

OFFICIAL SENSITIVE COMMERCIAL

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Dear Tim,

## **STRATEGIC PRIORITIES FOR 2022/23**

As you know, each year we write to you in your role as Chair at Post Office Limited (POL) to set out the key priorities on which the Department would like you to focus in the coming year. Your second, and final, term as Chair ends this September and I would first like to acknowledge your service in leading POL over the last seven years. I am grateful to you for the resilience and counsel you have shown steering the company through what has been an exceptionally challenging and heavily scrutinised period in the company's history.

The last year has been at times a difficult one. I recognise the company and its people will continue to operate in challenging circumstances over the next 12 months following a tight Spending Review settlement and increased public scrutiny of POL during the Inquiry. Clear, candid, and transparent dialogue between the POL Board, UKGI and BEIS is key to our successful working relationship, and my officials are committed to working openly and collaboratively with you and your colleagues over the coming year.

### Shareholder priorities

As we move into the new financial year, I know that POL continues to respond to the Post Office Horizon IT Inquiry, resolve legacy litigation-related issues and develop the commercial and network strategy to help position the company for future success. Please continue to lead the Board and provide support and challenge to the Chief Executive and management team in the delivery of these aims. For reference, UKGI's standard governance expectations of a Chair are at Annex A.

Specifically, I would like you to focus on the following priorities:

## OFFICIAL SENSITIVE COMMERCIAL

**1. Maintaining and improving POL's capacity, capability, and resilience at all levels of the organisation**

I am pleased with the progress POL has made in increasing the capacity and capability of the Board over the last year. The new Legal NED and two Postmasters NEDs are already making a positive contribution to the Board. The recent appointment of a new Director to provide strategic leadership to the Historical Matters Business Unit (HMBU) is another important step forward. In your remaining time as Chair, I would be grateful if you could:

- Continue to support the induction and integration of new Board Members and those new to their role into the Board so they are operating cohesively, effectively and with a good understanding of the role of government as a shareholder;
- Challenge and support the CEO's efforts to improve the expertise, depth, and resilience of the Group Executive team and to refresh and upgrade POL's capability at all levels of the organisation; and
- Ensure that the Board and Group Executive team have a robust succession planning process and people strategy in place.

I would be grateful if you could update my officials through the quarterly shareholder meetings on progress in these areas, including key personnel risks and contingencies at both the Board and Group Executive level.

**2. Engaging with the Post Office Horizon IT Inquiry and implementing change**

Thank you for the significant amount of time and effort that the Board and management team has spent to date engaging with Sir Wyn Williams and his team. For FY22/23, POL should:

- Continue to engage fully with the Statutory Horizon IT Inquiry in a demonstrably open and transparent manner;
- Reflect on the Inquiry's findings as they emerge and take proactive action to address them;
- Drive forward the Company's cultural change programme, embedding any learnings and changes; and
- Report to Ministers within a month of the Inquiry's final report with your immediate action plan and the strategy to implement its recommendations.

A key objective for POL's current Board and management team is to demonstrate to the Inquiry's satisfaction that changes have been, or are in the process of being, made to POL's systems and processes so that they are fit for purpose. I should be grateful if you would write, by the end of the parliamentary summer recess, to let me know what assurance, both internal and external, the Board is putting in place to demonstrate this.

**3. Resolving historical litigation issues**

I am grateful for the considerable efforts undertaken by POL to work with officials to comprehensively address historical matters in a timely manner. I was particularly pleased to note that interim payments have now been received by 66 of the 73 postmasters who have had their convictions quashed so far, and that the first initial full compensation offers

## OFFICIAL SENSITIVE COMMERCIAL

have been made to those postmasters who have sufficiently advanced their claims. I was also pleased to note the successful set up of the Historical Shortfalls Scheme (HSS), with POL having made offers to over 50% of claimants by the end of March. Finally, I welcome POL's decision to set up a Board Sub-Committee on Historical Remediation chaired by the new Legal NED and a new standalone HMBU. It is right that these issues receive the attention they require to ensure their swift resolution. For FY22/23, POL should:

- Build on the successes of the HSS and the lessons learned to ensure effective progress of the other compensation areas;
- Deliver the HSS timetable with our ambition for 100% of offers made by the end of 2022 and progressing claimants through to the post-offer process;
- Continue to work closely with officials to progress the timely delivery of compensation to Postmasters with Overturned Historical Convictions (OHCs);
- Work with officials on issues relating to GLO compensation;
- Identify and deliver compensation to postmasters that have suffered detriment not captured within the other areas; and
- Challenge POL management so their activities are reflective of our shared objectives for compensation: to see postmasters are treated with consistency and they receive swift compensation that is fair for claimants and taxpayers.

We acknowledge that the delivery of compensation to claimants is raising a number of difficult issues, given the challenging objective of balancing fair and swift compensation consistently across the claimant groups with making appropriate use of taxpayers' money. We remain committed to working with you to resolve these issues.

#### **4. Effective management of legal costs and settlements with claimants**

I recognise the difficulties that POL has faced in the quantification and management of costs related to the various litigation workstreams, as reflected in the delays to the approval of the budget for FY21/22 and the withholding of funds by BEIS. Our view is that these costs remain too high and it was disappointing to see that, since your revised Spending Review bid in January 2022 (which was reviewed by Interpath), POL's expected costs associated with delivering compensation and dealing with the Inquiry have risen by over £40m, albeit we recognise this is driven in part by the Inquiry timing, which is outside of your control.

Notwithstanding the above, I am grateful for POL's continued engagement with UKGI and BEIS officials to address and find a positive way forward on these challenging matters. For FY22/23, POL should:

- Enhance commercial expertise in the HMBU so that the process for managing settlements with claimants is improved and delivers value for money for the taxpayer, whilst also respecting the limitations on claimants to produce evidence in many cases and the need to deliver fair outcomes for affected postmasters;
- Ensure effective Board oversight of the forecasting, monitoring, and challenging of POL's accrued legal costs against HSF's cost model and the delivery of the work instructed by POL management to POL's legal advisers; and



## OFFICIAL SENSITIVE COMMERCIAL

- Work with officials to explore ways in which these activities could be delivered differently, in particular to deliver redress in a timely manner and at a lower cost, alongside continuing to review legal costs and controls.

Please provide us with an update, in the next quarterly shareholder meeting management information pack, on the lessons learned from POL's management of legal costs so far and the next steps POL is taking to reduce costs and improve cost management going forward.

## 5. Effective financial management and performance

Credit is due to POL for its successful negotiation of Banking Framework 3 and securing of agreement from all banks to remain within the framework. I must also express my thanks for POL having consistently exceeded its minimum branch network requirement of 11,500 branches since the Covid-impacted network waiver was lifted in June 2021. I was pleased to note that the network size of 11,621 branches as at February 2022 was the highest level since the onset of the pandemic in March 2020 and that the first independent third-party audit, undertaken by PwC, of POL's network report was completed successfully. I also welcome the alignment of change spend and cash flow metrics in POL's Short-Term and the Long-Term Incentive Schemes, completing the transition away from the historical focus on EBITDAS in favour of a new primary focus on cash flows. For FY22/23, POL should:

- Deliver the Spending Review outcome whilst ensuring that POL maintain a network of at least 11,500 branches and adhere to the Access Criteria;
- Implement Banking Framework 3 and make preparations for Banking Framework 4, working with UKGI to ensure Banking Framework 4 helps put POL on a path to financial self-sufficiency;
- Lead the Board to oversee delivery of POL's FY22/23 annual budget and provide ongoing effective challenge of POL's management where actual trading performance and/or investment spending deviates adversely from plan;
- Oversee and challenge investment spend, particularly whether investment funding is being used effectively to support the achievement of POL's strategic priorities; and

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I have asked my officials to provide me with a quarterly update on progress with the plan being adopted by the Board. I would be grateful if POL continues to assist us with reporting change spend,



OFFICIAL SENSITIVE COMMERCIAL

in particular highlighting risks to delivery, significant deviations from the plan and actual and anticipated project overspends

**6. Successfully delivering the Strategic Platform Modernisation Programme (SPMP)**

I was pleased with the substantial progress on the SPMP to replace the Horizon IT system, including the successful delivery of pilots of the new IT system. For FY22/23, I would like POL to:

- Ensure full Board challenge and scrutiny of the Horizon IT replacement programme, SPMP, enabling effective delivery against the programme plan and obtaining external assurance where appropriate; and
- Ensure the SPMP is developed and implemented to address the historical issues and builds postmasters' needs into the heart of the design and roll-out.

I look forward to seeing the final business case for this project going through the BEIS Portfolio Investment Committee for approval in May 2022. This is a critical project and I will expect the business case to clearly set out the robust governance and assurance arrangements required to safeguard its delivery.

BEIS also looks forward to working collaboratively with POL over the coming year on reviewing the policy framework for POL. It is crucial that we develop a sustainable, long-term approach for the network, as well as looking at key services (mails, cash and banking services in particular) and ensuring that this remains fit for purpose for communities and vulnerable consumers. We are keen to work collaboratively to ensure that our policy requirements deliver the right outcomes for consumers and put POL on a sustainable footing for the future. We also value POL's cooperation across a wide number of other policy issues, in particular those relating to POL's continued critical contribution to the access to cash and anti-money laundering agendas. POL's continued collaboration on a wide range of network issues raised by MPs is also much appreciated.

I look forward to discussing progress against these priorities at our next meeting and in your exit interview.

Yours sincerely,

**GRO**

**Sarah Munby**

For and on behalf of the Department for Business, Energy and Industrial Strategy

## OFFICIAL SENSITIVE COMMERCIAL

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

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

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

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

**Set the Board’s agenda**

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

**Encourage engagement from Board members**

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

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

## OFFICIAL SENSITIVE COMMERCIAL

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

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

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

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

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

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

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

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

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

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

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

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



## OFFICIAL SENSITIVE COMMERCIAL

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

**Be subject to an annual performance evaluation**

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