



HERBERT
SMITH
FREEHILLS

Solicitor to the Inquiry
Post Office Horizon IT Inquiry
PO Box: Post Office Horizon IT Inquiry
1 Victoria Street
Westminster
London SW1H 0ET

Herbert Smith Freehills LLP
Exchange House
Primrose Street
London EC2A 2EG
T +44 (0)20 7374 8000
F +44 (0)20 7374 0888
DX28 London Chancery Lane

www.herbertsmithfreehills.com

Our ref
9100/31048180

Date
06 April 2023

By email

Dear Sir or Madam

Post Office Horizon IT Inquiry – Annual report and consolidated financial statements 2021/22

We refer to your letter of 31 March 2023, in which you sought clarification on information contained in the Post Office Limited ("**POL**") Annual Report and Consolidated Financial Statements 2021/2022.

POL recognises that the matters raised are of significant concern to the Chair and has been investigating the matters raised in the letter as a priority. POL sets out its response below. At the outset POL wishes to apologise to the Inquiry for setting a target that appeared to require the Chair's participation without asking Sir Wyn for his agreement to that, and for reporting against that target by suggesting the Chair and his team had given input into a particular outcome when they had not.

Background

The Inquiry's questions relate to POL's remuneration decisions for 2021/2022. The Remuneration Committee is one of four POL Board Committees. By way of relevant context, decisions about remuneration across the organisation, including of POL's senior executives, are made by the Remuneration Committee.

In December 2020, the Remuneration Committee agreed a new "Transformation Incentive Scheme" which would form part of the remuneration package for senior leaders (being the Executive Director, Group Executive and Senior Leadership population consisting of approximately 50 members of POL's management team). Under the Transformation Incentive Scheme, part of the remuneration package for senior leaders was made conditional on, amongst other things, the achievement of metrics geared towards the success of POL's business transformation plans. The metrics were intended to align and focus senior leaders on the critical priorities needed to transform the Post Office. POL concluded that: 1) these types of schemes are standard practice to support

Herbert Smith Freehills LLP and its subsidiaries and Herbert Smith Freehills, an Australian Partnership, are separate member firms of the international legal practice known as Herbert Smith Freehills.

Herbert Smith Freehills LLP is a limited liability partnership registered in England and Wales with registered number OC310989. It is authorised and regulated by the Solicitors' Regulation Authority of England and Wales. A list of the members and their professional qualifications is open to inspection at the registered office, Exchange House, Primrose Street, London EC2A 2EG. We use the word partner of Herbert Smith Freehills LLP to refer to a member of Herbert Smith Freehills LLP, or an employee or consultant with equivalent standing and qualifications.



organisations needing dramatic change; 2) it was necessary to align and retain the leadership at POL who were undergoing acute scrutiny and pressure; and 3) the Transformation Incentive Scheme balanced across a range of transformation priorities including technology, culture and commercial and Postmaster priorities.

Of the four business transformation priorities that were identified, one related specifically to the Inquiry as the Remuneration Committee wanted it to be clear that co-operation with the Inquiry was a key objective for the whole organisation and senior management in particular. The broad target that was set in relation to the Inquiry priority was *"Delivery of all the required information and support for the Horizon Inquiry satisfying the requirements of Sir Wyn Williams, ensuring there is a clear measurable plan created to demonstrate action on improving the overall culture to be Postmaster centric and to ensure processes for Postmasters are addressed in line with recommendations from the inquiry. Any actions or plans must have been endorsed by the Inquiry and the Board."*

Within that broad priority, there were four more granular metrics. One of these related to "Inquiry Support", and the agreed target (i.e. the agreed mechanism to assess achievement against this metric) was *"All required evidence and information supplied on time, with confirmation from Sir Wyn Williams and team that Post Office's performance supported and enabled the Inquiry to finish in line with expectations."*

At the time the target was set (in December 2020), it was anticipated that the Inquiry may have substantially completed its work during the period covered by the Transformation Incentive Scheme, which is why the target as drafted anticipated the Inquiry having *"finished in line with expectations"* although POL accepts that this was not reviewed when it became apparent that the duration of the Inquiry would be longer.

At a meeting of the Remuneration Committee held in February 2022, the Post Office management team recommended to the Remuneration Committee, having regard to certain evidence, that the target had been met. For the avoidance of doubt, and as explained below, some sources were referred to in the recommendation to the Remuneration Committee as to the Inquiry's views on the quality of POL's co-operation with the Inquiry, albeit no direct confirmation from Sir Wyn was sought or obtained. The Remuneration Committee accepted the recommendation of the management team. The Annual Report and Consolidated Financial Statements 2021/2022 therefore record that the metric was "Achieved".

Response to Inquiry's questions

Against this background, we turn to the Inquiry's specific questions.

Question 1: Confirm whether, before this metric was set, the Post Office agreed with Sir Wyn Williams that he was to be asked to provide confirmation to the Post Office of a state of affairs for the purposes of determining the financial rewards of individuals.

Response: POL wished and wishes to support the work of the Inquiry. To that end POL thought it appropriate to have support for the Inquiry as a metric to align and focus senior personnel and to emphasise the importance of supporting the Inquiry's work.



POL recognises that the drafting of the metric relating to Inquiry Support should have been put to the Inquiry in circumstances where it incorporated an express requirement for confirmation from the Inquiry and apologises for the fact that it was not. POL will publicly correct the position.

Question 2: Explain the basis upon which the assertions were made that Sir Wyn Williams (“and team”) has confirmed that (a) the Post Office has supplied all required evidence and information to the Inquiry on time; and / or (b) that the Post Office’s performance supported and enabled the Inquiry to finish in line with expectations; and

Question 3. Provide us with any supporting material evidencing such confirmation and explanation.

Response: POL understands that certain materials were reviewed by the then Group Chief People Officer, who relied on them in reporting to the Remuneration Committee that the target had been achieved.

The evidence considered by the author of the report, consisted of:

- (a) Sir Wyn Williams' letters to: (i) Mr Read and Mr Salter of 16 November 2020; (ii) Mr Salter of 10 May 2021; and (iii) Mr Salter of 19 May 2021 (copies of which will be provided); and
- (b) Sir Wyn Williams' announcement of 16 November 2021 in relation to privilege.

POL believes the author of the report also took into account other information relating to POL's co-operation with the Inquiry. POL is trying to identify the documents she relied on. In the time available before writing, POL has not been able to locate this material. However, we will revert to the Inquiry on this point further if and when POL locates the material.

Although the correspondence relied on contained expressions of Sir Wyn’s appreciation for the assistance and co-operation that POL had provided, POL recognises that the expressions did not obviate the requirement to obtain the confirmation from Sir Wyn in view of the metric. Indeed, POL accepts that the metric as drafted (referring as it did the completion of the Inquiry) could not have been achieved by February 2022 as by that date the hearings were only just starting and accepts that the wording of the target should have been adjusted.

POL apologises for the fact that, by recording the metric as drafted as having been "Achieved", POL thereby implied that Sir Wyn Williams had provided his confirmation that (a) the Post Office has supplied all required evidence and information to the Inquiry on time; and / or (b) that the Post Office’s performance supported and enabled the Inquiry to finish in line with expectations. POL intends to issue a public statement correcting the position. That statement will be included on the Post Office website and we will inform you when that has been done. Were the Inquiry to wish to see the wording of that statement before it is issued POL would be happy to share that with the Inquiry.

POL is reviewing how the circumstances in this letter came to occur and is taking steps to ensure that in future its approach to co-operation with the Inquiry is stated accurately in its public statements.



HERBERT
SMITH
FREEHILLS

Date
06 April 2023
Letter to
Solicitor to the Inquiry

Should the Inquiry have any further questions in relation to this matter, please do not hesitate to contact us.

Yours faithfully

GRO

HERBERT SMITH FREEHILLS LLP