilot new ways of delivering services in rural communities by testing the concept of 'Outreach' Post Offices (which was subsequently taken forward in future funding periods); and
- £726 million to cover historic debts.

6.2 The above information has been obtained from briefing packs that were prepared for the 2007 Funding Agreement.²⁶ Unfortunately we have been unable to retrieve the underlying documentation or any contemporaneous information.

6.3 With regard to the investment in Horizon, the Horizon system was rolled out towards the start of the period of 1999 – 2007. We have unfortunately not been able to locate the relevant documentation.

²⁶ Briefing Pack for Minister McFadden, the then Minister for Postal Services, dated 03 July 2007 (index number 2)

7. What, if any, funding has HMG expressly ever provided to POL to maintain/upgrade Horizon/IT infrastructure?

- 7.1 Funding provided to POL by government has always represented a contribution to a programme of investment in the Post Office network and POL's wider business, and as such it has never been hypothecated to any specific purpose, including to maintain / upgrade Horizon or POL's IT infrastructure.
- 7.2 That notwithstanding, as outlined in the responses to Questions 1 to 6, POL's plans have always included (implicitly or explicitly) an element of spend on IT, as would be expected of any retailer with a nationwide network of more than 11,500 branches. As set out above, this included identified and costed projects to enhance, improve and replace the Horizon system.

8. UKGI's interaction with POL includes: (a) holding a seat on the POL Board and Audit and Risk Committee and (b) overseeing and participating in corporate governance activities such as the approval of the business's longer-term strategy, executive and non-executive recruitment, and director remuneration. Describe how points (a) and (b) are carried out, the response may include the following:

- The frequency of board meetings and ARC meetings
- Terms of reference (ToRs) and/or memorandum of understanding (MoU) for the board meetings and ARC meetings
- The nature of UKGI's interventions/participation in Board and ARC meetings
- An overview of the corporate governance activity undertaken, the points that have been challenged, and POL's response
- What is UKGI's view on the appointment of a branch master to the Board (in a Non-Executive Director) (NED)) role? What is UKGI's response to the view that the appointment is cosmetic rather than a lever for improving governance and accountability? (*this question is framed below as part (c)*)

Part (a): UKGI's interaction with POL through holding a seat on the POL Board and Audit and Risk Committee

Shareholder NED's role in POL Board and Committees

8a.1 As part of UKGI's role as the shareholder representative for the Secretary of State UKGI holds a Non-Executive Director ("**Shareholder NED**") seat on the board of directors of POL (the "**POL Board**"), the Audit, Risk and Compliance Committee ("**ARC**"), the Remuneration Committee and the additional POL Board meetings, which are currently held for the purpose of litigation oversight. An overview of the Shareholder NED's role on the POL Board and sub-committees is set out in an Annex to this document The Shareholder NED's attendance at POL Board and sub-committees provide the Shareholder Team and, through it, BEIS with a line of sight into POL's Board decision-making and oversight of the company, as well as the quality of the POL Board and management in the performance of their functions.

Shareholder NED Role

8a.2 As set out in paragraphs N to P of the BEIS and UKGI response to the Inquiry's Call for Evidence ("**Call for Evidence**"), the role of Shareholder NED is an important component of the shareholder role that UKGI performs for POL on behalf of BEIS.

8a.3 Unlike the other POL NEDs, who provide specialist subject-matter expertise to the POL Board, the Shareholder NED seeks to bring government's perspective to the POL Board and to provide further context to BEIS's objectives and concerns in Board and sub-committee meetings to aid decision-making. Aside from the general interests in company matters that any NED would be expected to have, the Shareholder NED has a particular lens on the governance areas on which the Shareholder Team is focused, for example, the effectiveness of POL's governance arrangements and senior leadership, financial performance and monitoring and compliance with funding arrangement.²⁷

8a.4 As requested, we have set out below a selection of recent examples which demonstrate how the Shareholder NED has acted to challenge the POL Board and to promote better outcomes for POL

²⁷ Further information on the focus of the Shareholder team, and correspondingly, the focus of the Shareholder NED, is provided in the Call for Evidence at paragraphs J-P and in the Appendix.

from a business and corporate governance perspective. We note that whilst many of these interactions occur at Board and sub-committee meetings, many will also occur outside of these more formal forums e.g. in meetings with the Chair or executive. Whilst the examples provided are quite broad in terms of subject matter, it is important to note that the Shareholder NED's interactions do not go any further than that of a normal non-executive director and should not, as a matter of ordinary course, stray into executive activity.

Nature of Shareholder NED's interventions / participation at Board and ARC meetings

8a.5 A few recent examples of the Shareholder NED's interventions include:

a. Management of Counterparty Risk

In January 2019, the Shareholder NED raised concerns at ARC regarding the counterparty risk faced by POL, in particular the risk to POL if one or more of the firms that operate large numbers of Post Office branches failed.²⁸ In such a scenario, a large number of Post Office branches could close with limited warning, threatening POL's ability to meet its network size commitments to BEIS. The Shareholder Team facilitated meetings between POL and UKGI's Special Situations group who briefed POL on its approach to market horizon scanning, individual business analysis and supply chain risk management when advising Ministers on risks facing key sectors.²⁹ As a result, POL has put in place a more structured approach to assessing, planning for and managing these risks.³⁰

b. Remuneration

POL's remuneration incentive schemes have been focused for a number of years on improving profitability, because POL had been loss-making for 16 years before turning a profit in 2016/17. However, POL has continued to spend more on investment than it generates in profits which means that the taxpayer has continued to have to support the company.

In order to align POL's management incentives to the Shareholder's objective (amongst other objectives) that POL should become financially self-sufficient, from 2019 onwards the Shareholder NED with support from the chair of the Remuneration Committee encouraged POL to refocus its remuneration incentive schemes on cash flow.³¹ This request was included in the February 2020 Chair's letter from the Permanent Secretary of BEIS.³² POL included cash flow in a proposal for a bonus scheme for 2020/21 but was not finalised due to the Covid-19 pandemic and will be implemented with effect from 2021/22.

c. Quarterly Funding Reporting

The 2018 Funding Agreement requires POL to report to BEIS on a quarterly basis on how the investment funding being contributed by BEIS is being spent. In 2018, the Shareholder NED challenged the sufficiency and quality of information being provided by POL and, following this, agreement was reached to put in place new processes that would ensure that UKGI

²⁸ Minutes from 29 January 2019 Audit, Risk and Compliance Committee (Risk report, page 2) (index number 11).

²⁹ Email from UKGI inviting POL Risk Director to meeting with UKGI Special Situations team dated 1 February 2019 (index number 12).

³⁰ Paper from 23 September 2019 Audit, Risk and Compliance Committee re monitoring of multiple retail partners (index number 13).

³¹ Email from Shareholder NED to POL Chair and Remuneration Committee Chair dated 29 August 2019 (index number 14).

³² Letter sent from BEIS Permanent Secretary to Tim Parker dated 26 February 2020 (index number 15).

received an appropriate level of disclosure. While discussions were taking place, BEIS withheld, on the recommendation of the Shareholder Team, the disbursement of investment funding due to be paid out in July 2018 until October 2018.³³

While there was some improvement in POL's reporting subsequently, the Shareholder Team was not satisfied by the way POL exercised control over investment spending. The Shareholder NED requested more rigorous control arrangements around project prioritisation and better assurance to give BEIS comfort that investment funds were being spent appropriately.³⁴ These discussions also led to the implementation of an annual internal audit to review the controls over POL's investment spending.³⁵ While these discussions were taking place, the disbursement of investment funding originally due to be paid out in October 2018 was withheld by BEIS until December 2018.³⁶

d. Banking Framework

The Banking Framework is an agreement that POL has with all 30 UK banks and financial institutions to allow their customers to perform basic banking services such as cash deposits and withdrawals at Post Office branches. The Banking Framework was renewed with effect from 1 January 2020.

Revenue from the Banking Framework is a major contributor to POL's total income along with the revenue POL earns from Royal Mail. Provision of banking services are also an important part of POL's social purpose provision. As a result of a simple analysis of POL's costs, the Shareholder NED and Shareholder Team identified that the Banking Framework did not contribute sufficiently to POL's costs based on the pricing that existed prior to January 2020 and that a significant increase would be needed for POL to be able to meet BEIS's objective that POL should be financially self-sufficient.

The Shareholder NED encouraged POL to appoint external advisors to improve the quality of the POL Board papers on this topic and to improve the quality of the analysis on which the pricing decision was being made. Along with other members of the POL Board, the Shareholder NED encouraged POL to seek a fairer financial outcome for POL and ultimately the POL Board decided to set the pricing above the level originally proposed.³⁷

³³ Joint Submission from BEIS/UKGI to BEIS Finance and the BEIS Policy Lead – Post Office Investment Funding for Q2 2018/19 dated 5 October 2018 (index number 16).

³⁴ Email from Shareholder NED to POL CFO dated 31 October 2018 and response thereto dated 1 November 2018 (index number 17).

³⁵ Email chain between the Shareholder Team, POL CEO and POL Head of Internal Audit in November 2018 (index number 18).

³⁶ Joint Submission from BEIS/UKGI to BEIS Finance and the BEIS Policy Lead – Post Office Investment Funding for Q3 2018/19 dated 5 December 2018 (index number 19).

³⁷ Submission from BEIS/UKGI to Minister Tolhurst and BEIS Permanent Secretary – Post Office Banking Framework Negotiations - dated 15 November 2018 (index number 20)

Part (b): UKGI's interaction with POL through overseeing and participating in corporate governance activities such as the approval of the business's longer-term strategy, executive and non-executive recruitment, and director remuneration.

8b.1 The Appendix to the Call for Evidence sets out the role of the Shareholder Team and the range of governance activities it performs, including the interactions and support it provides to the Shareholder NED. To assist the Inquiry, we have provided examples of how the Shareholder Team performs this role in practice, as well as its role in executive and non-executive recruitment, and director remuneration. We note that the Shareholder Team's role in relation to longer term strategy is covered in the response to question 9 below.

8b.2 Recent examples of Shareholder Team engagement with POL include:

a. The Historical Matters Business Unit

UKGI played a role in POL's decision to establish the Historical Matters Business Unit ("HMBU"), a new business unit set up within POL to manage the delivery of all workstreams related to issues identified by Mr Justice Fraser in the Common Issues and Horizon judgements, and to provide clear accountabilities within POL for this important work.

Following a discussion in May 2020 with POL's CEO about the challenges POL was facing to: (i) manage its business as usual activities alongside the litigation work; and (ii) cope with the financial challenges associated with the costs of managing and settling the litigation which are potentially significant in the context of POL's overall finances, the Shareholder Team wrote a paper for POL and BEIS on structural options that could mitigate these challenges.³⁸ To inform this, the Shareholder Team consulted colleagues in UKGI with relevant experience (e.g. structures adopted in the banking sector to separate business as usual activity from core activity). POL subsequently took external legal advice and the HMBU was established following a POL Board decision in July 2020.³⁹

b. Board Evaluation & Succession Planning:

The Shareholder Team worked with POL to update its approach to POL Board evaluations and its succession planning in line with current best practice, and reference was made to both topics in the 2019 Chair's letter sent by the BEIS Permanent Secretary.⁴⁰ Subsequently, POL's management did a significant exercise on succession planning which was discussed at the Board in April 2019, the outcome of which was POL having an improved understanding of its middle management capability, thereby informing its talent management and workforce retention strategy. Furthermore, POL is currently undergoing the first externally facilitated and independent Board review for four years, and externally facilitated reviews will be conducted at least every three years going forward.

Executive and Non-Executive Recruitment

8b.3 In accordance with its Articles of Association ("**Articles**"), all appointments to the POL Board and the appointment of any person as chief executive or chair of POL are subject to the approval of the Shareholder. As set out in the BEIS and UKGI response to question 32 of the Call for Evidence, the

³⁸ UKGI liabilities funding concept paper dated 4 June 2020 (index number 21)

³⁹ Board report on GLO separation solution from 28 July 2020 (index number 22)

⁴⁰ Letter sent from BEIS Permanent Secretary to Tim Parker dated 4 February 2019 (index number 23)

Shareholder Team is responsible for advising BEIS in relation to executive and non-executive appointments, including appropriate remuneration. As part of this work the Shareholder Team works closely with POL's Human Resources team and POL Board's Nomination and Remuneration Committees in two principal areas: launch approval and remuneration.

- 8b.4 Appointments to roles which require Shareholder consent must be approved by BEIS in advance.⁴¹ the Shareholder Team provides advice to Ministers on such appointments, and helps POL navigate the process (which varies dependent on the nature of the appointment (e.g. the appointment of the POL Chair is regulated by the Office of the Commissioner for Public Appointments). The Shareholder Team's role includes advising Ministers on the skills and experience needed having sought the views of POL's Board's Nomination Committee and the dedicated policy team overseeing POL from a policy perspective (the "**BEIS policy team**"). The Shareholder Team also advises on whether the recruitment process complies with government regulations and guidance and reflects prevailing Ministerial views (e.g. the use of external consultants, the need for diversity, any desire to meet with shortlisted candidates, interview panel membership, etc.). The Shareholder Team is also responsible for coordinating approvals with HM Treasury for executive pay, as described more fully below. The Shareholder NED will typically be a member of the recruitment panel for NED, CEO and CFO appointments.

Director Remuneration

- 8b.5 The remuneration of the POL Board, including the CEO and CFO, are subject to the approval of the Shareholder. The Shareholder Team is responsible for advising BEIS, having obtained the recommendation of POL's Remuneration Committee and input from the BEIS policy team, in relation to remuneration for such appointments. This includes management incentive arrangements applicable to the CEO and CFO. The Chief Secretary to the Treasury must also approve any salary package for Ministerial appointments where full-time equivalent pay is above £150,000 per annum.
- 8b.6 Typically, before each recruitment campaign, the Shareholder Team will work with the POL HR team and POL's Remuneration Committee (which commissions appropriate salary benchmarking for each role). The benchmarking takes into account the current labour market, trends in incentive packages and remuneration and the potential range of candidate expectations and compares these to the requirements of the POL Board to make a recommendation. In discussion with POL, UKGI coordinates advice to BEIS (and later HM Treasury if required) in support of a remuneration package for each role and provides any necessary justification drawing on POL's benchmarking. Should further negotiation be required, UKGI facilitates a dialogue between the parties (here, POL, BEIS and HM Treasury officials and / or Ministers) to reach an agreement. The remuneration of POL's senior appointments is therefore pitched at an appropriate level to attract and secure the right candidates.

⁴¹ Post Office Limited Framework Document, clause 7.3(iii) (index number 24).

Part (c): What is UKGI's view on the appointment of a branch master to the Board (in a Non-Executive Director) (NED)) role? What is UKGI's response to the view that the appointment is cosmetic rather than a lever for improving governance and accountability?

- 8c.1 UKGI's view is that the appointment of two postmasters to the POL Board (the "Postmaster NED") is a positive development and not a "cosmetic" appointment. Whilst UKGI appreciates that the impetus for the establishment of the Postmaster NED role was the criticism that POL received about its culture and treatment of postmasters during the Horizon litigation, UKGI's view is that this initiative reflects the trend being seen in the wider corporate governance landscape towards greater stakeholder engagement. For example, the Financial Reporting Council's UK Corporate Governance Code 2018 (which POL seeks to comply with as per its Framework Document) emphasises the importance of dialogue between a company, its workforce and other key stakeholders.
- 8c.2 UKGI believes that the appointment of Postmaster NEDs will enable the interests of postmasters to be more readily represented at the highest levels within POL's organisation, helping the POL Board to understand, more directly, the lived experience of postmasters working in the network. The Postmaster NEDs will have the same level of responsibility as the other NEDs on the POL Board and in their role they will be able to contribute the perspective of the postmaster to POL Board discussions and decisions.
- 8c.3 Officials within UKGI and BEIS share POL's view that the appointment of Postmaster NEDs is an important step towards delivering on POL's commitment to put the success of postmasters at the centre of its future strategy and to alter its culture. BEIS and UKGI have been monitoring the implementation of this initiative closely in tandem with other initiatives taken by POL and the Shareholder to put cultural change at the forefront of POL's objectives.⁴² The process for recruiting and appointing the first two Postmaster NEDs is currently underway. UKGI and BEIS are reassured that POL has taken a number of substantive steps (with input from UKGI and BEIS officials) to design a fair and credible recruitment and appointment process that is independent from POL and government and will garner the support of postmasters.⁴³

⁴² Joint Submission from BEIS/UKGI to Secretary of State on Postmaster NEDs dated 2 July 2020 (index number 25). *See also* the Letter from BEIS Permanent Secretary to Tim Parker dated 26 February 2020 (index number 15).

⁴³ Joint Submission from BEIS/UKGI to BEIS Secretary of State for Consultation on Postmaster NED Process dated 10 November 2020 (index number 26).

9. It is also stated that, “*The [UKGI] shareholder team monitors the financial and operational performance of the business against that long-term strategy, holds the business to account in delivering against its commercial and policy objectives*”. Please describe how this is carried out, UKGI’s answer may include the following:

- The frequency and means by which financial and operational performance are monitored
- Whether monitoring is both proactive and could be initiated by UKGI or proactive and reactive or only proactive/reactive
- Give examples of what holding POL to account for delivering its commercial and policy objectives means in practice.

9.1 Whilst the Shareholder Team monitors and challenges POL (as set out below and in the BEIS and UKGI response to the Call for Evidence), the primary responsibility to hold POL to account in respect of its performance lies with the POL Board. As the sole shareholder of POL, the Secretary of State, through BEIS, delegates to UKGI the performance of the shareholder role, with the Department retaining policy responsibility for POL (in the sense explained in the response to the Call for Evidence).

9.2 Monitoring the financial and operational performance of POL against its long-term strategy and POL’s delivery against its commitments in the funding agreement are two core parts of UKGI’s role in representing BEIS as Shareholder of POL.

9.3 The UKGI role is performed through a structured schedule of meetings and information sharing arrangements, which are supplemented by further engagement on particular topics – on both an ad hoc and a scheduled basis – as required. A detailed list of these meetings can be seen in the BEIS and UKGI response to question 32 of the Call for Evidence, however below we have illustrated some examples of how UKGI performs its monitoring role in practice.

Monthly Financial Performance Monitoring and the Investment Spend Monitoring meetings

9.4 The Shareholder Team receives detailed financial and management information from POL every month which it reviews and uses to develop questions to be put to management, and which form the basis of each meeting’s agenda (UKGI can, and often does, request further information if it considers this necessary). These interactions are intended to ensure that UKGI is informed of current performance and trends across POL’s business directly from senior management, which informs whether further monitoring or discussion might be required. The discussions in these meetings are also used, in part, to inform the agendas and briefings provided to senior officials and Ministers in advance of Shareholder Meetings and Monthly Ministerial meetings. They also form the core of quarterly financial and investment spend briefings put to senior BEIS officials and Ministers as well as contributing to the POL Quarterly Updates prepared by UKGI and BEIS. All of these communications are intended to inform BEIS about POL’s trading position, outlook and other key developments in the business.

Flexible Monitoring

9.5 In addition to the monthly meetings, the Shareholder Team will adapt its interaction with POL as part of its monitoring responsibilities to respond to unexpected events or changes in circumstances. For example, in early 2020 in response to the Covid-19 pandemic and the impact of the first lockdown on POL’s branch network and travel businesses, high street footfall and the need for many operators of Post Offices to self-isolate, a schedule of new meetings and additional reporting was agreed with POL at short notice. This was focused on the impact of the pandemic on the operational and financial performance of POL’s business and were supplemented with separate meetings on

POL's network, enabling UKGI and, in turn, BEIS to understand the impact of the pandemic on the network and postmasters. Regular sharing of financial and network information provided insight to BEIS into the risks POL was facing and how these were changing on a daily or weekly basis, providing a 'no surprises' culture.

- 9.6 UKGI's approach to monitoring and accountability with POL is primarily therefore a proactive one, supplemented where required by reactive responses which are always tailored to the particular circumstances of a given issue.

Approval of POL's Longer-Term Strategy

- 9.7 The Shareholder Team plays an active role in both the setting and ongoing monitoring of POL's long-term strategy and performance. This provides insight into POL's view of its markets, funding and investment requirements, as well as providing the opportunity for the Shareholder Team to challenge POL senior management on the strategic direction of the business for the benefit of BEIS. This ensures an aligned view between BEIS, UKGI and POL of POL's future and assists BEIS in setting appropriate policy goals and objectives.
- 9.8 POL requires funding from BEIS to make sure that it is able to meet BEIS's objectives for the business and its network, and the timing of this is typically, though not always, aligned to HM Treasury's calendar of fiscal events, including Budgets and Spending Reviews. For example, POL's recently announced £227 million funding settlement was agreed as part of the 2020 Spending Review. Each of these commitments by BEIS are based on POL's strategic plan, and considerable work is undertaken in the months preceding any announcement to align POL's plans with its business needs and the delivery of BEIS's objectives for POL and its network.
- 9.9 In 2019 and 2020, the process to agree a new strategy and funding for POL took approximately 12 months. The Chair's letter issued in February 2019 asked POL to review its strategy and put in place a new medium-term strategic plan.⁴⁴ Following his appointment as CEO in September 2019, Nick Read appointed advisers and initiated a strategic review of POL's business. In addition, BEIS started to work on its vision for POL from a policy perspective. These initiatives framed the strategic, financial and policy objectives for POL from which POL was able to formulate its strategic plan which underpinned the Spending Review bid and financial settlement announced in 2020.
- 9.10 As part of its strategy work, POL developed a business plan which was discussed and approved by the POL Board. The Shareholder Team led a due diligence exercise, with support from external advisers who, alongside the Shareholder Team, interrogated POL's strategic view, the assumptions being made by POL and POL's financial forecasts. The purpose of the due diligence exercise was to provide external assurance from the advisers to BEIS as to the quality of the business plans and the opportunities and risks associated with it from a financial perspective. During this phase, detailed information on POL's plans was shared principally between the Shareholder Team and POL management. The process culminated in POL's Board approving a funding request to BEIS that would enable POL to execute its business plan. Where negotiations between BEIS and HM Treasury seek to reduce POL's funding bid, the Shareholder Team liaises with POL so that government understands the operational impact of any changes in funding.
- 9.11 Once HM Treasury and BEIS agreed the funding settlement an announcement was made and the process to document these arrangements is currently under way. The communications and handling side of this work is led by the BEIS POL policy team, with support from the Shareholder Team (which leads on documentation). Documentation includes a Funding Agreement, loan documentation and

⁴⁴ Letter sent from BEIS Permanent Secretary to POL Chair dated 4 February 2019 (index number 23).

documents needed to obtain any applicable State aid or similar approvals. This process involves input from external legal advisers.

- 9.12 It can be seen from the above that the process of UKGI assisting BEIS in approving POL's longer-term strategy draws on a number of areas in which UKGI has experience, including: commercial strategy development; financial analysis; technical Business Case drafting; negotiating complex commercial arrangements; navigating large projects through Departments and HM Treasury; and the effective management of advisers.

Glossary

Access Criteria means the proximity criteria that Government set the Post Office, to ensure that there was sufficient geographical spread of branches, e.g. 95% of the population in rural areas across the UK are within 3 miles of their nearest branch

Branch means a Post Office outlet from which services are sold or provided. This could take different forms e.g. Directly Managed “Crown” branch, branches run by subpostmasters, mobile “outreach” branches etc

Crown Branch network means the branches directly owned and managed by the Post Office, rather than those being run by independent subpostmasters. Crown Branches are staffed by Post Office employees, and tend to be found in large urban areas

Digital identity means the identity one can provide and prove when engaging with digital services

Government Services means services provided by Post Office where customers access Government-based services, usually over the counter, such as benefit payments, DVLA licencing and vehicle tax services, and passport renewal services. POL is contracted by Government Departments to provide these services, and was paid a fee for doing so. In recent years, these services have been in decline as the internet and more direct forms of obtaining those services has evolved (e.g. direct payment of benefits in to bank accounts rather than withdrawing over the counter).

Network Transformation means the implementation of a network-wide programme of branch modernisations, including the change in the way subpostmasters were paid, with a greater focus on variable payment rather than fixed.

Annex

Overview of the Shareholder NED's role on the POL Board and Committees

- A. **POL Board:** The POL Board is collectively responsible for setting POL's strategic direction and holding POL management to account. Its purpose also states that it establishes a robust governance framework and ensures that POL has financial and human resources required to achieve its agreed objectives.⁴⁵ Typically, the POL Board meets nine times a year, however further meetings are scheduled should the need arise. While having the same responsibilities as the other directors, the Shareholder NED's role on the POL Board is primarily to constructively challenge management (including the CEO and CFO, who also sit on the POL Board) on financial and strategic issues facing the business, and to strive to ensure that BEIS's objectives for POL are taken account of in decisions made by the Board. The Shareholder NED's position on the POL Board also provides visibility on and the opportunity to contribute to, as appropriate, the strategic direction of POL, as well as the ability to participate in POL Board discussions and decisions on matters brought to the POL Board for approval.
- B. **POL Audit, Risk and Compliance Committee:** The ARC supports the POL Board by discussing the key risks affecting POL's compliance and control environment with the Chair of the ARC, POL's internal audit function and external auditors. Typically, the ARC meets six times a year, however further meetings are scheduled should the need arise. Membership of ARC provides the Shareholder NED with insight into POL's activities and behaviours not necessarily available in POL Board papers, as well as the appropriate forum within which to challenge POL in these areas.⁴⁶
- C. **POL Remuneration Committee:** The Remuneration Committee oversees POL group remuneration strategies are in place and approves (for recommendation for Shareholder approval where appropriate) the remuneration of certain senior individuals in the POL group as well as remuneration policies for POL's employees generally.⁴⁷ Typically, the Remuneration Committee meets four times a year, however further meetings are scheduled should the need arise. The Terms of Reference of the Remuneration Committee explicitly state that "*regard will be paid to the views of the Shareholder and other stakeholders*", among other factors, when considering POL's remuneration strategies. The Shareholder NED's membership of the Remuneration Committee (supported by the Shareholder Team and BEIS policy team) allows these views to be indicated to the Remuneration Committee, as well as streamlining processes for obtaining Shareholder approval.
- D. **Additional full Board meetings for litigation oversight:** In addition to regular full Board meetings set out in paragraph A above, since April 2020 the POL Board meets two to four times per month to oversee POL's response to ongoing legal proceedings. Between January 2018 and March 2020⁴⁸, the Shareholder NED attended the Postmaster Litigation Board Subcommittee of the Board which received legal advice on POL's defence in the Group Litigation Order ("**GLO**"). The Shareholder NED's position, first on the Postmaster Litigation Subcommittee, and now attending the litigation board

⁴⁵ Post Office Limited Matters Reserved to the Board effective from 1 April 2020 (index number 27).

⁴⁶ Post Office Limited Terms of Reference of the Audit, Risk and Compliance Committee effective from 1 April 2020 (index number 28).

⁴⁷ Post Office Limited Terms of Reference of the Remuneration Committee effective from 25 March 2020 (index number 29).

⁴⁸ Note the Shareholder NED first attended the Postmaster Litigation Subcommittee in January 2018 as an observer in anticipation of his formal appointment to the POL Board.

meetings gives visibility to the Shareholder NED (and through him the Shareholder Team) of the litigation risks and challenges faced by POL, as well as the ability to participate in Board discussions and decisions on litigation matters.