

THE POST OFFICE HORIZON IT INQUIRY**RESPONSE TO THE INQUIRY'S CALL FOR EVIDENCE FROM THE DEPARTMENT FOR BUSINESS,
ENERGY & INDUSTRIAL STRATEGY & UKGI**

This document is prepared in response to the Inquiry's Call for Evidence, published on 1 December 2020. It is a joint response from the Department for Business, Energy & Industrial Strategy ("BEIS" or the "Department") and UK Government Investments Limited ("UKGI"). BEIS and UKGI are responding on behalf of government and are content for this response to be published and attributed to both organisations.

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Those questions posed in the Call for Evidence that were addressed to BEIS and UKGI are answered in turn below.

BACKGROUND & CONTEXT

- A. We note that the Inquiry has referred to Post Office Limited ("POL" or the "company") as an Arm's Length Body ("ALB") which is often used as an umbrella term for all public bodies.¹ POL is classified as a Public Non-Financial Corporation ("Public Corporation") by the Office for National Statistics' national account system.² It is wholly owned by the Secretary of State for Business, Energy & Industrial Strategy (the "Secretary of State" or the "Shareholder").
- B. Public Corporations are government-controlled market bodies that derive more than 50 per cent of their production cost from the sale of goods or services at economically significant prices (that is, prices that have a substantial influence on the amounts of products that producers are willing to supply and on the amounts of products that purchasers wish to acquire) for all or most of the goods and services they produce.³

¹ See for reference:

(https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/519571/Classification-of-Public-Bodies-Guidance-for-Departments.pdf). In a similar vein, BEIS refers to 'Partner Organisations' to mean any ALB sponsored by BEIS.

² In accordance with the European system of accounts (ESA 2010):

<https://ec.europa.eu/eurostat/documents/3859598/5925693/KS-02-13-269-EN.PDF/pdf/44cd9d01-bc64-40e5-bd40-d17df0c69334?t=1414781932000>

³ See for reference:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/220612/pesa_2011_chapter8.pdf

- C. Public Corporations are designed to operate at a distance from Ministers and government, with accountability placed with the board and executive team who are appointed based on their expertise and specialisms, to manage and oversee the company. This devolved governance model is intended to enable more efficient delivery of public services. A core tenet of the classification is the ability of the Public Corporation to have “appropriate levels of freedom to exercise commercial judgement, within appropriate delegated authority arrangements that protect departments”.⁴ POL therefore has substantial independence from central government and is seen as a separate institution.
- D. As a Public Corporation, the board of directors of POL (the “**POL Board**”) has responsibility for the operations of the Post Office. Neither the Secretary of State as shareholder, nor BEIS has any involvement in the day-to-day operations of POL or in the management of its network of Post Offices and staff. Whilst the POL Board retains operational control, it is accountable to the Secretary of State in its capacity as shareholder for the performance of POL and is required to seek consent for certain matters, as set out in its Articles of Association (“**Articles**”).
- E. POL’s chief executive is also designated as an Accountable Person⁵ – the person who, ultimately, is personally responsible for the regularity and propriety of expenditure, robust evaluation of different mechanisms for delivering policy objectives, value for money, the management of risk, and accurate accounting for the use of resources.
- F. Given its status as a Public Corporation, the degree of control and oversight exercised by government should be both reasonable and proportionate to its functions and risk profile. In exercising its oversight, government must take into account the fact that POL has been constituted with an independent board and expert management team and that the governance measures in place seek to preserve the company’s independence as far as possible.^{6 7 8} As highlighted in paragraph 32.1, with POL now facing a number of considerable pressures, government’s oversight of POL has also adjusted accordingly.
- G. The Department also places a number of policy requirements on POL, for instance in respect of the number of branches POL must have in place and on the level of accessibility that its network provides. These requirements are linked to the funding that government provides to POL. Since August 2018, BEIS has had a dedicated policy team overseeing POL from a policy perspective (the “**BEIS policy team**”).
- H. POL’s Articles set out the formal approval rights of the Shareholder and further controls applied by government to POL are contained in other relevant governance documentation, (for example, the Framework Document⁹ and various Funding Agreements). POL is also

⁴ See for reference, Chapter 11 of HM Treasury’s Consolidated Budgeting Guidance 2020-21:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/876155/CBG_for_publication.pdf

⁵ Letter from BEIS Permanent Secretary to POL CEO appointing him Accountable Person dated September 2019 (index number 1).

⁶ See for reference:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/594345/Partnerships_between_departments_and_arm_s_length_bodies-code_of_good_practice.pdf

⁷ <https://publications.parliament.uk/pa/cm199899/cmselect/cmpublicadm/209/209m06.htm>

⁸ See for reference paragraph 11:12 as an example of the matters falling within departmental oversight of a Public Corporation

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/876155/CBG_for_publication.pdf

⁹ The Post Office Limited: Shareholder Relationship Framework Document dated 20 March 2020 (index number 2).

required to have regard to relevant government-wide corporate guidance. As is the case with any Public Corporation, the Government requires POL to create and manage its own corporate processes and ensure good corporate governance.

- I. Given POL's size and commercial nature, the Secretary of State through BEIS delegates its shareholder role to UKGI, a wholly owned subsidiary of HM Treasury and the Government's centre of excellence for corporate governance and corporate finance¹⁰.

THE ROLE OF UKGI

- J. UKGI performs the POL shareholder role on behalf of BEIS. The relationship between BEIS and UKGI is set out in a Memorandum of Understanding ("**MOU**").¹¹
- K. UKGI performs its role in two primary ways: (a) via a dedicated shareholder team with appropriate expertise and experience (the "**Shareholder Team**"); and (b) by holding a Non-Executive Director ("**Shareholder NED**") seat on the POL Board.
- L. Key aspects of the shareholder role include:
 - I. working with POL and BEIS to maintain appropriate and effective corporate governance arrangements which govern the BEIS-POL relationship, through up-to-date and fit-for-purpose governance documents, including Framework Documents, the Articles and annual Chair's letter;
 - II. reviewing and providing oversight of effective leadership (via high quality boards and senior management). This includes in practice, advising BEIS on:
 - i. the effectiveness of POL's board composition;
 - ii. the recruitment, remuneration and appointment processes for the POL Chair and CEO; and
 - iii. inputting into the annual appraisal of the POL Chair and POL Board effectiveness review;
 - III. assessing and challenging POL's corporate objectives, POL's board-approved annual business plans and its three-year strategic plans. Monitoring performance against POL's business plans and compliance with funding arrangements from a shareholder perspective. UKGI also performs a crucial role in monitoring POL's network reporting¹²;
 - IV. encouraging strong corporate capability by providing high-level challenge to POL on the strength of its governance systems, predominantly via the Shareholder NED's presence on the Audit, Risk and Compliance Committee ("**ARC**"). Additionally, the Shareholder Team works to promote the efficacy of POL's internal risk management and control functions; and

¹⁰ Prior to the formation of UKGI (in April 2016), the shareholder role for POL was performed by the Shareholder Executive, which was a division of the Department for Business, Innovation and Skills. In 2016, the Shareholder Executive's functions were transferred to UKGI. Further detail is set out at: <https://www.ukgi.org.uk/2015/05/20/machinery-government-shareholder-executive-uk-financial-investments/>

¹¹ Memorandum of Understanding between BEIS and UKGI dated December 2019 (index number 3).

¹² The Network Report is required under Section 11 of the Postal Services Act 2011 to report on its network of Post Offices, including (a) the number and location of the company's Post Offices in England, Wales, Scotland and Northern Ireland, (b) the postal services, the services provided under arrangements with a government department and the other services that are provided at those Post Offices, and (c) the accessibility of those Post Offices to users of those services.

- V. supporting and supplementing the activities through the Shareholder NED function on the POL Board.
- M. Additionally, in support of the Shareholder NED, the Shareholder Team briefs the Shareholder NED prior to POL Board and POL Board committee meetings. The Shareholder Team is able to draw on its knowledge from day-to-day interactions with POL, across a wide variety of areas (including regular engagement with POL’s Head of Change, Risk and Assurance) to inform these briefings. The BEIS policy team participates in POL Board briefings and debriefings,¹³ giving the Shareholder NED, the Shareholder Team and the BEIS policy team regular opportunities to raise concerns and to discuss issues.

ROLE OF THE SHAREHOLDER NED

- N. As the shareholder representative for BEIS, as described above, UKGI holds a NED seat on the POL Board. The Shareholder NED also has a seat on the ARC and the Remuneration Committee (“RemCo”).
- O. The role of the Shareholder NED is an important governance lever in the performance of the shareholder role. The Shareholder NED’s attendance at the POL Board and sub-committees provides the Shareholder Team, and (through it) BEIS, with an important line of sight into developments at POL. Unlike the other POL NEDs, the Shareholder NED is not appointed to the POL Board to provide specific subject matter expertise. Rather, the Shareholder NED brings a government perspective to aid the POL Board’s decision-making.
- P. As a result, although the Shareholder NED has the same legal obligations and responsibilities to POL, their functional relationship with POL differs to that of the other independent NEDs. The Shareholder NED regularly meets with BEIS officials and, when appropriate, Ministers to discuss developments at POL and relevant Departmental / Ministerial interests. The Shareholder NED provides this relevant context and perspective to the POL Board to aid its decision-making. The Shareholder NED also provides BEIS with insight into the quality of the POL Board and management in the performance of their functions. In addition, the Shareholder NED also leads the Shareholder Team that interacts with POL and BEIS on a regular basis.

¹³ These are meetings between the Shareholder NED, the UKGI Shareholder Team and the BEIS policy team before and after any POL Board meeting.

Question 29: Do BEIS and UKGI have a whistleblowing policy and processes which cover POL as an arm's length body (ALB)?

- 29.1. There are several policies and processes relevant to this question. These include POL's own policies, policies open to staff within BEIS and UKGI and other routes that are open to the wider public, including POL staff and parliamentarians. These policies and processes are discussed in turn below.
- 29.2. POL has a whistleblowing policy in place for its staff, a copy of which is annexed hereto¹⁴. Chapter 1.4 of the policy indicates that it is not directly applicable to postmasters (who are not "staff" for the purposes of the policy), but states that equivalent principles will "where appropriate, and to the extent possible, follow equivalent principles" in such a case.
- 29.3. The Framework Document states (paragraph 9.4) that POL should seek to comply with the principles and provisions of the Financial Reporting Council's UK Corporate Governance Code. The version of this Code published in 2018 states at provision 6 that there should be a means for the workforce to raise concerns in confidence and, if they wish, anonymously. Furthermore, as noted in Appendix 2 of the Framework Document, POL is required to have regard to the principles set out in the Government-wide document 'Whistleblowing: guidance and code of practice'.
- 29.4. Both BEIS and UKGI have their own whistleblowing policies, copies of which are appended hereto.¹⁵ These policies apply to BEIS or UKGI employees. They therefore provide a route through which employees in these organisations who are working on POL and related matters could blow the whistle.
- 29.5. In addition to the organisational policies referenced above, there are other routes through which individuals, including POL employees, could raise concerns. If an individual decides to blow the whistle to a prescribed person, rather than their employer, the gov.uk website¹⁶ outlines organisations and provides information on prescribed persons available to raise concerns with.

Complaints

- 29.6. Individuals can raise concerns with their legal adviser or a Member of Parliament ("MP"). There are many routes by which an MP can raise a concern—either their own concerns or those of an individual — to the Department, including by writing to the Secretary of State or relevant Minister or via Parliamentary processes, such as oral or written questions, which the Government is required to answer. Similarly, written correspondence addressed to Departmental Ministers, from MPs or members of the public will be reviewed and will receive a response.
- 29.7. Complaints can also be made directly to BEIS. The BEIS Complaints procedure¹⁷ is for complaints about the service provided by BEIS and its staff. Complaints about a Government policy that BEIS is responsible for should be directed to the relevant Minister or local MP in writing. For complaints or comments about BEIS agencies and public bodies, including POL,

¹⁴ Post Office Whistleblowing: guidance and code of practice (index number 4).

¹⁵ BEIS Whistleblowing Policy and Procedure (index number 5) and UKGI policy entitled "Whistleblowing and raising a Concern" (index number 6).

¹⁶ <https://www.gov.uk/government/publications/blowing-the-whistle-list-of-prescribed-people-and-bodies--2>

¹⁷ <https://www.gov.uk/government/organisations/department-for-business-energy-and-industrial-strategy/about/complaints-procedure>

individuals are advised to contact the relevant organisation directly, who will deal with the complaint via their own complaints procedure.

- 29.8. If an MP or a member of the public feels that a complaint is not appropriately dealt with by the Department, they can contact the Parliamentary and Health Service Ombudsman.¹⁸ By law, the Ombudsman can look at complaints about UK Government Departments and other UK public organisations if an MP refers the complaint. Any member of the public can complete a complaint form and ask an MP or their office to sign it.

¹⁸ <https://www.ombudsman.org.uk/making-complaint>

Question 30: Is anonymity protected in BEIS' and UKGI's whistleblowing processes for disclosures relating to ALBs?

- 30.1 The annexed BEIS Whistleblowing Policy and Procedure¹⁹ states that employees may choose to raise concerns anonymously. If this is the case, employees are advised in advance that, depending on the particular circumstances of the concerns, the investigation itself may serve to reveal the source of information, for instance if the investigation requires the complaint to be put to the alleged wrong-doer. Employees are therefore asked how they would like their concerns to be taken forward. When anonymous concerns are raised, they will be treated as credible and investigated as far as possible, in line with the preferences of the complainant regarding anonymity. Where disclosures cannot be validated, the Department's "Whistleblowing and Raising a Concern" policy owner (as named in the BEIS policy) must be informed for future reference unless doing so could identify a complainant.
- 30.2 The annexed UKGI Whistleblowing Policy²⁰ seeks to encourage UKGI employees to raise any concerns that they might have about being required to act in an improper way, or any evidence they might have of unethical, improper, criminal or unlawful activities by others. The UKGI Whistleblowing Policy provides a mechanism by which employees can raise concerns anonymously, although it acknowledges that investigating anonymous claims can be challenging. In addition, the policy seeks to reassure staff that concerns that are not raised anonymously will be treated in confidence to the extent possible.

¹⁹ BEIS Whistleblowing Policy and Procedure (index number 5).

²⁰ UKGI policy entitled "Whistleblowing and raising a Concern" (index number 6).

Question 31: Whether in relation to Horizon or the governance of ALBs generally, has anyone suffered any detriment when engaging with BEIS' and UKGI's whistleblowing processes?

- 31.1 As noted above, the relevant policies contain protections for whistleblowers. UKGI and BEIS encourage staff to raise concerns without the fear of retaliation or detriment. Both BEIS and UKGI's whistleblowing policies state that if whistleblowers follow the relevant procedure they will not be penalised and will be protected.
- 31.2 BEIS has a small number of cases each year where their employees raise concerns using the BEIS Whistleblowing procedures, and in order to protect confidentiality BEIS is unable to provide specific information on whether any specific whistleblowing concerns may have been raised in relation to Horizon or the governance of ALBs generally. BEIS is not aware of any of its employees alleging they have suffered detriment as a result of engaging with BEIS's whistleblowing policies in relation to Horizon or the governance of ALBs generally. BEIS strongly encourages employees to speak up when they experience, observe or encounter something that does not feel right. As part of the Department's messaging to staff on this issue, the Department participates in the annual cross-Government "Speak Up" communication campaign, which is led by the Cabinet Office and endorsed by the Chief Operating Officer of the Civil Service, and within BEIS further endorsed each year by our Permanent Secretary and / or HR Director. The campaign typically highlights the importance of speaking up, encourages employees to do so and reiterates the different support and reporting avenues available to enable employees to report issues and feel safe doing so.
- 31.3 UKGI can confirm that no UKGI employee has to date suffered any known detriment when engaging with UKGI's whistleblowing processes in relation to Horizon or the governance of ALBs generally. UKGI prides itself on its open culture underpinned by core values and behaviours. One of its values is 'Open and Honest' and adherence to this is regularly cited by UKGI's Board and Executive Committee as critical to the way in which UKGI works. Outside of the formal whistleblowing mechanisms, UKGI's structure is non-hierarchical, with even the most junior of employees having access to the CEO and senior management team to discuss topics of concern.

Question 32. Government has introduced new measures to establish closer monitoring of POL. These measures include the following:

- **A framework document which establishes clearly defined responsibility and accountability for POL and BEIS;**
- **Quarterly Ministerial working group meetings with Nick Read, CEO of POL along with regular meetings with the CEO and Chair at POL;**
- **More frequent shareholders meetings; and**
- **Expansion of the BEIS policy team which works closely with UKGI in holding POL to account at official level.**

Do these measures go far enough in producing effective oversight and governance of POL?

CHANGES TO THE GOVERNANCE ARRANGEMENTS

32.1 As the Inquiry has identified, BEIS and UKGI introduced certain new measures between 2018 and 2020, to augment established governance practices and behaviours in order to provide appropriate governance and oversight of POL as a Public Corporation. A number of steps were taken to (i) enhance and broaden government's oversight of POL, (ii) bring together and document existing practices. In response to concerns within both BEIS and UKGI in light of the significant challenges being faced by the company,²¹ the frequency of interactions between POL and government is significantly higher than would typically be the case. BEIS and UKGI believe that these new measures, when taken in tandem with the existing governance practices and the additional dialogue between the Shareholder and POL in relation to cultural change provide effective oversight and governance of POL by government.

32.2 Below is a summary of the enhanced governance measures put in place:

- a. the introduction of a Framework Document²² which sets out the governance interactions, roles and responsibilities between BEIS, POL and UKGI and sets out government-wide policies applicable to POL;
- b. a broader range of meetings with POL to ensure a regular, two-way flow of information (both formally and informally) to BEIS and UKGI;
- c. the establishment of a BEIS policy team, to provide enhanced clarity of policy objectives and to strengthen the relationship between POL and BEIS in this area;
- d. updated Articles for POL and its group companies with enhanced shareholder consent rights in key areas;²³ and
- e. enhanced dialogue between BEIS, UKGI and POL on corporate culture and postmaster relations.

32.3 However, oversight and governance cannot on their own guarantee outcomes. The effectiveness of government's oversight of POL is particularly dependent on the expertise and selection of the POL Chair, the POL Board (including Chair and CEO / Accountable Person), and the culture and behaviours of the organisation as a whole. Corporate governance best practice is an evolving field and government strives to ensure that its oversight of POL takes account of changes and adapts accordingly.

²¹ We note that POL itself has responded to the increased challenges in the business. For example, POL Board meetings to discuss litigation issues are taking place (almost weekly) and a separate business unit has been created to deal with the delivery of POL's workstreams following the GLO in a manner that minimises the impact on business-as-usual (see paragraph 32.8(ii)(h) below for further details).

²² Post Office Framework Document dated 20 March 2020 (index number 2).

²³ Post Office Limited Articles of Association dated 1 April 2020 (index number 7).

32.4 In the paragraphs below we highlight the purpose and impact of the new governance measures and how they enhance government's oversight of POL. We also provide further detail in the Appendix of the existing governance arrangements into which these new measures were introduced.

Enhanced Measures Introduced

The Framework Document

32.5 The Framework Document sets out the relationships between POL, UKGI and BEIS and codifies, for the first time in one place, new and existing governance arrangements and roles and responsibilities that are applicable to POL as a Public Corporation. It provides clarity to all parties as to how oversight of POL by government is to be conducted, sets expectations between the parties and outlines the governance standards which POL must observe.

32.6 While it should be read alongside the documents which impose constitutional or contractual obligations on POL (POL's Articles, the Funding Agreement etc.), the Framework Document also draws together additional commitments and approval points for BEIS as shareholder that do not sit in these documents. For example, Appendix 2 of the Framework Document includes a list of government-wide policies that are applicable to POL as a Public Corporation, which in certain instances will contain further requirements for government consent. Appendix 5 of the Framework Document references specific arrangements related to POL's commitment to observe pay guidance. The codification of these governance arrangements provides certainty between BEIS, UKGI and POL on the interactions, engagement, and approval points that exist between the parties.

32.7 For reference, some of the additional areas that the Framework Document covers are as follows:

- a. the processes relating to BEIS's approval of POL's annual and strategic plans and the criteria which POL will follow when preparing these;
- b. the respective roles and accountabilities of key individuals and teams, for example those of POL's Board, Chair and Accountable Person and the BEIS policy and the UKGI Shareholder Team;
- c. POL Board composition and the corporate governance standards applicable to POL;
- d. further detail on the processes relating to the recruitment, remuneration and review of the POL Board and senior executives and how this activity should be conducted in practice;
- e. the obligation placed on POL in respect of its annual report and accounts (the "**Annual Report**"), audited accounts and Network Report and the requirement for each to be laid before Parliament; and
- f. information flow (including in respect of litigation matters).²⁴

²⁴ The Framework Document (index number 2) describes in sections 12, 13 and 14 the information flow that BEIS is entitled to receive, and that POL is expected to proactively share, in relation to the affairs of POL. In addition, it contains obligations to enter into bespoke information sharing protocols relating to the sharing of legally privileged information to enable UKGI and the Department to be sighted on specific litigation matters. This new governance measure was included to permit UKGI and BEIS enhanced visibility and understanding of material litigation matters, while also giving comfort that POL's legally privileged or commercially sensitive information will be protected.

A Broader Range of Meetings

32.8 It is important from a governance oversight perspective that there is regular dialogue between POL, BEIS and UKGI and we have summarised below the frequent, scheduled and *ad hoc* meetings at various levels designed to monitor and communicate company and network performance, as well as outlook, and to discuss strategic and operational issues. The frequency and type of meetings BEIS and UKGI hold with POL are subject to variation, dependent on the nature, importance and urgency of the issues to be addressed and indeed, the degree of challenge facing the business. For example, the Historical Matters Business Unit (“HMBU”) meetings (referred to below) designed to enhance oversight of a key area, were put in place to respond to specific circumstances. The system of meetings is therefore sufficiently flexible to allow for this possibility. The range of meetings now in place provides numerous opportunities for issues to be discussed and brought to the attention of UKGI and / or BEIS.

i. General Meetings

- a. **Shareholder Meetings:** The Framework Document (paragraph 6.6) requires shareholder meetings to be held at least twice a year.²⁵ In fact, these have occurred on a quarterly basis since November 2019 and are attended at a minimum by the POL CEO, and CFO and by senior representatives from BEIS and UKGI. This meeting is one of the key formal engagements throughout the year between these organisations and covers a range of strategic and operational issues, as well as updates from government. It enables BEIS and the Shareholder Team to directly question the POL senior team on the performance of POL and to see first-hand how the senior team interact adding additional colour to the views of the Shareholder NED. Importantly, at these meetings UKGI and BEIS may also formalise certain requests to POL.
- b. **Monthly Ministerial:** Monthly meetings have occurred between the Responsible Minister and the POL CEO since spring 2020. These are attended by a representative from the BEIS policy team and the Shareholder Team (usually the Shareholder NED and BEIS Director responsible for POL policy). These meetings follow a formal agenda and are used to discuss and action various live issues. Prior to this, Ministers engaged with the POL CEO but on a less formal basis.
- c. **Ministerial / Accounting Officer meeting with POL Chair:** The Responsible Minister and / or the BEIS Permanent Secretary will typically meet with the POL Chair at least once a year to discuss business performance and live issues. One of these meetings may also be used as an opportunity to discuss performance against the Chair’s letter.²⁶ In addition, the BEIS Permanent Secretary will periodically meet the POL CEO.
- d. **Ministerial working group with the National Federation of Subpostmasters (the “NFSP”) and POL (the “Working Group”):** These approximately quarterly meetings were set up by the previous BEIS Minister in June 2019 and have continued since then. The Working Group considers the relationship between postmasters and the Post Office. Its focus is on known issues associated with postmaster relationships and with branch network transformation. Postmasters are represented by the Chair of the Working Group and other representatives from the NFSP. The POL CEO leads the POL representation.

²⁵ This was part of the existing arrangements in 2018 when enhancements to governance practices were introduced.

²⁶ As above.

- e. **Financial Performance Monitoring:** Monthly meetings take place between POL and the Shareholder Team regarding its business-as-usual financial performance.²⁷ These meetings are an opportunity to review POL's monthly management accounts and ask POL's finance team questions regarding operational performance and performance relative to budget and forecasts, as well as trends and outlook.
- f. **Investment Spend Monitoring:** Monthly meetings take place between UKGI and POL regarding its investment spend performance.²⁸ These are attended by the Shareholder Team and are an opportunity to review POL's monthly investment spend dashboards and ask the head of strategy questions on the performance of both investment spending and the benefits of this spending relative to budget and forecasts, as well as trends and outlook.

ii. Subject Matter Specific Meetings:

- g. **Network Development:** Quarterly meetings take place attended by representatives from the UKGI and BEIS teams and POL's network programme leads.²⁹ These meetings cover POL's adherence to the network access criteria and to update the UKGI and BEIS teams on network transformation programmes.
- h. **Historical Matters Spend Monitoring:** Since October 2020, monthly meetings have taken place between POL and the Shareholder Team regarding POL's spending (including legal spend) by its HMBU. The HMBU is the unit responsible for the delivery of POL's workstreams following the Group Litigation Order ("GLO") and was set up in July 2020. These meetings are an opportunity for the Shareholder Team to review the HMBU's financial and programme reports against its plans, and to ask HMBU management questions regarding progress.
- i. **Ad Hoc Meetings:** From time to time there are meetings that fall outside the regular schedule that take place between POL, BEIS and UKGI on live issues that require immediate attention; for example, POL's response to the Covid-19 pandemic.

Separation of the Policy Function from the Shareholder Role

- 32.9 With respect to ALBs with significant commercial complexity, growing good practice across government recommends that the policy and shareholder functions of the department are separated between two teams with appropriate expertise. Broadly, the policy function is responsible for identifying the desired policy outcomes which POL is required to deliver, designing the right purpose for POL (which includes framing what the entity is, and is not, accountable for),³⁰ securing appropriate funding as part of the Department's overall funding arrangements with HM Treasury and monitoring whether desired policy outcomes are being delivered. The shareholder function, on the other hand, focuses on how POL is being managed, its capability and its organisational performance to deliver BEIS's policy objectives.
- 32.10 The BEIS policy team was formed in August 2018: (i) to align the governance of POL to the best practice model adopted for other BEIS-owned ALBs (which is to separate the policy and shareholder function); and (ii) as a consequence of the increased volume and complexity of

²⁷ As above.

²⁸ As above.

²⁹ As above.

³⁰ See for reference 'UK government Arm's Length Bodies: the case for them in specialist delivery and how to optimise their use: https://www.ukgi.org.uk/wp-content/uploads/2020/03/UK-Government-Arms-Length-Bodies-A-View-from-Practitioners-January-2020_WEB.pdf

policy-related interactions between POL and BEIS, including (but not only), due to the issues relating to Horizon. Prior to this point, UKGI performed both the policy and shareholder roles.

- 32.11 The BEIS policy team sets, on behalf of the Secretary of State, POL's overall policy direction. This is consistent with the wider government policy framework, delivers more government control over the policy agenda and better enables government to respond to parliamentary scrutiny³¹ and reporting requirements.³² The BEIS Policy Director is the Policy Sponsor for BEIS. The BEIS policy team works closely with UKGI and other Government Departments to identify strategic opportunities to support the delivery of POL's social purpose and / or Government services, for example, joining up across government on rural access to services and supporting access to cash as banks withdraw their facilities from the high street.
- 32.12 A separate BEIS policy function creates a further interface between government and POL, specifically in relation to policy concerns and objectives. This further enhances the governance model. It has been particularly beneficial given the increased volume and complexity of policy-related interactions between POL and BEIS, including (but not only), due to the issues relating to Horizon.
- 32.13 While the BEIS policy team and UKGI Shareholder Team lead on different and specific issues or workstreams related to POL, the teams have a close working relationship and collaborate on a range of issues to ensure that the appropriate expertise from each team is utilised.
- 32.14 Ministerial responsibility and decision-making remain with the Minister for Small Business, Consumers and Labour Markets, on behalf of the Secretary of State, and the BEIS Permanent Secretary – as Principal Accounting Officer – is accountable to Parliament in respect of POL.

Articles

- 32.15 In addition to the enhanced governance provisions provided in the Framework Document, POL also adopted new Articles in 2020.³³ The new Articles enhance BEIS's oversight in key areas, to take into account POL's corporate structure and to reflect how POL interacts with BEIS in practice. UKGI facilitated the negotiations of the 2020 Articles, in tandem with the discussions between BEIS, UKGI and POL on the Framework Document.
- 32.16 Changes included enhancements to BEIS's consent rights ("**Reserved Matters**") which provide a degree of oversight and control over certain POL Board decisions, as follows:
- a. expansion of the scope of Reserved Matters to apply to each company within the POL group; and
 - b. amendments to Reserved Matters, for example, introducing greater government control on any proposed dividend distribution and on POL's external borrowing.
- 32.17 The new Articles also clarify the mechanics for seeking Shareholder consent to Reserved Matters, requiring POL Board consideration prior to seeking Shareholder consent and requiring the POL Board to give the Shareholder advance notice. This, in practice, enhances government oversight by:

³¹ This includes handling correspondence, Parliamentary Questions, debates and Ministerial briefings.

³² POL is required to update Parliament specifically on its funding settlements from government, its Annual Report and Network Reporting.

³³ The previous Articles were adopted in 2013.

- a. the Shareholder NED, through their seat on the POL Board, having early sight of matters potentially requiring Shareholder consent;
- b. POL providing, as far as possible, advance notice of the existence of circumstances in which the need for Shareholder consent is likely to arise; and
- c. BEIS, having received this advance notice, being better able to plan for, and respond to, requests for consent within timeframes that would not impede POL's operations.

32.18 For reference, please see the appended summary document which describes the changes to the Articles in greater detail.³⁴

Enhanced dialogue between BEIS, UKGI and POL on corporate culture and postmaster relations

32.19 Recently, there has been increased dialogue between UKGI, BEIS and POL regarding changing POL's corporate culture, with a focus on resetting the relationship between POL and postmasters. This was a key message in the February 2020 Chair's letter to POL which emphasised the importance of POL building a more productive relationship with postmasters.³⁵

32.20 The Shareholder Team and BEIS have actively supported POL's initiative to appoint two postmasters to the POL Board ("**Postmaster NEDs**"), which will enable postmasters to be represented at the highest levels within POL.³⁶

32.21 Further, with encouragement from BEIS and UKGI, POL has reviewed its engagement model and the processes used in its dealings with postmasters. It has recently concluded a consultation with postmasters to better understand both the key issues faced by postmasters and identify further improvements POL can make to improve postmasters' experience and business outcomes they have in working with POL. Progress with improving POL's relationship with postmasters is a regular topic at the monthly meetings between Nick Read and Minister Scully, and also discussed at Shareholder Meetings.

32.22 Finally, remuneration has long been a key issue for postmasters. In 2019, with the encouragement and support of the Shareholder Team, POL renegotiated the Banking Framework between POL and high street banks which resulted in a £17m increase in postmaster income³⁷ and in 2020 POL increased postmaster remuneration by £20m per year.³⁸ Postmaster remuneration was also one of the areas of Shareholder focus in the 2019 Chair's letter.³⁹

³⁴ See summary of changes to the Articles (index number 8).

³⁵ Letter from BEIS Permanent Secretary to Tim Parker 26 February 2020 (index number 9).

³⁶ Joint Submission from BEIS/UKGI to Secretary of State on Postmaster NEDs dated 2 July 2020 (index number 10).

³⁷ <https://www.mynewsdesk.com/uk/post-office/pressreleases/post-office-increases-postmaster-remuneration-by-10-per-cent-2939106>

³⁸ <https://www.mynewsdesk.com/uk/post-office/pressreleases/post-office-guarantees-independent-postmasters-remuneration-2987666> and <https://www.mynewsdesk.com/uk/post-office/pressreleases/post-office-provides-postmasters-with-remuneration-support-for-june-2997179>

³⁹ Letter from BEIS Permanent Secretary to Tim Parker dated 4 February 2019 (index number 11).

Appendix: Description of Additional Governance Arrangements

Below we summarise pre-existing (and continuing) governance arrangements in place between government and POL. These are in addition to POL's internal governance systems and the oversight provided by the POL Board and its various sub-committees.

Annual Chair's letters

- A. BEIS, with input from UKGI, issues a letter to the POL Chair on an annual basis (the "**Chair's letter**"). The Chair's letter enables BEIS and UKGI to convey to the Chair the principal expectations for the year ahead, including the short and long-term strategic priorities for POL as well as commenting on any relationship or cultural issues. The ability to set expectations of the Chair in this manner provides BEIS and UKGI with comfort the POL Board will consider the Shareholder's views when setting and implementing POL's direction and strategy. Whilst the Chair's letter is a soft governance mechanism, relying on trust to ensure compliance, government is able to use the annual performance appraisal process to reinforce the importance of adherence to the Shareholder's expectations.
- B. For example, the most recent letter from BEIS to the POL Chair in 2020⁴⁰ required the Chair to "*ensure full implementation of the commitments made in the litigation settlement*" and to "*prioritise culture change, in particular building a more productive relationship with postmaster that helps them to deliver better services to customers.*"
- C. The expectations set in the annual Chair's letter also provide a benchmark in assessing the Chair's performance on an annual basis (see sections F to G below).

UKGI role in appointments / remuneration

- D. Appointing the POL Board (comprising the Chair, NEDs, CEO and CFO) is one of the strongest governance levers at government's disposal. The Shareholder Team has a clear role in the appointment of all POL Board members and in relation to their remuneration. UKGI's role, in addition to managing the recruitment process (ensuring that appointments are made openly and transparently), is to advise Ministers on POL Board composition, helping to inform recruitment campaigns so that the POL Board has access to an appropriate balance of skills and experience. The Shareholder NED may, by invitation, participate at POL's Nomination Committee to discuss POL Board composition and may also typically sit on the recruitment panel for any NED, CEO and CFO appointments.
- E. In relation to remuneration, UKGI's role is to advise Ministers and HM Treasury on salary and incentive arrangements, such that they follow public sector pay guidance. Remuneration is structured to attract a diverse set of suitably qualified and experienced candidates to join POL and to motivate successful candidates to achieve the Department's objectives for the business. In undertaking this function UKGI interacts closely with POL Human Resources, POL's Board, BEIS and HM Treasury.

⁴⁰ Letter from BEIS Permanent Secretary to Tim Parker dated 26 February 2020 (index number 9). Note that the Appendix contains further guidance on the expected behaviours of the Chair, which was introduced as a standard feature of UKGI's Chair's letters in 2020 (index number 12).

UKGI role in POL Board effectiveness review / Chair's appraisals

- F. Good governance involves a regular review of the performance, composition and effectiveness of a company's board, and the performance of individual board members.
- G. UKGI and the BEIS policy team give input into these processes, which are managed by the Chair of POL's RemCo, by providing feedback and reviewing the outcomes of these evaluations, ultimately providing UKGI and BEIS with insight into the performance of the POL Board.

Power to remove POL Board members

- H. Ultimately, if UKGI and BEIS are dissatisfied with the performance of the POL Board and all other mechanisms within the governance framework to resolve such issues have been exhausted, the Shareholder has the right to remove any or all POL Board members and to replace them with other suitable candidates.⁴¹

UKGI role in encouraging strong corporate capability

- I. UKGI works to have insight into and influence over POL's internal governance in two principal ways:
 - a. The Shareholder NED's presence on the ARC facilitates UKGI's monitoring of POL's internal risks and controls framework. The Shareholder NED's presence provides a level of insight into POL's activities and behaviours not necessarily available in POL Board papers as well as providing an appropriate forum within which to provide challenge. Membership also allows the Shareholder NED to meet regularly with the Chair of the ARC, POL's internal audit function and the external auditors to discuss the controls environment.
 - b. The Shareholder Team has meetings with POL's internal audit team approximately once a year, which provides UKGI with an opportunity to promote the efficacy of POL's internal risk management and control functions. The Shareholder Team reviews and provides challenge to POL on the drafting of its Annual Report including its Corporate Governance statement.

UKGI's financial monitoring

- J. The Shareholder Team play an active role in both the formulation and ongoing monitoring of POL's financial strategy and performance. This is an essential tool for assisting BEIS in understanding POL's performance against its financial targets. The Shareholder Team provides quarterly financial and investment spend briefings to BEIS senior officials and Ministers.
- K. The Shareholder Team contributes to the formulation of POL's strategy and approval by BEIS of POL's Board approved annual business plans and its three-year strategic plans.⁴²
- L. In relation to each plan, the UKGI Shareholder Team discusses with POL the current environment (including the funding climate and BEIS's strategic, financial and policy objectives), and – following receipt of the plan – conducts a due diligence process,

⁴¹ Articles 37 - 44 set out these shareholder rights.

⁴² Paragraph 4 of the Framework Document (index number 2) includes requirements for these documents to ensure a common understanding between POL, BEIS and UKGI in relation to what the Shareholder expects from the plans.

interrogating POL's strategic view, the plan assumptions and forecasts, before making recommendations to BEIS officials and Ministers. Strategic plans which provide a basis for funding decisions by BEIS are also reviewed by external advisers. These processes provide a foundation for BEIS to review and approve POL's financial plans.

- M. Funding provided to POL by BEIS has several conditions which need to be met by POL. These conditions are set out in the Funding Agreement. The conditions include a number of BEIS's key policy objectives such as POL's compliance with the network access criteria and provision of government services. POL is also required to report on its investment spending. As part of its monitoring role, the Shareholder Team provide to BEIS a summary, based on reports provided by POL, as to whether the funding conditions have been met by POL before any funding request made by POL is approved by BEIS.⁴³
- N. Should UKGI or BEIS be dissatisfied with the quality of POL's financial controls, as a matter of public spending policy, the BEIS Permanent Secretary, with the consent of HM Treasury as appropriate, is entitled to consider the imposition of additional financial controls and / or seek further assurance from POL in relation to the spending of public funds.

UKGI and BEIS Policy Team role in Network Reporting

- O. The Shareholder Team and BEIS policy team monitor POL's performance against the network access criteria⁴⁴ during quarterly Network Development meetings with POL's network programme leads (set out in paragraph 32.8(ii)(g) above). During these meetings, UKGI and BEIS assess and challenge POL on its network strategy and the performance of the network against POL's business plans. These meetings enable UKGI and BEIS to: (i) monitor the effective performance of the network; and (ii) build effective working relationships with POL management, promoting a smooth interface for the reporting of data of public interest into BEIS.
- P. This feeds into the Network Report, which POL submits to BEIS on an annual basis and is laid before Parliament in accordance with the Postal Services Act. The report informs Parliament and the public about the functioning of the POL network and enables BEIS to validate POL's performance against the network targets (the meeting of which impacts the release of BEIS funding and certain of POL's management and employee incentive plans).

⁴³ For example, if POL is currently unable to satisfy the network access requirement, UKGI would explain the reasons for this to BEIS and work with POL and BEIS to attempt to resolve this issue.

⁴⁴ The network access criterion is the proximity criteria that government sets POL, to ensure that there is a sufficient geographical spread of branches, e.g. 95 per cent. of the population in rural areas across the UK are within three miles of their nearest branch.