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PRIVATE AND CONFIDENTIAL

Kevin Hollinrake MP
Parliamentary Under Secretary of State
Department of Business and Trade
Old Admiralty Building, Admiralty Place
London
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Dear Minister,

IMPLEMENTATION OF THE SIMMONS & SIMMONS RECOMMENDATIONS

Further to my letter of 16 August, I would like to set out the plan for the implementation of the recommendations of Simmons & Simmons following their review of the mistakes contained in our Annual Report and Accounts 2021/2022.

I enclose a spreadsheet containing the details of that plan, which has also been shared with your officials. We will review progress against it at each meeting of the Remuneration Committee (Remco) to ensure it is, and remains, on track.

I would like to draw your attention to its more substantive aspects, notwithstanding the importance of implementing the more practical recommendations, for instance those around minute taking and record keeping.

Recommendation 1 – Broader Governance Review including Remuneration Arrangements

With the support of a leading independent firm, we intend to conduct a full review of our governance arrangements. The scope of this exercise is designed to ensure that they are effective and appropriate to our business. This will include those arrangements as they relate to remuneration. However, the additional confidence which the broader scope of the exercise will provide the Board, and you as our Shareholder, should be welcome. In addition, it will stand us in very good stead as we assist the Inquiry, particularly in the later phases of its work.

Recommendation 2 – Review of Executive Support to Remuneration Committee (Remco)

We agree that the support provided to Remco in the relevant period was lacking in important respects. As you will have seen from the report, our People team was in a period of some flux at the time, with a degree of churn in key leadership roles. However, we have now appointed a new and extremely

experienced Chief People Officer, Karen McEwan, who joined us this month on a permanent basis. Karen will provide the team with an important measure of stability and clear leadership, as she begins to ensure that the function operates to industry-leading standards. A new Interim Reward Director, Ian Rudkin, was appointed in January and has been closely involved in our work to uncover the deficiencies which led to the mistakes in the 2021/22 Annual Report and Accounts. He is therefore well placed to support Karen in addressing those deficiencies. Lastly, in extending the contract with Willis Towers Watson, our Executive Remuneration and Board advisors, we will be using them much more effectively to provide greater check and challenge around both the design and award of variable pay schemes. This will help us to ensure that we are appropriately balancing the interests of our many stakeholders and that our decisions, and the rationale underpinning them, stand up to scrutiny.

Recommendation 9 – Separation of Executive Director and Group Executive/Senior Leader Schemes

Again, we agree that this would be very helpful. We recognise the need to improve the process for the design of variable pay schemes, setting appropriate targets, and securing alignment with the Shareholder's views so that we can communicate the schemes and their requirements much earlier. Since the schemes for the two Executive Directors require the Shareholder's approval as an additional step, we agree that separating the schemes applicable to them from those applicable to other senior leaders will facilitate our adherence to sensible timescales. Accordingly, we intend to separate into two different schemes from the 2024/2025 financial year. Indeed, we may bring the timetable forward in respect of the 2023-2026 Long Term Incentive Scheme, should the proposal to do so find favour with Remco.

Recommendation 10 – Ongoing Scheme Reviews

Regular scheme reviews are being built into the Remco meeting cadence which will include details of achievements of year to date performance and run-rates against specific metrics. In addition, in February of this year, we established bi-weekly calls for our Chief People Officer and Reward Director with UKGI officials, to share ideas, intentions, and concerns and to boost alignment with shareholder interests and these meetings will continue into the future. Our intention is, of course, to ensure that nothing is lost or missed as the scheme progresses and that we, together, have every opportunity to identify and neutralise risks before they crystallise.

Recommendations 3-8 – Clarity, Predictability, and Record Keeping

I have grouped these recommendations together because, while being critical to effective governance, they are individually more practical and technical in nature. We will, and in some cases we already have (eg Recommendation 3 on minute-taking), implement each of these recommendations faithfully to ensure that our processes promote the underlying objectives which is for Schemes and the processes to administer them to be simple, clear, accurate and transparent. It is self-evidently the case that, for our Schemes to withstand legitimate scrutiny, the processes by which they are administered must be fit for purpose. Accordingly, we will ensure, for example, that there is just one set of authoritative documentation to be used by Remco and the executive functions so that we de-duplicate and neutralise the risk of confusion which arises from different documents purporting to cover the same territory. Similarly, the recent controversy has made us acutely aware of the need to ensure our record keeping is accurate, complete and easily accessible.

Both the scheme rules and the Remuneration Committee Terms of Reference allow the committee members to exercise discretion with regard remuneration and incentive schemes. In light of recent events and in-keeping with tighter governance and controls now in place, the committee has agreed that any exercise of any discretion will be applied sparingly and with robust and well recorded rationale. Use of such discretion shall also be shared with the main Post Office Board, for full oversight, as well as being accurately recoded in the applicable annual report and accounts.

My colleagues will share more of the detail of our plans with your officials and we will ensure that we continue to engage with them on our progress as we move forward. Overall, I am confident that the

steps we are taking to implement Simmons & Simmons' helpful recommendations, as well as those recommended by Amanda Burton, will lead to a simpler, more transparent and, ultimately, more effective treatment of senior-level remuneration at Post Office.

Let me now turn to the three questions you had in relation to other aspects of the Transformation Incentive Scheme, as sent to us via the email from Ed Baird of DBT to Richard Taylor and Patrick Bourke on 29 August 2023.

Q1: The Postmaster satisfaction metric was missed, why did this get an Amber/50% rating?

I thought it would be helpful to confirm the specific metric as set out in the letter from K McCall, Chair of the Remuneration Committee, to the BEIS Permanent Secretary of 26 July 2021:

Area Focus	Description	Targets
Postmaster Satisfaction	Delivery of a step change in Postmaster engagement through delivery of key milestones and metrics aligned as part of the Culture change programme. Measure the effectiveness through delivery of top priority areas identified from the feedback and ensure this represents a significant change by January 2022 vs. the existing feedback from the Postmaster Consultation with Quadrangle.	<ul style="list-style-type: none"> Improvement to around 1 in 3 Post Master's positive sentiment in: <ul style="list-style-type: none"> B1 "how would you describe your relationship with Post Office" increase from 17% to 30% B7 "how supported, or not, do you feel from Post Office?": increased from 25% to 30%

At the February 2022 Remuneration Committee meeting the Remuneration Committee reviewed the results from the Postmaster engagement survey which ran through January 2022 and received over 1300 responses. The survey was conducted by Quadrangle, an external agency. Quadrangle verified that the sample was representative, statistically significant and that the matched sample validation confirmed the results were reliable as indicators of change. The Remuneration Committee also reviewed the headline results from the survey which also included data on levels of Postmaster trust; and feedback from Postmasters on the overall action taken by the Company in response to feedback from the Postmaster consultation process in January 2021. In addition the Remuneration Committee reviewed the internally produced Action plan prepared by the Retail and Franchise Network Director.

Although the B1 target on the Quadrangle survey was missed, the Remuneration Committee took into account the fact that the target was extremely stretching and had gone beyond what Quadrangle had originally advised. The Remuneration Committee also took into account that the B7 target was achieved and the delivery of the priority areas for improvement in the Action plan were achieved. The Remuneration Committee also considered the very encouraging results in the Quadrangle survey indicating improved trust. An analysis of the trust drivers showed that most Postmasters believed that there was genuine intent to change the relationship and purposefully engage. Over 50% of Postmasters agreed that, 'Post Office was genuinely trying to improve the relationship with Postmasters' and nearly 50% agreed that, 'Post Office interacts with me in a purposeful and engaging way'. Taking all these points in the round, the Remuneration Committee agreed that there should be a 50% award against this metric. As you know, the scheme did allow for the Remuneration Committee to exercise discretion in the event that a target was not achieved in full.

Q2: How can a rating of Green be given to the Horizon replacement when it is over budget and behind schedule? Did we achieve 400 locations by March 2023?

As above, I thought it would be helpful to confirm the specific metric as set out in the letter from K McCall, Chair of the Remuneration Committee, to the BEIS Permanent Secretary of 26 July 2021:

Area Focus	Description	Targets
SPM	Create a Board and Shareholder approved SPM plan and business case to move off Horizon dependence (first version by 31 March 2021, final by 31 December 2021) and deliver a prototype to operate an 'express' proposition fully outside Horizon by 31 January 2022 with ability to subsequently scale across the POL network	<ul style="list-style-type: none"> • Prototype express proposition in place by January 2022; • Clear understanding and Board approval for the roadmap, major milestones, overall business case and overall programme cost to incrementally stand-up a core IT platform that eventually allows for the retirement of Horizon over the next 3-5 years • A functional SPM model, which includes a retailer-facing device and new Postmaster interface, that allows Postmasters to process transactions from the "basic" and "express" propositions without the need of a Horizon terminal • A roadmap and timeline for the rollout of that SPM module to 400 new or existing POL locations in order to meet the first business objectives of the Network Strategy • RemCo to assess whether the investment had been spent wisely

Breaking down each element of the metric into sub-metrics the Remuneration Committee reviewed POL Board papers and the SPM roadmap which had been presented to the Board and to BEIS in the summer of 2021. The Remuneration Committee also looked at a demonstration of the prototype and reviewed the plans for the rollout. The Remuneration Committee also looked at the investment decisions.

As you will see, the metric was focused on delivering a prototype and understanding the road map, milestones, and business case as at February 2022 when the decision was made. Whilst the targets were achieved when the Remuneration Committee made its decision in February 2022, the landscape around the Horizon replacement has, or course, changed materially and we are working hard, together with your officials and colleagues in HM Treasury, to address these new challenges.

Q3: Organisation Design - have we now moved to a 'lower cost operating model'? I've not seen evidence of that in cash terms.

As above, I thought it would be helpful to confirm the specific metric as set out in the letter from K McCall, Chair of the Remuneration Committee, to the BEIS Permanent Secretary of 26 July 2021:

Area Focus	Description	Targets
Organisation Design	Delivery of an improved organisational design and lower cost operating model through the successful implementation of Tranche 1, 2 and Tranche 3 of the organisational change plans. Measures by improving metrics on spans and layers (in accordance with the McKinsey key metrics on spans and layers and best practice), making the organisation flatter and more aligned to the Postmaster.	<ul style="list-style-type: none"> Reduction of net 280 FTE excluding any capability build for IT and Data and any FTE reductions made as a result of the DMB Programme (subject to shareholder funding and sign off) between August 2020 (baseline) and January 2022 Average of fewer than 6 direct reports per manager Less than 15% of the workforce as line managers Maximum 90 examples of grade compression across the structure

When the Remuneration Committee came to look at this metric it took into account the fact there had been a FTE reduction of 334 against the target of 280. In addition the span of control had reduced to an average of 5.8 direct reports per manager, again ahead of target, and grade compression had also exceeded target with the result of 70 examples of grade compression as opposed to 90 in the target. The one element that missed target was in relation to line managers, where the achievement was 16.4% of the workforce were line managers at the end of 2021 compared to a target of fewer than 15%. Accordingly the Remuneration Committee decided to award 75% of this metric.

In relation to the lower cost operating model achieved by these organisational changes, as at August 2020 there were [IRRELEVANT] POL employees with pay costs of [IRRELEVANT]. As at January 2022 there were [IRRELEVANT] POL employees with pay costs of [IRRELEVANT], a variance of [IRRELEVANT] POL employees and a reduction in pay costs of [IRRELEVANT].

I understand from Nick Read that you had a productive meeting on Tuesday 12 September at which you were able to discuss some of the more forward-looking and positive challenges facing the business, as well as issues around funding, the Inquiry, and the Horizon replacement.

With our peak trading season imminent, the business is focused on its commercial aspirations in the interests of communities and postmasters, such as the launch of a multi-carrier mails offer both online and, in time, in branch, as well as the negotiation of Banking Framework 4.

Across all of the issues facing us, we are grateful for your support and that of your officials.

Yours sincerely,

GRO

HENRY STAUNTON
Chairman