

Witness Name: Sir Martin Donnelly

Statement No.: WITN11250100

Dated: 24 July 2024

POST OFFICE HORIZON IT INQUIRY

FIRST WITNESS STATEMENT OF SIR MARTIN DONNELLY

I, Sir Martin Donnelly, will say as follows.

Introduction

1. I was previously the Permanent Secretary of the Department for Business, Innovation and Skills and joint Permanent Secretary of the Department for Business, Energy and Industrial Strategy. I make this statement in response to the Inquiry's request for evidence dated 13 June 2024 ("**the Rule 9 request**"). I have prepared it with the support of the Government Legal Department and counsel. I have been dependent on others putting documents before me to assist with the chronology of events as set out herein, but any views expressed in this statement are my own. I would be very happy to clarify or expand upon the evidence set out in this statement should it assist the Inquiry.

2. I have answered the Rule 9 request in sequential order and have endeavoured where possible to provide my account in chronological order as requested.
3. I was shocked to learn of the appalling miscarriage of justice caused by the Horizon scandal. The huge impact of wrongful prosecutions on innocent people working for the Post Office and dedicated to their local communities has devastated so many lives. This is the worst case of sustained injustice in the public sector which I have encountered in my almost forty-year career in government service. As a former civil servant, I feel ashamed that this scandal could have occurred and then continued for so long. We owe all the people affected a full and accurate account of what happened and why. I hope that my evidence contributes towards providing that truth for the victims of such injustice and helps to prevent anyone else from enduring what they have had to go through.

Background

Career history

4. I joined the UK Civil Service in 1980 following a degree in politics, philosophy and economics at Oxford University and postgraduate study in international economics at the College of Europe, Bruges.
5. I worked in the Treasury, with secondments to the Ecole National D'Administration, the Northern Ireland Office, the European Commission and the French Finance Ministry until 1997, when I moved to the Cabinet Office as a Director until 2003. I then worked in a range of senior positions in the Home Office and the Foreign and

Commonwealth Office (“**FCO**”), with a secondment to Ofcom. In 2010 I became acting Permanent Under-Secretary of the FCO. In October 2010 I became Permanent Secretary of the Department for Business, Innovation and Skills (“**BIS**” or “**the Department**”). I remained in that post until July 2016, when I was briefly joint Permanent Secretary of the Department for Business, Energy and Industrial Strategy (“**BEIS**”) following machinery of Government changes until September 2016, when I became acting Permanent Secretary setting up the new Department for International Trade.

6. I left the Civil Service in April 2017. I was a visiting Fellow at Hertford College, Oxford from 2017 to 2019. I also worked part-time for Teneo Consulting and was a Board member of several charities. I joined Boeing in July 2019 and worked as UK Managing Director until October 2023. I am currently a non-executive director of the National Audit Office and a part-time adviser to the South Yorkshire Mayoral Combined Authority on business development.

Overview of BIS

7. BIS was created in 2009 following a merger of the Department for Business, Enterprise and Regulatory Reform and the Department for Innovation, Universities and Skills.
8. BIS had a very wide range of specific responsibilities within its central objective of promoting economic growth through investment in skills and education, trade and investment promotion, fostering innovation and helping businesses to grow. The range and extent of these functions were unusual for a single government department to manage.

9. Over 80% of the Department's expenditure was delivered through 45 diverse Partner Organisations, structured separately from the core Department to allow them to function effectively. These Partner Organisations ranged from the Student Loans Company to Research Councils, the UK Space Agency, Low Pay Commission and Ordnance Survey.
10. I joined BIS as its new Permanent Secretary at the end of October 2010. As Permanent Secretary, I was the civil service head of the Department. I set out what this role entails in more detail below.
11. The range of issues covered by the Department meant that it had a Secretary of State and a second Minister who attended Cabinet (Vince Cable and David Willetts, respectively, when I started in 2010) as well as five other junior ministers in 2010, rising to seven junior ministers by 2015, some shared with other Departments.
12. My arrival as Permanent Secretary came very shortly after the completion of the 2010 cross-Government spending review, which required cuts of some 25% in the Department's running costs. These cuts and the restructuring which they entailed took up a substantial part of my time at the start and significantly affected the morale of officials in the Department. It took the best part of two years to rebuild morale. Constant difficult negotiations on funding with the Treasury were a major part of my work. Regular funding crises arose during my time in this job which were both time consuming and politically sensitive to manage.
13. A further set of reductions in BIS operating costs on a larger scale (30-40%) were then mandated in the summer of 2015 by the incoming Government. These again

became a major focus of my time and that of other senior civil servants, including dealing with their severe impact on staff morale over plans for some redundancies.

14. Throughout my time in post, the core central Department had around 2,600 staff. Including some 45 non-departmental public bodies for which BIS had overall responsibility, the average number of staff employed was around 22,000 by 2016, compared with over 27,000 in 2010.

The role of Permanent Secretary

15. The Permanent Secretary leads the management of the Department's staff and resources, and as Accounting Officer is directly responsible to Parliament for the proper use of the funds it is voted. He or she is also directly responsible to the Secretary of State for delivery of the political priorities set by Ministers, and to the Head of the Civil Service for the overall functioning of the Department as part of the wider machinery of Government.

16. The Permanent Secretary has to engage closely with the political priorities and requirements of the Secretary of State and the Prime Minister's team on key policy areas, respond quickly to crises, act as a public representative of the Department with its many external stakeholders, provide evidence to Parliamentary committees, be a visible leader to the Department's staff, and share in the collective leadership of the Civil Service.

17. Given the range of work across the core Department, the Permanent Secretary has to ensure that systems are in place to manage it effectively without personal intervention, while maintaining an overview of all the Department's work. This involves reviewing large amounts of briefing information at the end of each day,

prioritising issues that affect the whole Department or top the political agenda, and maintaining close contact with the senior team who manage specific areas of the Department's work, so as to be ready to identify and respond quickly to new political priorities or major external crises which concern Ministers or the Prime Minister.

18. In addition to dealing with major policy issues as they arose, I focussed on leading and developing capability across the Department to offset our reduced financial resources, ensuring that staff were doing their jobs professionally and ethically. I also worked to build a more diverse, inclusive Senior Civil Service leadership team, which by 2014 was evenly balanced between women and men, and included job shares and part-time working by senior managers. Our aim was to foster a resilient culture of team-working across the core Department, avoid silos and devolve responsibilities within a supportive management structure.

19. Policy priorities evolved significantly over my tenure as BIS Permanent Secretary. The priorities of BIS under the Coalition Government included managing the sharp increase in student fees and loan provisions after 2011, constructing a new Regional Growth Fund with other departments, developing a new Industrial Strategy and Green Investment Bank, increasing exports and inward investment through UK Trade and Investment ("**UKTI**"), a body jointly managed with the FCO, managing the sale of shares in Royal Mail, influencing EU trade policy and business regulation, and increasing the number and quality of apprenticeships. After the 2015 election new priorities included the introduction of the Living Wage, the design and implementation of the Apprenticeship Levy, a goal of doubling

exports, and further reductions to departmental headcount. The Department also steered the 2011 Postal Services Act and seven other pieces of primary legislation through Parliament during my tenure as Permanent Secretary.

20. To manage this range of challenges my senior team and I developed a Departmental structure which, by 2015, consisted of six departmental Groups, each led by a Director General: Business and Science; Economics and Markets; Shareholder Executive; Skills, Deregulation, Local Growth and Legal; People, Strategy and Higher Education; and Finance, Commercial and Digital Transformation. I note that the Director General of the Shareholder Executive (“**ShEx**”) was part of the senior team – this was initially Stephen Lovegrove and then Mark Russell.

21. Responsibility for relevant Partner Organisations was distributed within this structure. The Shareholder Executive was responsible within BIS for those Partners that provided near commercial services. By 2015 these were the British Business Bank, Companies House, the Green Investment Bank, Insolvency Service, Land Registry, Ordnance Survey and Post Office Ltd.

22. Given the complexity and range of BIS responsibilities the departmental groups worked with Partners in the way which they considered most effective and appropriate to their function and status. In the central Department we developed formal governance structures to provide an overview of the key departmental issues, including a Departmental Board chaired by the Secretary of State. The Executive Board which I chaired met every two or three weeks. I attended the Departmental Audit and Risk Committee meetings. There were also a

Performance, Finance and Risk Committee, an Operations Committee, and a People Committee which reported to the Executive Board.

23. I complemented this formal structure with monthly one on one meetings with each of the Directors General, providing an opportunity to discuss informally what was on their minds, and any evolving significant issues affecting their areas of work. In addition the Directors General, the Secretary of State's Private Secretary and I held several short morning catchups each week at the start of the day to pick up on urgent issues which we all needed to be aware of across the senior team.

24. My objective was to lead the Department in a way in which officials at all levels felt empowered to do their jobs and raise issues with those more senior, whether personal or professional, wherever necessary. I described my role to staff as providing a clear sense of direction for the Department, a professional and supportive management structure, and the space and resources for staff members to deliver on their own specific responsibilities.

25. Two aspects of the role are worth clarifying. First, as with any large organisation it is not realistic for the most senior leader to be across the detail of everything that is going on in the organisation, or desirable for them to second-guess or check the accuracy of the briefings and other information they are being provided with, unless they have specific information from another source that would cause them to raise questions. They have to be able to rely generally on what they are being told by those in their team, whom they trust to behave professionally. This raises an issue to which I will return in this statement, namely whether any system of accountability or governance can deal effectively with a situation where people consistently fail to provide accurate information to those requesting it.

26. Secondly, the role of Permanent Secretary is different to that of a CEO. A CEO is empowered and expected by the company board to run a company or organisation as they see fit to deliver value for shareholders or achieve their objectives, and has a large degree of discretion day-to-day as to what they prioritise and how they go about achieving this. The Permanent Secretary's role is to implement the policy of the Government and carry out the instructions of Ministers. This requires regular discussion with the Secretary of State and Number 10 to ensure that their priorities are being followed, and where needed to engage in resolving conflicts between objectives which may be incompatible or unachievable with the resources available.

27. There was no such thing as a typical day or week in my time as Permanent Secretary. It was a demanding job often requiring long hours. It involved, amongst many other aspects, the following:

- a. Short morning meetings with the Directors-General of the Department on most working days to ensure we started work with a shared view of the major issues emerging that might need an immediate response.
- b. Being in day-to-day contact with the Secretary of State's private office, in order to be informed about what Ministers wanted or were concerned about, and near-daily contact with Number 10 to keep up-to-date with what the Prime Minister's office required.
- c. A one-to-one meeting with the Secretary of State most weeks to ensure I knew what was on his mind and was aligning the Department's work to his priorities. I would also regularly join key external meetings which the Secretary of State would have with major stakeholders, for example with

business or trade union organisations. I generally did not meet with the junior Ministers or join their external meetings but would leave them and their teams to deliver their portfolios.

- d. One-to-one catch-ups with each individual Director General about every month, to check what was on their agendas, and whether there was anything I needed to know more about. These meetings were informal and frank. As well as reviewing major policy challenges, they provided an opportunity to discuss personnel issues within the Department and give feedback on the effectiveness of our governance systems.
- e. Preparing for and chairing the BIS Executive Board, which met once a month and had several sub-committees. This Board led the strategic management of the Department, and frequently focussed on resourcing and organisational structures. I also maintained close contact with the BIS independent Non-Executive Directors who sat on the main Board chaired by the Secretary of State which met several times a year.
- f. Making several impromptu speeches each day on a range of issues, internal and external, to communicate the Department's priorities. These included informal question and answer sessions with groups of staff in BIS headquarters, and visits to sites and Partners across the country.
- g. External engagement, both in meetings and correspondence, with the wider Civil Service and Cabinet Office, as well as key ongoing stakeholders such as the CBI or TUC. I regularly visited businesses, colleges and research institutes in each region of the UK to ensure that we had an understanding

of their concerns, which was time consuming but an important part of ensuring the Department's effectiveness.

- h. Dealing with management, staffing and performance issues arising within the Department, and when requested also in the wider civil service.
- i. Preparation for Parliamentary committee hearings, in particular the Public Accounts Committee, which involved detailed scrutiny of individual BIS policy areas as well as annual examination of the BIS Report and Accounts.
- j. Regular overseas travel to support UK exporters and help attract inward investment. As the Department jointly supervised UKTI with the FCO during my time as Permanent Secretary, this meant at least two-three long-haul trips to Asia or America each year (usually for 4 or 5 working days) as well as regular shorter trips to European capitals. I also took my team of Directors General to Brussels, Berlin and Paris on several occasions to meet their counterparts, negotiate trade and regulatory issues and seek support on European Union policy issues led by BIS.
- k. Within the Department, helping to cover any gaps at Director General level when someone moved on without the post being immediately filled. This occurred on several occasions during my time at BIS, in UKTI and Science.
- l. Attending and speaking at a large number of breakfast, lunch and evening functions and events with business, university and research stakeholders, usually in London but also around the UK.

28. In addition to these events and tasks, I would be copied in to several hundred pages of submissions to Ministers every day. It was best practice for me to be

copied in on substantive policy submissions only, not correspondence or process matters. My private office would prioritise these submissions and provide the highest-priority ones to me every evening. I would review these (with generally a very short time to look through each one) to ensure that there were no major issues arising across the Department of which I was not aware, at least in broad terms.

29. Whilst I would be copied in to at least some of what Directors General and their teams were working with their Ministers on in policy terms, therefore, I would expect them to manage that work, and escalate any issues they thought I needed to know about. On occasion I would become involved in the detail of major strategic pieces of legislation or changes such as the sale of Royal Mail, usually for financial propriety reasons, or to ensure that Ministers were content with the support they were receiving on high profile policy challenges such as student loan finances.

30. There were three main ways in which issues or risks could be escalated up from within the various parts of the Department for my attention.

31. The first was through the morning meetings with my senior team (the Directors General). These would normally be focussed on urgent external or political issues, including financial pressures.

32. The second was through my regular one-to-one meetings with each individual Director General, talking over progress on key priorities, and any personnel issues arising in their area requiring action.

33. The third was through the Departmental top-level risk register and 'dashboard'. Each of the Directors General contributed to this, drawing upon the risk registers held by each of their own Groups, and it was updated by the Departmental Board

secretariat in between meetings. The dashboard covered finance, personnel, performance and risk. The risk register contained a 'partner organisation risk summary', which highlighted the overall level of risk carried by each individual partner organisation (including POL) in any particular month, but did not generally give details of what the specific risks were; these were managed within ShEx or the relevant Group responsible for each Partner.

34. In addition to these three primary mechanisms, it was of course always possible that if the Secretary of State raised an issue with me, or if an issue made a major impact in the media, I would ask for further information about it. However, a story in the national media would only be of concern to me if a Minister or major Government policy affecting BIS was a significant element of it. Given the range of BIS responsibilities there was a large number of such media stories each day. These were dealt with by relevant policy teams reporting to Ministers.

Handovers

35. When I took over as Permanent Secretary, I received a high-level handover from my predecessor, which mainly focussed on personnel, where the needs were and how existing key relationships were functioning. I recall that I also asked the Directors General for a two-page briefing on each of their areas, setting all the current main issues with which they were dealing.
36. These briefings focussed on the range of strategic issues the Department faced across its portfolio and Ministerial priorities. When I arrived in autumn 2010 they included setting up the Regional Growth Fund, the end of the Regional Development Agencies and their replacement with Local Enterprise Partnerships, and work with Treasury on a cross-Government plan for growth, plus how to

manage the immediate cuts required in the Department's budget, running costs and staff numbers.

37. For incoming Ministers, the policy teams for each policy area within their portfolio would produce written briefings setting out the current main issues, which their private office would collate. These would be supplemented by early oral briefings from the relevant officials. When the Secretary of State changed I would provide a strategic overview of the Department, introduce myself and the senior team, and explain the processes and overall structure and working methods in place.

Accounting Officer role

38. As Permanent Secretary I was also Accounting Officer for the Department, with certain key responsibilities in relation to the spending of public money and use of public assets, as explained in *Managing Public Money* (UKGI00006045, HM Treasury - Managing Public Money Report, July 2013). This includes taking particular care to scrutinise expenditure which is 'novel, contentious or repercussive'. As Accounting Officer, maintaining transparency of BIS spending was a key objective. This led to a successful consolidation of the accounts of most of the Partners for which BIS had oversight into the main BIS accounts. However, this did not include Royal Mail and the Post Office; as noted above they had a separate report and accounts produced to commercial standards given their status as a public corporation. The way that the Accounting Officer system works is by delegation, from the Treasury to the Accounting Officers of each department or ALB and then down through each organisation from there. The model did not quite apply in the same way for Royal Mail and from 2012 the Post Office given their greater operational independence as public corporations.

39. As Permanent Secretary, I was not Accounting Officer for Royal Mail and Post Office (as explained in the current version of *Managing Public Money*, UKGI00043211, HM Treasury - Managing Public Money - May 2023, at paragraph A7.3.13, public corporations do not have accounting officers), although I was accountable for any transactions between them and the Department. I was not responsible for their day-to-day expenditure nor for their annual report, accounts and profit and loss statements, but I would expect to have input on major financial decisions affecting the public purse. For example, I was closely involved in the decision to make an Initial Public Offering of Royal Mail shares given that this involved the valuation and sale of public assets, for which as Accounting Officer I was responsible to Parliament. My focus as BIS Accounting Officer, insofar as that role related to Royal Mail and the Post Office, was to ensure transparency and professionalism in all issues relating to the Royal Mail sale. It was my duty to ensure that a sale of Royal Mail met Government criteria for value for money, and to ensure that the correct procedures were followed in relation to the sale.

The Government's interest in POL

The role of the Shareholder Executive

40. The Shareholder Executive ("**ShEx**", which subsequently became UK Government Investments, "**UKGI**") was responsible for the policy and oversight role in relation to the Royal Mail and Post Office during my time as Permanent Secretary. This was the structure I inherited when I joined the Department.

41. ShEx had oversight of Government assets, including the Post Office, and was effectively acting as the shareholder. The Director General in charge of ShEx was on the BIS Executive Board and was part of my leadership team. ShEx offered professional expertise in their oversight of commercial organisations. When I started at the Department this model was seen as best practice to avoid micromanagement while providing oversight and necessary briefing for Ministers.

42. Within my senior Executive Team of Directors General, the Director General of ShEx (called the ShEx Chief Executive) had a distinct position. Although based within BIS, ShEx worked with a range of departments, maintained close links to the Treasury and had been given a cross-Government remit. ShEx was the only part of BIS with its own separate advisory Board, which was a reflection of its Government-wide role as a centre of excellence for advising and delivering for different Government departments on a range of commercial responsibilities and transactions. The central ShEx team (which numbered around 100 officials by 2014) was recruited from both inside and outside Government, with fewer of the usual Civil Service recruitment constraints, to ensure the right mix of commercial and administrative skills. ShEx was seen as a high-quality unit which attracted good staff.

43. When I joined BIS as Permanent Secretary, I judged that the ShEx role was key to ensuring the effective supervision of government assets and bodies such as the Royal Mail and Post Office working in a commercial environment. I worked hard to ensure it had the necessary resources to carry out these responsibilities professionally, despite the cuts to the overall departmental headcount and running

costs; and it was never suggested to me that ShEx had insufficient resources to undertake its role effectively.

44. It was made clear to me (I think by my predecessor as Permanent Secretary and certainly by the Treasury) that ShEx required a significant degree of autonomy in its work, hence the existence of its separate Board. It had close links to the Treasury and had a different, more commercial focus than other parts of the Department in order to carry out its functions. I therefore did not expect to be briefed on all the detail of its work with the bodies it supervised, except where those affected my Accounting Officer responsibilities or raised major political issues, such as was the case with the Royal Mail IPO.

45. I recall being reassured by the fact that ShEx had this role; it seemed a professional arrangement for the supervision of these commercial bodies, and I felt I had inherited a structure which was working.

46. I had great confidence in the two heads of ShEx with whom I worked. I had worked with Stephen Lovegrove (now Sir Stephen), the Chief Executive (i.e., Director General) of ShEx, before at an earlier point in my career and knew him to be competent, professional and commercially experienced. I had a consistently high opinion of him, and was not surprised when he was promoted to Permanent Secretary. I was also impressed with Mark Russell as his equally professional and experienced successor. So working relations between us were good throughout this time.

47. I should add for completeness that when in April 2016 ShEx merged with UK Financial Investments it became a single holding company – UKGI – with HM Treasury as its sole shareholder. Whereas ShEx had been accountable through

the Department, UKGI a new body was accountable to Treasury Ministers via its fiduciary Board. Together with a Treasury Permanent Secretary, I was appointed as a Non-Executive Director of the UKGI Board on 12 February 2016, having not previously been a member of the ShEx Advisory Board. I attended three Board meetings before I left the UKGI Board on 28 September 2016, when I moved to the Department for International Trade. I do not recall any substantive discussion of Post Office Horizon issues during my short period on the UKGI Board. I recall the UKGI Board meetings as wide ranging across their portfolio as well as the wider political environment – this was in the runup to the June 2016 referendum - and professional in their approach to items on the agenda.

The role of ShEx in relation to the Post Office

48. In October 2010, when I started as Permanent Secretary, the Royal Mail and Post Office had for many years had wide-ranging autonomy as public corporations working in a commercial environment. They produced their own annual report and accounts. When I joined the Department a major piece of work was underway to achieve a formal separation of the two entities prior to the potential sale of Royal Mail. Details of this process and the emergence of POL were set out in the Opening Submissions of UKGI to the Inquiry.

49. In relation to the Post Office from 2010, I was aware of the Government's objective to maintain the extent of the branch network while reducing the level of subsidy and helping the Post Office become more competitive. Work to prepare the Royal Mail for a potential sale was a major focus for the Department and Ministers in the period from 2010 to 2013, given its political sensitivity and the sums involved. I was concerned as Accounting Officer to ensure value for money was achieved in any

change of ownership. The sale process required the development of separate governance for the Post Office, and the process of considering and developing this was carried out by ShEx under Ministerial supervision.

50. The implementation of government policy towards the Post Office was the responsibility of ShEx. From my perspective this was an important part of their work, part of a wider portfolio of work they undertook for BIS which included by 2015 the governance of the British Business Bank, Companies House, the UK Green Investment Bank, the Insolvency Service, Land Registry and the Ordnance Survey, each with specific issues to manage.

51. Political oversight of ShEx was provided by Ministers of various departments through their policy portfolios. Wider policy on the Post Office was led by the relevant junior Minister within BIS, working with the ShEx team who advised them on Post Office matters. Policy issues such as the size and financing of the network or the future structure of the Post Office were for Ministers to decide on the basis of input from ShEx and the Post Office itself. I would not generally be involved in any of these discussions unless they raised wider issues eg for the financing of the Department. There was a clear line of policy accountability from ShEx to the relevant Minister and ultimately to the Secretary of State.

52. It was also for ShEx to consider governance issues around the composition of the POL Board and performance of the POL Chief Executive, as with other organisations they supervised. That is what they were set up and resourced to do.

53. I am aware that around two years after I left the Department a decision was taken to separate the policy and governance functions, with a Post Office policy team set up within the Department which was distinct to UKGI. At the time I was in post,

ShEx seemed to be able to deal with both roles effectively and it was never suggested to me that the approach should change. I think if anyone had suggested this, I would have been open to persuasion as to why it might offer improved effectiveness at that time, while being aware that separating the two functions would have inevitably added some cost and complexity.

54. During my time as Permanent Secretary, ShEx was responsible for oversight of the Post Office in both governance and policy terms. As to the accountability of the ShEx team, this came in three ways. First, on policy ShEx provided advice to the relevant junior Minister (and ultimately if required the Secretary of State) who made decisions. Secondly, the ShEx Advisory Board (later becoming a fiduciary board when UKGI was formed) was responsible for ensuring ShEx carried out its governance function effectively. The Advisory Board could have come to me as Permanent Secretary if they had any significant concerns about ShEx's performance, but to the best of my recollection this did not ever take place. My limited time on the UKGI Board in 2016 allowed for any specific Post Office Horizon issues to be raised with me directly; I do not recall this happening. Thirdly, I was the line manager for the ShEx Director General/Chief Executive, as well as Accounting Officer for BIS (within which ShEx was situated). I therefore had a role in supporting and appraising Stephen Lovegrove and latterly Mark Russell and ensuring their compliance with the normal financial controls over the ShEx budget.

Oversight of POL by ShEx

55. Given the structure described above, I was not involved in the detail of ShEx's oversight of POL, for example relating to the performance of senior staff. I was aware that the Post Office senior management team and Board were well

compensated in comparison with civil servants or the management and Boards of other ALBs and I expected that to be reflected in a correspondingly professional and competent executive performance.

56. I do not recall ShEx ever raising concerns with me about the performance of the Post Office senior management or Board. I have been shown a document which was discussed during Alice Perkins' oral evidence to the Inquiry (UKGI00042677, PowerPoint presentation re: Post Office Ltd Senior Management - Risk and Assurance Committee - February 2014). It has the logos of both ShEx and the Department on it, but this looks to be an internal ShEx document for discussion within their team, rather than a document created with the involvement of the broader Department. I therefore did not see it and I would not have expected to be copied internal ShEx notes.

57. As mentioned above, I do not believe any issues relating to Horizon were ever raised with me in my capacity as a UKGI Board member in 2016.

58. As well as working to become commercially competitive, I and everybody else in BIS and ShEx would have expected the Post Office Board and management to understand that as a public corporation they were public servants. That meant not only being compliant with the essential elements of corporate governance and accounting standards which applied to all private sector companies, but also holding themselves to the high standards of transparency and fairness expected of the public sector in dealing with individuals.

59. Officials within the Department, including those in ShEx (and subsequently UKGI), were required to comply with the Nolan Principles and Civil Service Code. I expected public sector values and ethics to be respected at all times, and in the

central Department we sought to lead by example on our duty of care for staff. I started from the basic assumption that, as a public corporation, similar values were also acknowledged by POL, and the nature of the structures put in place to provide oversight of POL assumed that to be the case, and to be reflected in managerial behaviour.

60. I have been surprised to learn that some at least in POL appear to have seen the group litigation by sub-postmasters as ordinary commercial litigation without it making any difference that POL was Government-owned. I would have expected everyone within the Post Office, as elsewhere in the public sector, to have seen a duty of care towards their staff including sub-postmasters as a core part of their work. The Inquiry may wish to consider whether it should be made explicit, if it is not already, that the senior management and Board of public corporations such as POL are expected to abide by public sector values, by for example requiring them to sign up to the Nolan Principles.

Specific issues

61. I have been asked by the Inquiry to explain the background to the Government's position that operational and/or contractual matters were for Royal Mail and/or POL and not for Government. This represented a view taken by successive Ministers and the Treasury about the most appropriate way to manage a commercial organisation in the public sector. The Opening Submissions to the Inquiry from UKGI sets out the rationale in more detail.

62. In terms of how the operational/strategic divide worked in practice, I would have expected high-level decisions such as overall branch numbers/size of network or the level of the Government subsidy to be considered strategic and require

Government policy input, whereas how the business was run month-by-month and year-by-year to achieve its strategic objectives was a matter for its management and Board. There would inevitably be a judgement that had to be made by the Royal Mail and Post Office Board as to what was strategic rather than operational. The Government appointed the Chair of the Board for both organisations, and the Board then oversaw their operations.

63. There were also no constraints on Ministers asking about any issue, although they would of course have had to know about it to ask questions. So, if they considered a concern which had been raised with them in Parliament, in a stakeholder meeting, in the media or in correspondence to be potentially strategic they could ask for more information about it through the relevant officials. For example, the possible closure of specific post office branches. When this was raised, the Minister would in the first instance have met with or been briefed by ShEx officials, who would have sought the relevant information from POL.

64. I recognise that the additional layer of oversight provided by ShEx, coupled with the assumption that ShEx officials would carefully interrogate the information provided to them by POL, might have provided a false sense of comfort about the truth and accuracy of POL's assurances. Normally this intermediary control structure increases the opportunity for effective scrutiny, because the officials concerned start with some knowledge of and access to the organisation.

65. The Inquiry has also asked me to consider UKGI00017317 (Post Office Limited Strategy) and comment on the extent to which the Government's arms-length position in respect of the Post Office was adopted in order to allow the Post Office to sell or provide a wider range of goods and services than it would otherwise be

able to. I have not seen this document before, which seems to be an internal ShEx document from some point before June 2008, a considerable time before I joined BIS in late 2010. I am therefore unable to comment on it with any authority. However, I can say that by autumn 2010 there were well-advanced discussions about whether to sell Royal Mail and what form the Post Office should take once that had happened, including mutualisation or itself being sold, because it continued to cost Government a lot of money by way of subsidy. In order for those options to be explored, it had to be set up as a commercial organisation that other businesspeople and investors could understand. This would require the Post Office to have comparable professional management, finance, human resources, IT systems and so on to other businesses, to be audited and to be commercially transparent.

66. The Inquiry has also asked me to consider a ShEx Board meeting of 15 September 2010 (UKGI00001339, HM Government Shareholder Executive Board Meeting Minutes for 15/09/10). This is also a document I have not seen before, which predates my arrival in BIS. I can say that I was never aware during my interactions with the ShEx Director General that they felt any substantive conflict of interest or tension between their role as Shareholder representatives and policy advisers to Ministers, and their role as non-executive directors on the boards of the organisations they oversaw.

67. It was clear that ShEx could add value to policy decisions by Ministers, through their explanations of the commercial consequences of different options. It was therefore a bringing together of complementary perspectives with no ultimate clash of interests, because the ultimate owner was the Government. That seems to be

consistent with what Stephen Lovegrove sets out in these meeting minutes: “*ShEx would always start from a commercial position but would overlay policy priorities in order to get a settled and agreed position*”.

68. In relation to POL my Accounting Officer responsibilities meant that I was involved in a specific POL accounting issue in 2015. This related to an error in accounting for the costs of compensation to sub-postmasters for the network transformation programme, which meant that Postal Services Holding Company Limited was late in filing its 2014-15 annual accounts (see UKGI00042351, Report re: Postal Services Holding Company Limited (PoSH) – late filing of annual accounts - from Martin Donnelly to Richard Callard). This error was subsequently corrected and did not impact any payments; some improvements in POL’s financial systems were made to ensure a similar issue did not arise, and I reported this in the BIS annual accounts for 2015-16. The reason I got involved with this issue was that even though the error had no material consequences, it was of potential reputational significance for BIS to fail to comply with a corporate reporting deadline, and I was concerned to ensure that BIS retained its good reputation for the provision of timely and accurate accounts across all its Partners as well as in the core Department.

Organisation of ShEx and strategy of oversight

69. The Inquiry has asked me a series of questions about the detailed workings of ShEx, including the team structure, reporting lines and purpose of the Executive Committee. I do not know the answer to these questions. Similarly, I am unable to comment on the various ShEx internal notes, briefings and meeting minutes to which the Inquiry has drawn my attention under this heading. I have described

above my understanding of the role ShEx had and the extent of my involvement with it.

70. From the perspective of the high-level information I received, I was satisfied that ShEx were performing the range of their functions professionally. These included the normal sponsorship functions of briefing Ministers and liaising with the Post Office on all issues arising from Ministerial correspondence or meetings. Some submissions were copied to me, in common with submissions to other Ministers or the Secretary of State. This allowed me to be aware of the range of issues being dealt with across the Department. I would not normally expect to intervene unless there were wider Accounting Officer implications such as immediate financial needs, or if the Secretary of State asked me to do so.

71. I have been asked a specific question by the Inquiry (relating to UKGI00016656, NOTE OF ShEx EXECUTIVE COMMITTEE MEETING – 27 April 2010) about the potential for Chief Executive roles becoming aligned to Accounting Officer roles. I am afraid I have not seen this document before, which pre-dates my time as Permanent Secretary, and do not know what the discussion entailed.

Knowledge of relevant issues

72. With the exception of the high-level briefing for a meeting with Alice Perkins in 2014 which I refer to below (and which I did not remember until the document was shown to me), at no point during my time in the Department was I aware that there was a serious issue with the Horizon system at the Post Office or its integrity and remote access, which was leading to complaints by SPMs and allegations of unsafe

convictions for theft, fraud and false accounting. I cannot remember it coming up at all.

Actual oversight

73. The Inquiry has drawn my attention to a large number of internal ShEx documents, including the minutes of ShEx board meetings, risk registers, emails and briefings. With the exception of those which I address below, I did not see any of these documents at the time, nor would I have expected to have seen them. The ShEx risk register was a normal part of ShEx's own internal management systems, which as explained above included its own advisory Board. I do not recall the Horizon issue ever being raised at the Departmental Board.

74. I have been asked a series of questions about the mechanisms for reporting, feedback and provision of information between POL and ShEx, and then between ShEx and the wider Department. I have also been asked questions about the extent to which ShEx oversaw POL, its operations, the conduct of prosecutions, contract and personnel management, and its response to the allegations made by SPMs about the reliability of the Horizon system. These cover two periods of time: from 2010 to the separation of POL from Royal Mail; and then from separation to the end of my time as Permanent Secretary.

75. Throughout this time ShEx and then UKGI held the responsibility for managing the Government's relations with the Post Office, supervised by its board and a Minister. My role as Permanent Secretary was to be satisfied that ShEx, in common with other Groups across the Department, were equipped to carry out the tasks they

had. This required delegation of the individual relationships with relevant partner organisations to ShEx, including the Post Office, with the expectation that I would be informed of any wider strategic issues arising from their work.

76. I have specifically been asked if I discussed the allegations raised in the May 2009 *Computer Weekly* article with others in the Department, POL or Royal Mail. The article pre-dated my time in the Department by some eighteen months. I was unaware of it, and the issues raised in the article were not covered in any briefing when I arrived in BIS or thereafter.

77. Similarly, I did not see the BBC Panorama programme about Horizon in 2015. I did receive a daily media update which covered headlines on the wide range of BIS issues. My focus was on immediate Ministerial concerns of relevance to departmental work or resourcing; responding to other media and Parliamentary issues was handled through the policy teams as part of their normal functions.

78. The Inquiry has asked me about any involvement which I or the Department more widely had with POL's response to the Justice for Sub postmasters Alliance ("**JFSA**"). I was not in the Department until late October 2010 and had no involvement in briefing Ed Davey (now Sir Ed) on his response to the letter from Alan Bates (now Sir Alan) dated 20 May 2010. In any event, as I explained above, I was not generally involved in junior Ministerial meetings or correspondence. Specifically, I would not have had any involvement with Ed Davey and Alan Bates' meeting on 5 October 2010 as I joined the Department later that month.

79. After Alice Perkins was appointed Chair of POL I had roughly annual meetings with her to listen to her views on the range of Post Office issues, with a particular focus on Post Office funding and the network transformation programme. I have been

provided with the briefings I was given for these meetings (UKGI00042642, UKGI00042646, UKGI00042645 and BEIS0000010). I note that the briefing for the 8 April 2014 meeting (BEIS0000010, Briefing Note from Peter Batten to Martin Donnelly re Briefing for meeting with Post Office Ltd Chair) included as the last of five briefing points a short reference to the risks around the Horizon working group and separate Valuation Office agency risks. Specifically, the two relevant paragraphs are these:

“12. All in-branch transactions performed by subpostmasters and POL staff are recorded by POL's accounting software, known as 'Horizon'. Shortly after joining POL and in response to persistent grumblings by a small number of former subpostmasters, Alice commissioned a review of the integrity of the Horizon system. An independent report, published in July 2013 found there were "no systemic" issues with the software, but made recommendations about POL's training and support processes.

13. Following the report, POL has worked to establish a working group under an independent Chair that has set up a mediation process for former subpostmasters who feel wronged by the Horizon system. The working group has received 147 submissions, but progress has been extremely slow and there is a potential presentation risk. The POL Board is seized of the need for a swift conclusion to this issue and is working to identify solutions.”

80. I do not recall the Horizon issue being raised at all during the April 2014 meeting, which as far as I can remember focussed on the future transformation of the Post

Office and its financial challenges. I was not alerted to the potential significance of the Horizon mediation process, nor asked to follow it up.

81. I have been asked about the Department's involvement with work within POL to establish an independent Board and prepare for separation at the time of the Royal Mail IPO. I have also been asked whether the Department exercised any oversight of the pilot or rollout of Horizon Online. I am not aware of what BIS or ShEx did in relation to either of these detailed issues. Whilst I knew there was work done by ShEx on new governance arrangements for POL post-separation I was not engaged with any of the detail. I have no recollection of Horizon Online being raised with me.

82. Whilst I am aware that there was considerable involvement from senior civil servants and ministers when Horizon was first commissioned as an IT project, that was because it was a huge change for the Post Office with significant cross-Government impact (including to DWP benefits payments) and was a massive purchase which involved very large expenditure. Horizon Online was an iteration and development of the existing system, and therefore fell into the category of operational decisions which were a matter for POL to deal with in the first instance.

83. I have been asked specifically about what I knew of the involvement of Second Sight, the Mediation Scheme and the review by Jonathan Swift QC (as he then was) (POL00006355, Review on behalf of the Chairman of Post Office Ltd concerning the steps taken in response to various complaints made by sub-postmasters) and POL's response to these developments. I am afraid that I knew nothing of any of these at the time. I would have expected ShEx to alert me to any relevant issues with wider financial or political implications requiring my input.

84. As far as I can recall and am aware now, neither I nor the Board of BIS were informed about, or otherwise had knowledge of, the existence of bugs and errors in the Horizon IT system, the Helen Rose report (POL00022598, Horizon Data Lepton SPSO 191320 by Helen Rose (v.1 draft)), the Simon Clarke advices (POL00006357, Advice on the use of expert evidence relating to the integrity of the Fujitsu Services Ltd Horizon System and POL00129453, Simon Clarke's Advice re: Disclosure - The Duty to record and retain material - Post Office LTD), Linklaters' advice on the Mediation Scheme (POL00107317, Legally privileged report prepared by Linklaters on behalf of Post Office into initial complaint review and mediation scheme legal issues), Deloitte's Project Zebra report (POL00028069, Deloitte Draft Board Briefing document further to report on Horizon desktop review of assurance sources and key control features), the Swift Review (POL00006355, Review on behalf of the Chairman of Post Office Ltd concerning the steps taken in response to various complaints made by sub-postmasters), nor Fujitsu's ability to insert data or amend audit files within Horizon without SPMs' consent.

Reflections on my time as Permanent Secretary

85. I have followed the revelations about the Post Office since reading *The Great Post Office Scandal* book by Nick Wallis when it was first published, and the subsequent BBC and ITV radio and television programmes, as well as the progress of the Inquiry hearings, with increasing shock and anger at the appalling effects of the scandal on so many individuals and families.

86. I have reflected on whether the governance system for POL could have been set up differently. The governance system was designed to provide a professional level

of scrutiny suitable for a commercial organisation owned by the Government, with an independent Board and senior executive team, and a deliberate legal separation from the Department to avoid micromanagement. It was considered best practice at the time and underwent further improvements, including the decision to have a ShEx non-executive director on the POL Board.

87. My impression from my direct involvement with Stephen Lovegrove and Mark Russell was that ShEx as an organisation within BIS was effective and professional to deal with, carrying out its responsibilities to the best of their staff's ability. That impression was bolstered by the consistently positive feedback on ShEx I received from the rest of Government. I did not ever get the sense that either ShEx or the relevant Ministers were insufficiently engaged with Post Office or unwilling to challenge where necessary.

88. Clearly this structure did not succeed in preventing the most serious miscarriages of justice over many years. That is a matter of huge regret to me. However, even with the benefit of hindsight I am unclear whether a different system of oversight could have prevented or uncovered these miscarriages of justice earlier, given it was dealing with an organisation which, it seems, did not provide accurate or honest information to those overseeing it. No system of governance can be set up to deal with an organisation which refuses to tell the truth about what it knows, and I have struggled to imagine a different oversight system which would have been certain to produce a better outcome faced with the incomplete and erroneous information provided by the Post Office over a long period.

89. My belief now is that parts of the Post Office culture and its prevailing attitude towards SPMs, as well as at least some of its management, were seriously

dysfunctional in various ways. They were so seriously dysfunctional in dealing with the Horizon issue that the assumptions of basic transparency, honesty and competence upon which any normal governance system in the public sector is based did not seem to hold good in this case.

90. In other organisations I would expect the CEO to be responsible for the provision of accurate and timely information from their organisation, to be aware of when any significant problems were emerging and to take the necessary steps to resolve them, supervised by the Board. Maintaining the integrity of governance, risk management and information sharing systems within POL was first and foremost the responsibility of senior management there. It is, however, a matter of great sadness to me that the Department's supervision of POL was unable to stop these abuses from occurring, nor prevent their shocking consequences for those affected by the miscarriages of justice that resulted. I wish we could have done better.

Statement of truth

I believe the content of this statement to be true.

Signed: **GRO** _____

Dated: 24 July 2024

Index to First Witness Statement of Sir Martin Donnelly

No	URN	Document Description	Control Number
1	UKGI00006045	HM Treasury - Managing Public Money Report, July 2013	UKGI016859-001
2	UKGI00043211	HM Treasury - Managing Public Money - May 2023	UKGI00043211
3	UKGI00042677	PowerPoint presentation re: Post Office Ltd Senior Management - Risk and Assurance Committee - February 2014	UKGI051572-001
4	UKGI00017317	Post Office Limited Strategy	UKGI027324-001
5	UKGI00001339	HM Government Shareholder Executive Board Meeting Minutes for 15/09/10	UKGI012153-001
6	UKGI00042351	Report re: Postal Services Holding Company Limited (PoSH) – late filing of	UKGI051246-001

		annual accounts - from Martin Donnelly to Richard Callard	
7	UKGI00016656	NOTE OF ShEx EXECUTIVE COMMITTEE MEETING – 27 April 2010	UKGI011468-001
8	UKGI00042642	Briefing to Martin Donnelly for a meeting with Alice Perkins, Chair - Post Office Ltd 15:00-15:30 Tuesday 27 September 2011	UKGI051537-001
9	UKGI00042646	Briefing to BIS Perm Sec for a meeting with Alice Perkins, Chair - Post Office Ltd 15:00-15:30 Tuesday 27 September 2011	UKGI051541-001
10	UKGI00042645	Department for Business, Innovation & Skills - BIS Permanent Secretary meeting with Post Office Ltd Chair	UKGI051540-001

11	BEIS0000010	Briefing Note from Peter Batten to Martin Donnelly re Briefing for meeting with Post Office Ltd Chair	VIS00000904
12	POL00006355	Review on behalf of the Chairman of Post Office Ltd concerning the steps taken in response to various complaints made by sub-postmasters	POL-0017623
13	POL00022598	Horizon Data Lepton SPSO 191320 by Helen Rose (v.1 draft)	POL-0019077
14	POL00006357	Advice on the use of expert evidence relating to the integrity of the Fujitsu Services Ltd Horizon System	POL-0017625
15	POL00129453	Simon Clarke's Advice re: Disclosure - The Duty to record and retain material - Post Office LTD	POL-0134937

16	POL00107317	Legally privileged report prepared by Linklaters on behalf of Post Office into initial complaint review and mediation scheme legal issues	POL-0105625
17	POL00028069	Deloitte Draft Board Briefing document further to report on Horizon desktop review of assurance sources and key control features	POL-0023072
18	POL00006355	Review on behalf of the Chairman of Post Office Ltd concerning the steps taken in response to various complaints made by sub-postmasters	POL-0017623

