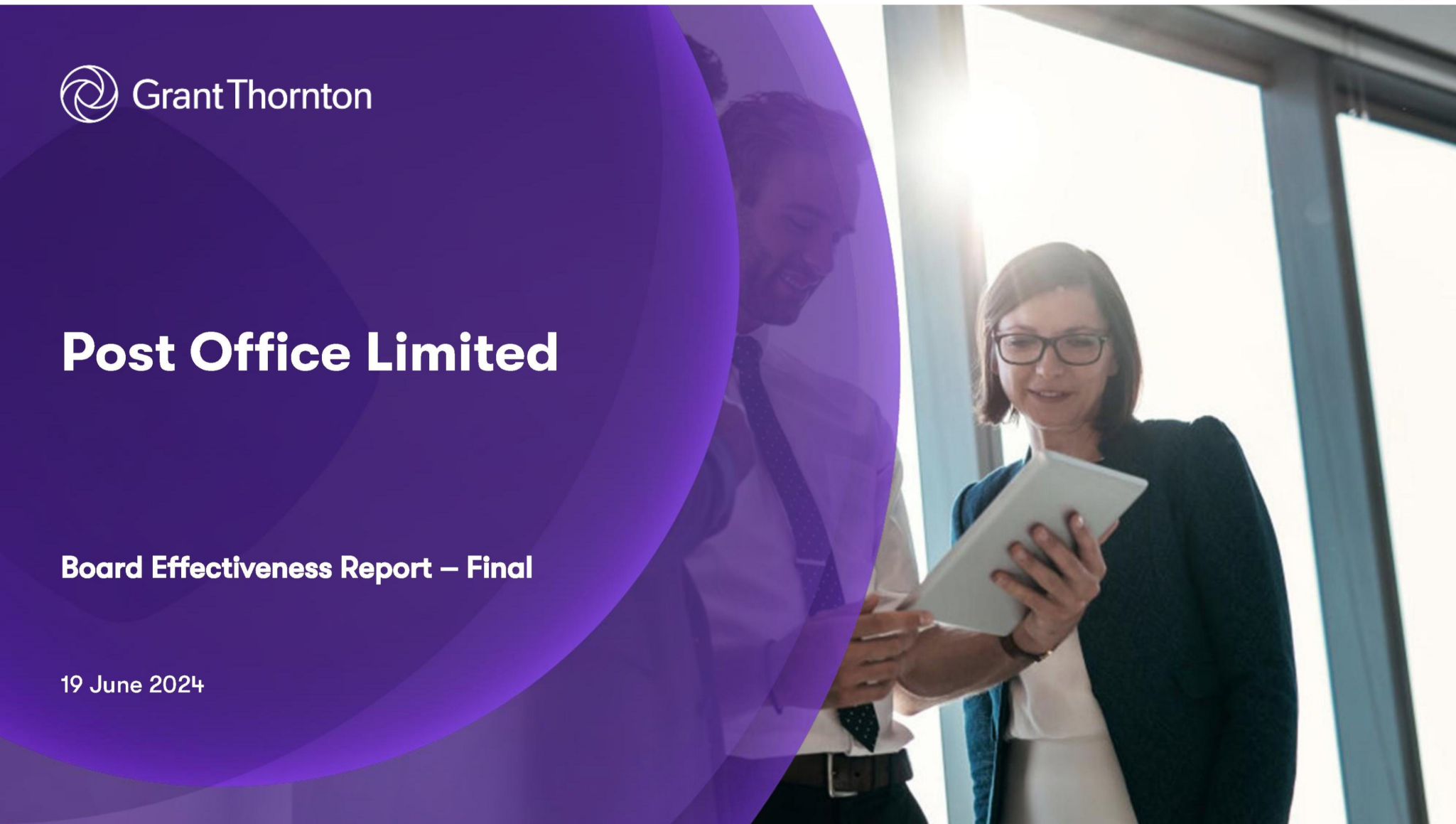




Post Office Limited

Board Effectiveness Report – Final

19 June 2024





For the attention of the Board of Post Office Limited

Post Office Limited
100 Wood Street
LONDON EC2V 7ER

Grant Thornton UK LLP
30 Finsbury Square
EC2P 2YU



19 June 2024

Dear Board members,

In accordance with the Statement of Work for the provision of a Board Effectiveness Review, we present our Independent Board Effectiveness review (the Report) to the Post Office Limited (POL, the Company, or you) Board.

The purpose of this review is to provide an independent analysis of the POL Board's effectiveness against the requirements of the UK Corporate Governance Code 2018 (the Code), the Corporate Governance Code for Central Government Departments (the Government Code), and our experience of general good practice and 'what works' for a large organisation. The scope of this work covers the POL Board, Board Nomination (Nom Co), Remuneration (Rem Co) and Audit and Risk (ARC) Committees.


The Report has been collated from common themes identified during our point-in-time assessment of the Board and its Committees, through key findings and survey output taken from our Governance Review (draft report dated 4 March 2024) (the Governance Review), meeting observations, interviews with Board members and additional document review with field work concluded mid May 2024.

Our key findings and associated recommendations are outlined in Section 1 with further details of the observations which inform our conclusions included in Section 2 and Appendices 2 to 4. Our findings, recommendations, views and conclusions are based upon our professional experience and judgement. This review does not constitute an audit and we have not tested or otherwise sought to verify information provided, other than by discussions with Board members and reference to relevant documentation.



This Report is confidential and has been prepared exclusively for you. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than POL Board for our work, our report and other communications, or for any opinions we have formed. We do not accept any responsibility for any loss or damages arising out of the use of the Report by the addressee for any purpose other than in connection with the scope set out in the Statement of Work.

We would like to thank you, the Board and other key stakeholders, for your commitment in giving your time to provide honest and insightful feedback. This has greatly supported our review process.

If there are any matters upon which you require further clarification, please contact Irina Velkova  or myself.

Yours sincerely

Sarah Bell
Partner

M: 
E: 

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Glossary

Glossary



POL is wholly owned by the Department for Business and Trade (the Shareholder, or DBT), the ownership rights of which are preserved in the Company's Articles of Association.

The relationship between the Shareholder, its representative, UK Government Investments Ltd (UKGI), a representative of which sits on the Board of POL as a Director, the Company, and the Shareholder's expectations of the Company, are governed by the Shareholder Relationship Framework Document (dated March 2020), the Funding Agreement, and are further supplemented by an annual letter from the Shareholder setting out the Government's broad objectives for POL.

The Secretary of State for Business and Trade removed the POL Chairman in January 2024. POL has been without a permanent Chair since that time. A new interim Chair, Nigel Railton, has been selected by the Government and will be formally appointed following the conclusion of satisfactory due diligence.

Abbreviations	Full version
ARC	Audit, Risk and Compliance Committee
Benchmark	BoardClic External Benchmark
CEO	Chief Executive Officer
CFO	Chief Financial Officer
COO	Chief Operations Officer
CPO	Chief People Officer
CRO	Chief Risk Officer
DBT, the Shareholder	Department for Business and Trade
DoA	Delegation of Authority
Exec	Executive Directors and Management
FOI	Freedom of Information
FY	Financial Year
HMG	His Majesty's Government
IC	Investment Committee
L&D	Learning & Development
LT	Leadership Team
MI	Management Information

Abbreviations	Full version
NED/INED	Non-Executive Director/Independent NED
Nom Co	Nomination Committee
POL, the Company	Post Office Limited
RC	Remediation Committee
IC	Investment Committee
Rem Co	Remuneration Committee
SID	Senior Independent Director
SEG	Strategic Executive Group
The Code	UK Corporate Governance Code 2018
The Government Code	Central Governance Code 2011
The Horizon IT Inquiry	Post Office Horizon IT Inquiry
The Review Reports	Amanda Burton and Simmons & Simmons reports and recommendations
ToR	Terms of Reference
UKGI, the Shareholder Representative	UK Government Investments Ltd
NFSP	National Federation of Sub Postmasters

01 Context, key findings and priorities

01 Context, key findings and priorities

Context



POL continues to navigate a turbulent period with the ongoing Horizon IT Inquiry, the recent absence of a Chair and several upcoming Board rotations.

Whilst improving, cohesion within the Board is challenging, exacerbated by the absence of a unifying purpose and strategy, insufficient succession planning for key roles, a significant number of operational matters coming up to Board and ongoing internal and external scrutiny of the organisation as a whole.

This has led to low levels of trust within the Board and throughout the organisation. In this context, it is challenging to conclude that the Board is currently effective.

There are numerous challenges impacting on POL Board's effectiveness and therein POL's ability to address pressing issues. Key challenges include the:

- Ongoing Select Committee Hearings and the Horizon Inquiry which POL is expending significant effort and resources in addressing. These activities not only demand organisational attention but also cause disruption to the business.
- Proximity to General Election, coupled with the need for remediation for Postmasters and in-house development of a new IT system all of which impact funding requirements. This creates competing priorities that inhibit proactive Shareholder engagement on critical issues such as the future purpose of POL and longer-term funding.
- The continuing intense and critical media scrutiny faced by the POL which impacts on the culture and operations of the business. The pervasive sense of job insecurity and fear of decision-making as a consequence due to potential criticism is indicative of a broader issue affecting POL's morale and ability to operate effectively.

The constant pressure and crisis mode in which POL is operating has far-reaching consequences, including negative impacts on staff well-being, motivation, and overall performance. Additionally, the limited understanding of ambition outside of the Inquiry suggests that POL is struggling to maintain a forward-looking perspective and strategic focus amid the current challenges.

These challenges underscore the complex and demanding environment in which POL operates, impacting its ability to engage proactively with stakeholders, focus on strategic governance, and

address fundamental questions about the POL's purpose and future direction. Finding ways to manage these challenges while maintaining strategic focus and effective governance will be crucial for the Board's future effectiveness.

Furthermore, the Board is under significant strain in terms of capacity, with the CFO on long-term absence, executives working around the clock, and NEDs working beyond their contracted hours and at risk of straying into executive decision-making. Clearly the collective of these issues are adding a significant burden to the Board, with many matters being brought to it that should be addressed at a lower level.

We feel it is important to highlight the challenging context in which the POL Board operates and to consider these circumstances when assessing its effectiveness. Despite the difficulties, there are positive aspects to the Board and its operations, including the diversity of debate, the engagement of Board members and the tactical work being undertaken within ARC and Rem Co alongside a general willingness to enhance governance and decision-making.

Nevertheless, we consider the Board to be of limited effectiveness at this time.

Whilst solving several of the issues are not within POL's gift, and for example, require the active engagement of the Shareholder, there are also issues that are within the Board's control that could, with the necessary prioritisation, be addressed.

01 Context, key findings and priorities

Key findings

Interviewees for the effectiveness of the Board, NED, and Exec (including the Co Sec) is 1.8 on a scale of 1.0 (poor) to 4.0 (excellent).

The Board has reasonable capabilities, with improvements noted in the Committees, with the exception of Nom Co. However, despite recent Committee level additions such as the IC and RC, the Board is still viewed as unable to shift from crisis mode. Many key development themes identified in previous external board effectiveness reviews remaining outstanding today.

Following the appointment of the incoming Chair, there is a pressing need to focus on actions that will clarify the purpose, leadership capacity and capability and ways of working at Board. These actions should ensure operational rigor and intentionally seek to improve trust and cohesion within the leadership team and messaging out to the wider organisation.

Fostering a sense of resilience, purpose, and forward momentum will be essential for navigating the current difficulties and positioning the organisation for long-term success.

Overview

- 1. Lack of clarity on the purpose of the Board**, with the Shareholder relationship inhibiting the Board's effectiveness due to perceived interference in POL's work and limited visibility around the longer-term funding and objectives of the organisation.
- 2. Low levels of trust and team identity** within the Board, with frustrations expressed over decision making and dynamics (survey scoring at 77% against a Benchmark of 91%) with the Executives more critical on this aspect (survey scoring at c.55%). There is a sense of distance between the Board and the Exec, felt particularly by the CEO who has been the face of the Horizon IT Inquiry with, what is perceived as, limited support from the Board. Equally NEDs feel their skills and support are not adequately leveraged which seems mainly due to the Board's way of working (survey scoring 70% against a Benchmark of 85%). Equally there are some views expressed of a two-tier Board in operation, where decisions are taken outside of the formal Board structure without proper debate, and not all NEDs (i.e. only INEDs) have the same visibility on Committee papers and minutes (with the noted exception of the RC).
- 3. No unifying purpose and strategy**, leading to a lack of focus in discussions and proposals, hindering the ability to drive a performance culture and leadership accountability in addition to designing fit for purpose governance frameworks.
- 4. Lack of succession planning**. In our view, this is one of the most pressing issues facing the Board and organisation, with the potential for five NED rotations over the next year or so and limited visibility around succession planning for key Executive roles. This is against a background of quite a new Board which is still learning about the business, and how best to work together.
- 5. Team process and meeting discipline**. Rolling agendas, chairing of meetings and presentation of information from the Exec to the Board all require focus. There is a lack of structured MI with significant data presented via management packs (and reading rooms) rather than digestible information, compounds this situation (survey scoring at 58% with a Benchmark of 78%). Furthermore, too many operational decisions are coming up to Board that should be addressed at a lower levels impeding the Board's ability to focus on strategic oversight and high-level decision-making.
- 6. The people agenda from culture through to reward needs ownership at board**. POL is facing significant "people issues" that are negatively impacting leadership cohesion, decision-making, and overall organisational effectiveness. The Board needs to take a more proactive interest in these matters, whilst recognising that accountability for improvements over time should rest with the CPO.

Addressing the above issues will be critical in creating a more sustainable and positive organisational environment. This may involve proactive measures to support and reassure employees, clear and transparent communication about the strategic direction (or ambition) beyond the immediate challenges, and efforts to mitigate the negative impacts of media scrutiny on the culture.



Top issues to prioritise

A. Clarify the purpose and ambition of the Board to guide efforts and governance design

The Board should focus on strategic initiatives that foster trust, operational effectiveness, and provide a clear sense of purpose. In matters reserved for the Board, it is responsible for setting POL's strategic direction and ensuring resources are available to achieve objectives. Nonetheless, it is unclear if the Board feels able to achieve this with the Shareholder dynamic/construct.

A clearly defined purpose and strategy, or a shared ambition, is critical in providing a unifying direction for the Board, helping to coalesce the leadership team towards a common goal and driving efficiency in decision-making through clearer prioritisation and performance management.

B. Improve team processes to better enable the Board to effectively leverage their skills and improve impact

Improving trust and collaboration among Board members, enhancing the quality of Board papers and presentations, and streamlining operational decisions and pushing back to the business can lead to more effective utilisation of the Board's diverse skill sets and experiences.

As part of this more intention around the building of a cohesive leadership team at Board is required.

Focus should improve decision-making, support the CEO, and enhance overall Board effectiveness.

C. Address succession planning to prepare for imminent changes at Board and Executive levels, as well as enhance leadership capacity.

Succession planning at both the Board and Executive levels is crucial for building leadership capacity within POL and mitigating operational risk.

The potential for multiple changes in NEDs and the loss of the deputy CEO present pressing issues for the Board.

By identifying and developing future leaders, POL can ensure a smooth transition of key roles, maintain continuity, and cultivate a pipeline of talent to support long-term success ensuring that POL has the leadership capacity to navigate the complexities of past, present, and future horizons.

A proactive approach to succession planning over the shorter term will enhance organisational resilience.

D. Address the pervasive risk averse culture in order to build leadership cohesion and enable transformation

Shaping and monitoring POL's culture is crucial for leadership cohesion, transformation, and establishing a performance-oriented environment.

This is essential for driving change and ambition, particularly as the organisation's purpose at present is closely linked to the Horizon IT Inquiry.

The Board has an opportunity to counteract the risk-averse culture by insisting that operational decision-making occurs at the appropriate levels to help alleviate the burden on the Board (and SEG), allowing it to concentrate on matters that truly require its strategic direction and oversight.

A number of key development themes highlighted in previous internal and external Board Effectiveness reviews remain relevant today. The Board needs to establish clearly why it has not resolved a number of these issues.

Priority recommendations

Key area of focus	Recommendations
A. Clarify the purpose of the Board	<p>Align the collective purpose of the POL Board over the next 12 months:</p> <ul style="list-style-type: none"> • Develop a clear and united ambition/vision to guide actions, understand the agreed principles between social purpose and commercial success. As part of this exercise consider the foundational shareholder documents and Minister’s letter which stipulate a requirement to support a minimum of 11,500 branches. This should include discussions to establish expectations around performance and future shareholder relationships and agree on an action plan. • Facilitate additional dialogue and debate about the longer-term future of POL, particularly during the upcoming strategy day in July. This should include identifying responsibilities for achieving collective ambition, confirming accountability, and considering wider market dynamics (i.e. market failure and ESG). • Review the terms of the Matters Reserved for the Board to ensure clarity for stakeholders regarding the Board's ability to deliver its mandate, setting clear expectations and ensuring transparency in decision-making processes.
B. Attention to team process	<ul style="list-style-type: none"> • Enhance the efficiency and effectiveness of core Board processes and drive operational rigor, as well as improve the clarity and quality of dialogue and decision-making. As part of this consider: <ul style="list-style-type: none"> • Continuous attention to rolling agendas, structuring them to facilitate debates on both current crisis issues and longer-term strategic and forward-looking matters. This should include discussions on the future structure and purpose of POL, digital readiness, and the banking and retail transition. • MI should become more synthesised, action-oriented and focused providing considerations around wider stakeholder impact. Clear actions/decision items should be made explicit between what is for information and what is for decision-making. Consider retiring the reading room and exploring the utilisation of AI to provide an indication on how the quality of papers could be improved. • Empower the company secretariat to reject papers that do not meet agreed criteria <p>Future Chair to consider:</p> <ul style="list-style-type: none"> • How conflicts of interest are navigated to ensure open debate of topics at Board. • Focus on meeting discipline around agendas and ensure effective feedback loops on actions. • Encourage more engagement with Committee Chair updates at the Board to ensure collective ownership of business-critical areas • Promote transparency by allowing all NEDs to access content from Board and Committee meetings. Evaluate the validity of the two-tier board structure and address concerns about informal decisions being made outside of the Board to ensure that the purpose and value of the Board debate is not bypassed.

Priority recommendations

(continued)

Key areas of focus	Recommendations
<p>C. Leadership capacity</p>	<p>A proactive approach to succession planning to build a strong decision-making body and enhance future resilience and sustainability across POL. Effective succession planning is also needed to create a more cohesive and effective Board and leadership culture, fostering trust and improving decision-making processes. The CPO is addressing some of these issues positively. Considerations for this exercise include:</p> <ul style="list-style-type: none"> • Strengthening succession planning by addressing insufficiencies the current process at the Board and Enterprise level, including formalising Postmaster selection and rotations, and recruitment processes, and ensuring individuals can step into critical roles at short notice. • Build skills matrices considering not just technical skills such as gaps in technology, digital transformation, government relations, and franchise expertise at Board (as picked up in interviews and survey output) but wider attributes such as experience in crisis management, transformation, strategy, and EDI. • Address Governance Issues and Reward Design which will form part of attracting future talent: Rebuild trust with stakeholders by addressing historical governance issues impacting reward philosophy and design including the approach to LTIPs. • Implement a structured and transparent approach to recruitment and senior appointments with clear reporting lines. • Foster better team cohesion and trust at the Board through informal interactions between the Board and Executives, utilising activities such as pre/post meeting Board dinners and visiting POL sites. Clear communication and follow-up with the Chair and CEO after informal discussions should be supported. • Build out L&D across the Board and Executive leadership (and beyond), considering strategic priorities, principal risks, and skills matrices to supplement any succession planning work. • Consider increasing capacity at the Secretariat level to act as a strategic conduit between the Board and Executives.
<p>D. Culture</p>	<ul style="list-style-type: none"> • The Board need to shape, own, and monitor the desired culture, aligning it with values and strategic objectives to drive positive change, innovation, and collaboration and start to map a path for the organisation beyond the Inquiry. This is also crucial for leadership cohesion, successful transformation, and succession planning and board members must exemplify and promote the desired culture to create an effective decision-making environment, to drive the future transformation being considered. • Address the number of lower-level operational matters being escalated to Board and oversee the progress of SEG's review of Leadership DoA and escalation processes – as part of this review the principles of DoA approvals such as OPEX. Empowering lower levels of management to handle operational and day-to-day issues will reduce the burden on the Board and allow it to focus on higher-level strategic matters. Clarifying decision-making authority at different levels is essential in addressing this issue and the Board must be robust in pushing back decisions to the organisation that fall within their remit. • The approach to risk management should be part of any cultural transformation in terms of L&D, ensuring the organisation is given the permission to be risk enabled and accountable in their decisions.

One thing the Board can do to improve its effectiveness?

Summarised from interview comments

Clarity

- Greater clarity on what we are trying to achieve as a Board for the organisation.
- A clear strategy, succession plan and budget that reflect what this business should be delivering.
- Spending more time together as a Board to figure out what is important.
- Reducing volume and focusing on quality and execution of papers/insights brought to the Board.
- Initiating a strategic review while managing stakeholder relationships and demonstrating leadership.
- Ensuring that information provided to, and requests made to the Board are contextualised, focused and accurate with clear asks, while the Board to hold the CEO, SEG (and LT where applicable) to account. CEO to hold the SEG and LT to account.

Leadership capabilities

- Appointment of a new interim/permanent Chair to unify the Board and SEG.
- Turning to considering and addressing the capability gaps in SEG and below.
- Change the way the business operates and is branded, consider the capability and capacity of the Exec to help create impact despite a lack of funding and governance structures.
- SEG and LT to focus on strong delivery and execution, rather than sub-optimal performance of processes, papers etc to strengthen Board's confidence in them.

Other

- Board dinners – NEDs, CEO and SEG to mutually seek each other's engagement and support, to help unite the Board.
- Time spent on culture needs to increase given the impact of the Horizon IT Inquiry on the morale of POL.
- More financial resources, as the Board has great ideas but are limited by resource constraints. In whichever outcome, the Board and organisation should look to move forward in delivering ideas, growth and rebuilding customer and Postmaster trust and stability.
- Good governance structures currently do not play out or function as they should.
- Rethinking the value and contribution of the Shareholder NED – Shareholder's view and voting pervades.
- Focusing on embedding the first-line with ownership and management of risk.

02 Findings

02 Findings

Priority A



We set out our observations in relation to clarifying the purpose of the Board. Details on the survey results are included at Appendix 4

As part of any review regarding the purpose of the Board, the terms within the Matters Reserved should be debated to consider whether all items of the scope are within the gift of the Board to deliver on behalf of all stakeholders.

Board purpose

- Analysis of output from our field work indicates that POL lacks a unified purpose, strategy and ambition that is ascribed to by all at Board/Group level. This fosters an uncertainty surrounding how the Board Leadership is driving Executive accountability.
- According to the Matters reserved for the Board, it is “collectively responsible for setting the Company’s strategic direction and primary business objectives”. It is there to establish “a robust governance framework and ensure[s] that the Company has financial and human resources required to achieve its agreed objectives”.
- From interviews and survey output it is not clear as to whether all members feel the Board is able to deliver against this remit (although we acknowledge the current composition is relatively new).
- We recognise that POL has received conflicting statements from Government as to its priorities for the organisation, and the resultant strategic direction that should be pursued. Although, there is a letter from the Minister which does outline a need to maintain a network of 11,500 branches which should be considered as part of any design debate.
- Equally, the annual and three-year budgeting cycles do not support long-lasting investment schemes needed for successful delivery of strategic priorities. A five-to-ten-year funding facility with shorter budgeting cycles feeding in should be considered for long-term planning which we acknowledge is largely out of the control of POL.
- We do note that a short-term Business Unit level strategy at POL is generally clear. However, a lack of visibility of a framework and/or consistent understanding of ‘trade-offs’ at the centre, and connectivity across business, confirms the lack of clarity regarding the Group narrative and ambition and priorities in that regard.
- Notwithstanding the lack of clarity, the Board should have a clear and united ambition/vision to guide its actions and coalesce around as a group of leaders. In simply trying to steer a middle course between social purpose and commercial success, the Board risks satisfying no one. Competent administration is not enough on its own; there needs to be a shared ambition to visibly drive actions, and so guide the value proposition of the Board’s work. It is essential that any work in this regard also looks at sustainability/ESG more strategically in terms of opportunities and risks to the business model going forwards.

02 Findings

Priority B



We set out our observations in relation to reviewing efficiency and effectiveness of team processes to improve the decision-making platform at Board. Details on the survey results are included at Appendix 4.

Team process

- Addressing the impact of poor MI on the effectiveness of discussion and decision-making at the Board is crucial to ensure comprehensive debate and follow-up actions.
- Clear agendas and MI are essential to facilitate discussions on historical, operational, and strategic issues. Feedback loops must ensure timely resolution of actions.
- Comments made around the lack of informal get-togethers and unstructured dialogue at the Board. Building trust between members through informal interaction is cited by all as critical.
- Lack of clarity noted through our review of the Board/Committee minutes regarding whether actions have been resolved or removed because of inaction. This lack of clarity needs to be addressed to ensure accountability and effectiveness of the governance.

Agenda and minutes

- Rolling agendas, until recently were not sufficiently structured to include a balance of forward-looking discussion.
- It's noted that there is a lack of clarity in the Board minutes over the last 12-14 months regarding the resolution or removal of actions due to inaction. This issue appears to extend to the central function as well. However, there has been recent improvement with updates on actions as provided in the Matters Arising Schedule.
- Comments in interviews regarding limited clarity on assigned actions out of Board/Executive meetings, where assignees are not informed in a timely manner. We understand that SEG actions are now distributed on a weekly basis and Board and Committee meeting actions are distributed within one to two weeks for Board actions.
- Minutes of meetings are considered to reflect the substance of discussions and decisions. They tend to be drafted in a narrative style, rather than concentrating on decisions taken. Opinions on the style varied amongst interviewees, but this is more a matter of individual preference than any material change needed.

Management Information

- The quality of Board papers and MI has been criticised, with feedback indicating they are often voluminous and lack insights. There is a perception that MI is presented in a way that prioritises personal agendas, leading to a lack of effective decision-making support.
- There are instances of papers being submitted late, overly long, and poorly prepared. A significant proportion of the information presented to the Board is operational in nature, leading to a lack of meaningful discussions that drive commercial success.
- Capacity of the Secretariat: The Secretariat, while keen to evolve and support the Board, has limited capacity, particularly due to the ongoing Horizon IT Inquiry. Consideration is needed on how to address this limitation and support the transformation of MI and dialogue between the Board and the organization.

To address these issues and improve the effectiveness of Board papers, MI, and the overall decision-making process, the following actions could be considered. On MI;

- Restructure the MI to support meaningful decision-making support. Summarise key insights into actionable reports and set guidelines for paper preparation. Empower the Secretariat, with the backing of the Chair, to reject papers which do not meet agreed standards of style, content or length.
- Assess the value provided by the reading room and consider the possibility of closing it down to assess to put onus on papers to succinctly provide explanation.
- Explore the use of AI programs to assist in shaping/demonstrating the changes to the MI process. AI can help in analysing and synthesizing large volumes of data to provide valuable insights for decision-making.
- Ensure papers are presented by the person who prepared them and provide specific recommended conclusions with accountabilities for action points that are followed up and acted upon
- Consider measures to address the limited capacity of the Secretariat, such as expanding the role of recent appointments or providing additional support to enable the Secretariat to better serve the Board's needs.

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By addressing these areas, POL can enhance the quality and effectiveness of Board materials and processes, leading to improved decision-making, strategic discussions, and overall performance.

02 Findings

Priority C



The Board needs to urgently address this area in light of upcoming rotation at Board and the departure of the deputy CEO at Exec level. Going forwards the Board needs to be more intentional in its succession planning.

The Board should recognise the need to look beyond technical skills to consider the balance between crisis management, transformation and strategic needs over the tenure periods. This should also be mirrored in the Exec team.

We set out our observations on this page and overleaf in relation to leadership capacity covering:

- Capacity and composition at Board
- Capacity and composition at Executive level

Details on the survey results are included at Appendix 4.

Leadership capacity, composition and succession - Board

- POL has been without a permanent Chair since January 2024. Ben Tidswell, the present SID, has been temporarily chairing the Board and Nom Co meetings and is due to leave in July 2024. Further Board rotation is imminent alongside this process, with the expected departures of the two Postmaster NEDs within the next 15 months, the Deputy CEO by September 2024 (current Board Observer) and a further INED's tenure due to expire in early 2025.
- Accordingly, succession planning is critical for the Board and poses a significant risk to operational resilience and corporate memory, particularly with the number of imminent rotations and a relatively new Board still learning about the business and its collaborative dynamics.
- We note there has been limited consideration given to the transfer of knowledge during simultaneous NED rotations, including Postmaster NED rotations. However, shareholder approval has been requested to allow for a staggered step down of the Postmaster NEDs, with one extended for a further 3-month term and the other for a further 12-month term. Subsequently, we have been advised that these proposals for a staggered step-down process going forward, of which we are supportive, have been approved by the Shareholder.
- On top of this, the situation around the long-term absence of the CFO is still unresolved.
- That POL did not anticipate an issue with corporate memory until recently in terms of managing multiple simultaneous NED rotations points to poor succession planning processes. As such the Board should keep a line of site over the output and debate with the Nom Co in terms of its ToR
- In essence, there is too much Board rotation, and this impacts on corporate memory, leadership cohesion, decision-making and oversight effectiveness of the Board.

- The newly appointed CPO, (October 2023), has all these issues to contend with, as well as immediate priorities and a three-year people delivery plan being imminent. We are encouraged that her outline proposals for tackling these issues are focused in the right direction in addressing the gaps, having some sight of these in more recent Board and Nom Co papers. A lesser priority is the lack of any formal L&D plans for Directors.

Areas to address

- The need for urgent recruitment of new Board members with appropriate skills, experience, and the ability to integrate into the current Board is emphasised. The identification of a new Chair is seen as pivotal in informing further recruitments of NEDs.
- The lack of transparency around senior appointments and the absence of a structured approach to internal promotions and external appointments further exacerbates the issue, leading to a potential erosion of trust and hampering effective governance.
- Gaps in diversity and specific expertise at board, particularly in areas such as technology, digital transformation, public sector/government experience, retail, operational risk, and franchise expertise. These skill gaps and lack of diversity may hinder the Board's ability to navigate POL through its current crisis and effectively address strategic and operational challenges if not addressed imminently.

The Board's interactions with the Shareholder and the complexity of governing POL need to be carefully considered in any recruitment and onboarding process. The Board's acknowledgment of its ultimate approval by the Shareholder and its influence on the composition of the Board highlights the need for strategic alignment in addressing these challenges.

In summary, the Board needs to address the issues of composition, succession planning, and governance complexity to ensure effective leadership, decision-making, and oversight. A comprehensive and transparent approach to succession planning and Board composition, with a focus on diversity and expertise, is essential and should be owned and driven by Nom Co.

02 Findings

Priority C

Leadership capacity and succession - Executive

Executive composition and succession

- At an individual level, the Exec team is an experienced group however, history suggests the group is not optimised yet and so not working together as it should. We are encouraged that there are fundamental steps being taken to drive different outcomes and build leadership capacity and accountability. Work on reporting lines and the recalibration of leadership roles is making an impact.
- The absence of a (permanent) CFO is causing issues both at Board and in operations, and this needs attention. The planned departure of the Deputy CEO also needs to be addressed.
- Numerous "people issues" within the organisation, including confusion around roles, accountability, and cultural behaviour, as well as complexity of legacy reward schemes, mistrust around pay, high staff churn, and confusion, due to lack of corporate memory.
- The Deputy CEO has indicated his intention to step down, which he has also acknowledged will leave a significant capability gap. As we understand, he has been impactful in the current role. As part of the wider recruitment plans, a COO should be recruited without delay. This to enable a sensible handover period and to ensure avoidance of further capability gaps occurring in key positions at Board, SEG and LT levels.
- It is acknowledged that the current level of "noise" surrounding POL is a huge distraction, as well as being an impairment to successful recruitment.
- The current CEO (as well as the CFO) has been in role somewhat longer than the external Board members. However, the extended absence of the CFO at such a critical time poses issues. The capable deputy CFO has stepped in on an interim basis. This key position should be filled permanently, given the need to oversee and support the anticipated transformation.
- In addition, this is also causing issues with Board processes, i.e. written resolutions. This issue needs to be resolved as soon as possible.
- While new additions at SEG level have been additive in bringing valuable experience, there has not been enough time to rebuild collective competence, trust and ways of working.
- It is felt that sometimes recruitment is perceived not to routinely be conducted on a transparent basis. Reference to a framework of skills, competencies etc and ED&I principles should be put into interview panels and targets.
- Capability overall is lacking when it comes to breadth and depth, and increased expertise and experience in certain areas is recognised. Key leadership skills such as transformation management and effective leadership are front-of-mind. Recruitment limitations (i.e. remuneration and government thresholds/appetite) and reputation are recognised as limitations in this regard.
- Limited cross-functional working across LT. More needs to be done to facilitate the building of leadership teams.

02 Findings

Priority D

Culture



It is evident that the "people" agenda, including culture, performance management, and accountability, requires immediate attention. A focused and rapid implementation strategy should be adopted to address this area.

The feedback from interviews and surveys highlights several challenges related to accountability for underperformance within the organisation.

We set out our observations in relation to culture covering:

- Organisational culture
- Dynamics
- Risk culture

Details on the survey results are included at Appendix 4.

Culture

Feedback suggests that there are many 'people issues' which have been exacerbated by the continued change within the CPO role over the last few years. These issues impact cohesion in leadership, confusion (and duplication) of roles and responsibilities, a lack of a skills matrix, minimal performance-based conversations, ED&I awareness as well as pervading accountability ambiguity and general poor cultural behaviour. Other issues include the complexity of legacy reward schemes and mistrust in the organisation about how pay is determined.

Addressing these people-related issues is crucial for POL to improve its overall performance, employee engagement, and culture. Resolving these will likely require a strategic and multifaceted approach, potentially involving restructuring, leadership development initiatives, targeted training and development programs, and a focused effort to cultivate a positive and inclusive culture..

As a first step, the People agenda needs to be more overtly owned at the Board level, and they should work with the CPO and SEG on areas they are starting to shape / deliver such as;

- **Trust-Building and Communication:** Efforts to improve trust between Executive and Non-Executive members. Open communication and collaborative efforts between the Board and SEG can help drive clarity and alignment on strategic priorities and organisational culture.
- **Cultural Transformation and Performance Management** throughout POL. This may involve initiatives to monitor, measure, and embed the desired culture, as well as implementing robust performance management processes

- **Leadership Alignment and Role Clarity:** Given the changes within the CPO role, it is essential to establish clear roles and responsibilities within the leadership team. This can help reduce confusion and duplication of duties and facilitate a better understanding of the skills matrix and leadership capacity within POL.
- **Accountability and Decision-Making:** To address the culture of reluctance to make decisions. Efforts should be made to foster a culture of accountability and clear decision-making processes. This can help alleviate the fear of scrutiny and improve the organization's ability to address underperformance effectively.
- **Review of Reward Schemes:** Addressing issues related to legacy reward schemes and pay determination remain essential. CPO working with Rem Co in this regard

Aligned to the above is the observation that a significant burden is being placed on the Board due to matters that should ideally be addressed at a lower level. This highlights an important governance issue suggesting a potential lack of delegation and escalation protocols within POL, leading to an overload of responsibilities at the Board level.

Efficient governance structures typically involve a clear delineation of decision-making authority and the delegation of operational and lower-level issues to appropriate levels within the organisation. When lower-level matters in POL are consistently escalated to the Board, it can impede the Board's ability to focus on strategic oversight and high-level decision-making.

The Board need to continue to have oversight of the effectiveness of changes the SEG is undertaking focused on empowering lower levels of management to handle operational and day-to-day issues and the Board should support this programme by pushing back on decisions that should be taken at organisaiton level. This should alleviate the burden on the Board, allowing it to concentrate on matters that truly require its strategic direction and oversight

02 Findings

Priority D

Culture (continued)

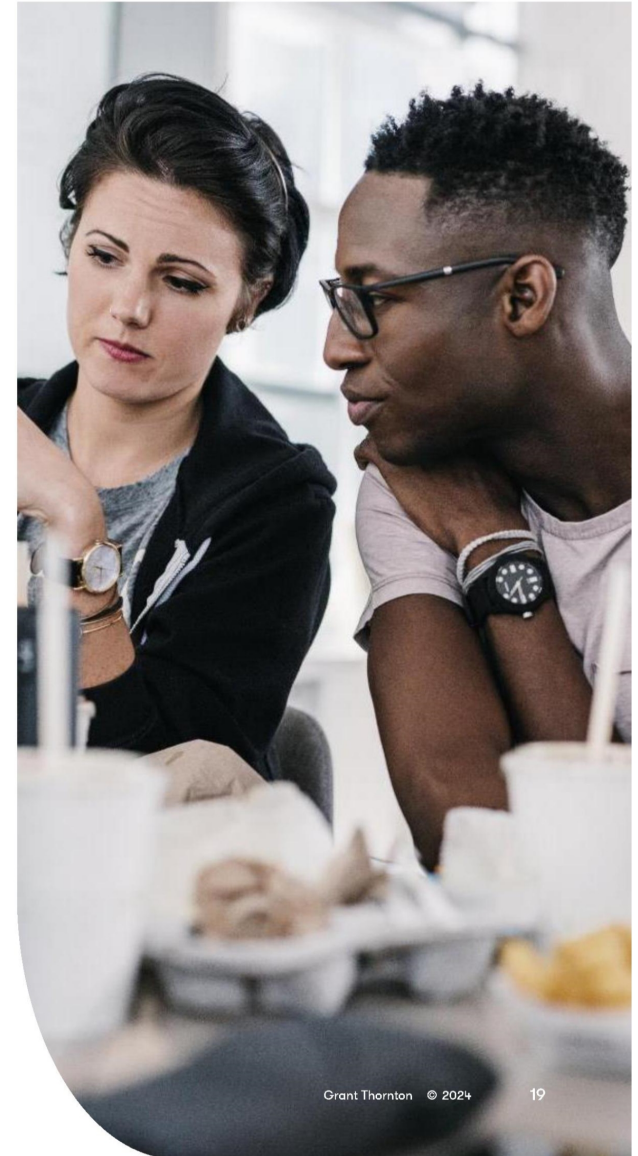
Dynamics

- Trust is lacking between Board members, exacerbated by the perception that there appears to be a two-tier Board with some NEDs/INEDs excluded from certain decision-making, which is carried out informally by a sub-group of the Board.
- The Postmaster NEDs can, understandably, become very exercised at issues affecting the Postmaster community, and can on occasion be seen as 'activists' rather than contributing fully as 'part of the team'.
- There is limited to non-existent contact between NEDs and SEG and the LT; some NEDs reporting no contact at all and lacking any sort of meaningful relationship with senior members within the LT. There is a general desire from NEDs to get to know fellow Board members, SEG and LT members better.
- The Shareholder Representative role is unclear in terms of remit. They are in a difficult and conflicted position, but it should be recognised that legally they have the same Companies' Act duties (s.171-177) as other NEDs, and the same responsibility participate in collective Board decision-making. The Shareholder Representative cannot make or direct decisions on behalf of the Shareholder. There is a feeling amongst certain members that the Shareholder Representative's duties take primacy in Board discussion.

It is clear the current situation requires some tough discussions and decisions and as such the style of meetings may have to shift. More rigorous debate may become necessary, and it needs the strong direction of a Chair for this to be achieved as there will not necessarily be full consensus on all matters to get decisions and move forwards.

Key points to note

- Several comments that the 'executive management doesn't listen' to the NEDs if things are said with which the Exec/SEG disagree. Conversely, from the Exec/SEG side the Board is inconsequential, due in large measure to circumstance. This fundamental division and lack of trust needs to be bridged urgently if the Board is to make progress.
- The CEO would benefit from more support from the NEDs although, this is a two-way process. We consider that the CEO would be helped more by reaching out and developing a closer rapport with the other Directors, and/or being clear as to where support would be beneficial.
- Many raise the desire to work closer together and as part of that more informal get togethers to build trust and have unstructured dialogue given the breadth of the agenda at POL. Equally all highlight an absence of a formal L&D programme.
- Our overall impressions from the Board meeting that we observed (25 March 2024) was of a good and capable Board. We considered the discussion to be well chaired and contributions were made by all. It did not have the feeling of a cosy, comfortable meeting and there were several subjects where views differed. The debate was well intentioned, with numerous penetrating questions and discussion.
 - We noted that the agenda featured a debate on a subject which directly affected the Postmaster community, and on this topic the Postmaster NEDs were particularly vocal, as would be expected. It was very apparent that their focus was supporting the Postmaster community although they asked sound questions throughout. However, they should be encouraged to speak out more widely to bring wider reflections/perspectives of other stakeholders.
 - It was also apparent that the UKGI representative was much more engaged on topics that were of direct interest to UKGI/DBT. As a board director, broader contribution on the wider stakeholder impact should be encouraged.



02 Findings

Priority D

Culture (continued)

Risk culture

- POL has a relatively well set up risk management process and associated policies and procedures; however, there is an apparent risk aversion in POL around managing underperformance and making decisions. This risk aversion is hindering POL's ability to address underperformance effectively.
- Most interviewees share a view that more needs to be done in POL with regards to risk culture. This tallies with the results from the survey, where the organisation has scored lower than the Benchmark on matters related to risk in several statements.
- Both survey responses and interviews crystallised two main issues with risk culture. On one hand the organisation is very risk-averse, which is seen across all layers of risk governance, and on the other hand, the level of importance attributed to risk management is insufficient, which also appears to be common for all grades, including the SEG layer.
- This is also reflected in the relatively conservative risk appetite and tolerances that have been set up for all risks; this ultimately has resulted in risks being reported outside of appetite on a continuous basis although a limitations to control aspects such as visibility on longer term funding exasperate the situation.

Actions to consider

- The risk agenda needs to be owned at Board, ensuring that key financial and non-financial risks are understood, transparent to key internal stakeholders and are being appropriately managed to drive value. Other key observations:
 - Foster Open Communication: Encourage open communication and transparency regarding risk-related issues within POL. Employees at all levels should feel empowered to raise concerns and propose solutions without fear of retribution.
 - Review Risk Management Policies: Assess the current risk management policies and procedures to ensure they are not overly restrictive or risk-averse. There should be a balance between managing risk and facilitating decision-making and innovation.
 - Training and Education: Provide training and education to employees at all levels on risk management, the organisation's risk appetite, and the importance of effectively managing underperformance. This can help instil a more proactive approach to risk management.
 - Leadership Role: Ensure that the Board and senior management take ownership of the risk agenda and actively promote a culture of accountability and ambition regarding risk management.
 - Reassess Risk Appetite and Tolerances: Review POL's risk appetite and tolerances to ensure they are aligned with the organization's strategic objectives and allow for a more dynamic and proactive risk environment.

These observations focus on addressing the risk aversion and the need for a more robust risk culture within the organisation.

03 Appendices

Appendix 1

Methodology and scope

Methodology and scope

We have aligned our review against the requirements of the Code and the Government Code as a reference point in assessing and reporting on the effectiveness of the POL Board.



- We have used the UK Code and the Government Code, to frame and align our assessment on the effectiveness of the POL Board.
- This review is forward looking; considering the effectiveness of the Board at this time and providing suggestions as to how it can develop and become more effective in the future. Its oversight of any matters pertaining to remediation was not within scope nor was a review of the recently formed IC and RC.
- In view of the anticipated appointment of a new interim Chair, the scope has been limited in order to report back in a relatively short timescale. To this end, we did not interview all the attendees at Board, nor did we observe meetings of the Board's Committees, taking the observations of the Rem Co to inform relevant comments in this report.
- We have interviewed the Board members (excluding the CFO who was not available), the Group Company Secretary, and the Deputy Company Secretary. These interviews probed the interviewees' opinions on the working of the Board and its effectiveness.
- We also observed a meeting of the POL Board on 25 March 2024. We already observed the November 2023 meeting of the Rem Co and have utilised our findings from that meeting in this report. Given timings, it has not been possible to observe meetings of the other Committees. The main purpose of these observations was to see at first hand the nature and quality of the debate and the contributions made by the NEDs. Refer Appendix 2 for a list of interviewees and meetings observed.
- We considered leadership and dynamics, governance and team processes and the impact this has on the effectiveness of Board meetings and the group dynamics. Minutes have been considered post meetings to cross-reference actions and decision-making.
- We also considered any work in flight, progress made and updates that may be material to this review.
- In addition, we considered the:
 - balance of skills and expertise of the members of the Board in discharging their responsibilities
 - overall cohesion of the Board and quality of interaction between members, in particular an assessment of the level and quality of challenge in meetings and support provided by NEDs
 - appropriateness of the Board and Committees' agendas and the content, quality and timeliness of the papers and minutes, including any items pertaining to subsidiary operations
 - effectiveness of the Board's decision-making
 - providing oversight on future succession and development that will be needed
- Our methodology, as outlined in our proposal, has been a mix of interviews and reviews of relevant documentation. In view of our previous work, which has extensive overlaps with this Board effectiveness review, we have not re-performed work already completed, unless there has been any material changes in the interim. Refer Appendix 5 for a list of updated documents.

Appendix 2

Governance structure – background

Governance



We set out our comments in relation to reviewing the efficiency and effectiveness of core Board governance processes which inform quality of dialogue and decision making specifically regarding team process

Background on design

- POL currently has a straightforward structure at the top level, with a Board of 11 directors when at full strength, consisting of two Exec directors, six INEDs, two Postmaster NEDs, and one NED who represents the Shareholder. The Board is supported by five sub-committees: ARC, Nom Co, Rem Co, RC, and IC, which deal with specific topics requiring additional oversight. The IC was established as a new Board sub-committee in September 2023. It has added leadership capacity at Board and brought more rigour to investment decisions and prioritisation.
- At Exec level, there is a recently introduced SEG which comprises the most senior members of the LT under the authority of the Group CEO. This group meets on a weekly basis with monthly meetings for more substantive decision making and/or to include matters that might require input or approval from the Board. The SEG may establish sub-committees or steering committees which shall investigate or deal with particular matters, and to-date, it has constituted 12 such committees. The aim of the SEG is to simplify the operating model at executive level to prioritise focus, drive accountability and facilitate quicker day-to-day decision making by the LT. This then enables the SEG to focus more on the long-term strategy.
- At the same time, to give the Group CEO more capacity to develop the future of the business and to support the Inquiry and Remediation Unit, the number of individuals reporting to the CEO has been reduced from 12 to 7.
- We are supportive of this more streamlined structure outlined above which seems, at this early stage, to be producing positive results. It does though require more time to become fully embedded enabling benefits to be realised.
- Successful delivery of this re-organisation requires both capacity and capability to be addressed during this process through recruitment and clear operation of Delegation of Authorities.
- Future government funding is uncertain, so planning in the current environment is extremely difficult. Significant efforts go into reprioritisation within POL, wasting capital in the process (both financial and intellectual). As an example, there is an agreed programme to shut down c.100 directly owned branches with an annual cost-saving once complete of c.£25 million per annum. We understand this programme has been stopped and started c.4 times, where each time close to execution, funds have been re-orientated to support a different project, with no ability to challenge the rationale in the absence of a strategic framework
- Ultimately, POL is stuck between maintaining the sub-optimal network/social purpose and developing its commercial side. Becoming a leaner, more efficient operation and building the POL of the future to meet people's needs (more digital) in the coming decades, whilst becoming more appealing as a franchise operator are all part of the vision. There is a need to invest to reduce costs in any scenario, which HMG is perceived as presently unwilling to consider on a strategic basis
- This is a fundamental obstacle to the efficient and effective running of the business, and one that needs resolving. Although POL can take steps to improve its governance and become more efficient, real progress towards the business optimising its commercial platform can only be achieved with Shareholder agreement to a new set of objectives.
- We believe that POL, should consider further in the mid-term, the merits of establishing separate Audit and Risk Committees to improve focus, understanding of risks and controls, transparency, and decision-making
- Notwithstanding our comment above on the ARC, we understand that the Committees are generally considered by the Board members to be working well, although time did not permit us to observe any recent meetings. Further comments are provided on the Committees in Appendix 3 (page 26).
- ToRs are up-to-date and reviewed annually, and POL has been diligent in undertaking these reviews. These are all aligned with the Code to the extent that is relevant for POL as an organisation. Although, consideration is needed as to whether in light of the agreements with the Shareholder, the Board can deliver against its ToRs.
- Development in the governance processes relate mainly to operational rigour around the areas of:
 - Clarity of purpose and strategy
 - Composition and succession
 - Team processes such as MI, minutes and agenda management; and
 - Culture.

Appendix 3 Committees

Appendix 3 - Committees

Rem Co



Much work is underway to address the capacity of Rem Co around resolving not just the most urgent historical issues but to gain clarity on ways of working and to reduce the noise.

With an increasingly clear direction, it will be easier for Rem Co to move its effectiveness beyond a tactical level. The Chair needs to continue to be directive in managing both the agenda and meetings to ensure that Rem Co cover wider aspects of their ToR and continue to drive through needed changes to ways of working.

Observations

- Roles and responsibilities between Rem Co stakeholders require clarification, governance (specifically accountability) around reward design and decision making between enterprise and Rem Co and Rem Co and Shareholder needs clarification.
- Capacity needs to be created to enable more forward-looking discussion and delivery of the wider ToR remit and this is continuing to be addressed by the Chair.
- Rem Co meeting dynamics need attention.
- Rem Co to continue to work through the Simmons & Simmons recommendations (the Review Report).

Key findings

- We have reviewed the ToR against the Code, and the Government Code, as well as those of other major corporations and consider it to be in accordance with these and with general good practice in all material respects.
- The POL remuneration objectives largely align with the Principles and Provisions of the Code around remuneration.
- Accordingly, the principal area which needs attention is the practical execution. We would note that a review of minutes indicates historically the focus has been on the debate and agreement of historical rewards schemes with limited ability for Rem Co to consider the wider aspects of its ToR. Now that these are agreed, Rem Co should turn its attention to future design and execution of reward principles.

Actions

- As part of any reset with the Shareholder, reflect and debate the Code provision which notes all members should be independent at Rem Co (Principle P, Provision 32).
- In line with the above, Rem Co to establish what matters it is seeking to shape and propose to the Board and where it intends to seek guidance from the Shareholder.
- Consideration to be given to either embedding the relevant Code provisions in the Committee's ToR (Principal P, Provision 32, Provision 40) to ensure principles are appropriately considered on a comply or explain basis for internal purposes.
- Engage with the Shareholder to establish the overall remuneration philosophy. Outlining the set of principles by which schemes are designed, taking account of latest best practice, the Ministers annual letter and appropriate ambition. Agree whether LTIPS remain an appropriate measure in the absence of a metric-defined strategic ambition.
- CPO to continue to lead the development and reporting of the remuneration strategy (including incentive schemes) - as opposed to other SEG/LT members to ensure accountability, transparency, objectivity and consistency in process.
- On conclusion of the latest review of the ToR, a RACI matrix should be prepared (guided by the agenda/ToR) to clarify roles and responsibilities for each area.
- A governance charter/library specific to Rem Co which captures in one place the foundational governance documents and maintains an audit trail around any future changes to key documents (and rationale of any change) should continue to be developed.

Appendix 3 - Committees

Rem Co

Remuneration Committee dynamics

We attended the Rem Co meeting held on 28 November 2023. Key points of note:

- The agenda felt relatively packed with a number of items to be approved and discussed. A couple of items were postponed for a following meeting due to time constraints.
- Overall, the discussion was dominated by a debate on the objectives for the CEO and the incentive plans.
- We observed a very robust debate in relation to the objectives of the CEO, with the Board Chair and the Shareholder Representative expressing some very strong views.
- Similarly, the LTIPs and STIPs, and future plans in relation to their use, were subject to a comprehensive discussion.
- We could see that the Chair of the Rem Co has worked to implement a more longer-term approach when it comes to the incentive plans. We consider this positive as it can provide certainty and an ability to measure and incentivise sustainable decision making and delivery.

Further points to consider:

- Rem Co should seek to introduce some business-as-usual regular agenda items, such as regular updates on people matters, culture, talent management, diversity and inclusion, recruitment and retention, etc.
- Rem Co Chair to continue engaging a direct facilitative approach during meetings and discussions.
- The merits of extending the duration of the meeting so that sufficient time is dedicated to each agenda item.



ARC and RCC



Feedback suggests that while POL has a well-established risk policies and processes and an internal audit function there is the opportunity to review aspects around the practical application to create a more dynamic and proactive risk environment, which fosters a culture of accountability and ambition,

We have reviewed the papers, MI and minutes of the ARC for the period between May 2023 and March 2024. We have seen a sample of minutes of the RCC that were shared with the ARC, but we have not had sight of the packs for these meetings. Our understanding is that the papers for the RCC broadly duplicate those of the ARC, except for cases when the RCC has decided that certain papers are to be re-worked before they get submitted to the ARC, or when ARC has requested a special report.

Our review suggests that while POL has a well-established risk policies and processes and an internal audit function there is an opportunity to review aspects around the practical application to create a more dynamic and proactive risk environment, which fosters a culture of accountability and ambition, namely

- **Training and Tone from the Top:** Undertake risk management training across all levels, with a focus on setting the tone from the top.
- **Increase the prominence of the central Risk Function** across the business, with leadership from the CEO to highlight the importance of risk in strategic decision-making. Look at reporting lines as part of this exercise to move from General Counsel to CEO
- **Review and Tailor Papers for ARC:** Ensure that the papers presented to the ARC are appropriately tailored, contain more granular management information, and focus on key risk reporting. This will facilitate more focused discussions on risk matters and enable a more detailed debate around specific Key Risk Indicators (KRIs) and risk appetite.
- **Separate Audit and Risk Committees:** Given the wide remit of the ARC and the need for more focused discussions on audit and risk, consider the possibility of splitting the Audit, Risk, and Compliance committee into separate Audit and Risk committees. This may require additional Board committees, but it would allow for more in-depth discussions and efficient decision-making processes.

- **Streamline Attendees at Committee Meetings:** Consider streamlining the number of regular attendees at ARC and RCC meetings to facilitate more focused conversations and efficient decision-making. This could involve inviting additional attendees for specific items only when necessary.
- **Risk Tolerances:** Provide more clarity regarding the process for establishing risk tolerances specifically the lack of quantitative or qualitative thresholds.
- **Bespoke Data for Each Committee:** While acknowledging the significant executive time required for producing papers for both ARC and RCC, ensure that the data presented to each committee is bespoke to their specific needs. This will drive a different type of conversation and enable more effective discussions.
- **Enhance Risk Discussion at RCC:** Ensure that the RCC discussions focus on risks at an operational level and include a more detailed debate around specific KRIs, related root causes, and risk appetite. This will help elevate risk discussions at the RCC and facilitate more informed decision-making.
- **Evaluate the Capability and Skillset of the Committees:** Assess the capability and skillset of the ARC and RCC members to ensure that they have the necessary expertise to address the wide remit of the committees and engage in meaningful discussions on audit and risk matters.

In considering the above, the ARC and RCC can enhance the effectiveness of their meetings, drive more focused discussions on audit and risk, and ensure that the papers and discussions are tailored to the specific needs of each committee.

ARC and RCC (continued)



Risk appetite and ARC

POL has established risk appetite statements for each enterprise risk, supplemented by formal tolerances using the same definitions as for the risk appetite. However, it is unclear from the reviewed documentation what process was followed to establish these tolerances. Additionally, no quantitative or qualitative thresholds were adopted when setting the risk tolerances. Typically, when setting risk tolerances, we would expect that risk thresholds, which refer to the specific levels of risk that will trigger a response or action, are also established.

We haven't been able to observe an ARC meeting; however, from what we can see in the minutes there appears to be a good level of discussion with the Chair ably facilitating the debate. We noticed that both the Chair and one of the NEDs, Elliot Jacobs, appear good challenge and ask pertinent questions

Based on our review of the papers, MI, and minutes of the ARC for the period between May 2023 and November 2023, we the main areas for attention include; a review of the regular attendees, consideration of the time allocated for risk discussions, and potential changes to the committee structure should be part of the next wave of governance changes to enhance the effectiveness of the ARC and align with industry best practices.

RCC and Risk culture

- We have seen a sample of minutes of the RCC that were shared with the ARC, but we have not had sight of the packs for these meetings. Our understanding is that the papers for the RCC broadly duplicate those of the ARC, except for cases when the RCC has decided that certain papers are to be re-worked before they get submitted, or when ARC has requested a special report.

Other key points of note

- The papers for the RCC are similar to those of the ARC however, it is important that data is customised for each committee to drive a different type of conversation.
- Conversation Focus: The conversation in the RCC is focused on operational risks, but it is unclear if detailed debate around specific KRIs, related root causes, and risk appetite occurs at this meeting.
- Number of Attendees: The RCC has a high number of members and attendees, which may hinder focused conversation and efficient decision-making.

Considerations on risk culture at POL based on survey and interviews:

- Address the conservative risk appetite and tolerances by elevating the importance of risk management at all levels and fostering a more balanced approach to risk.
- Training and Tone from the Top
- Increase the prominence of the central Risk Function across the business,
- Align the risk strategy with the overall strategy once designed, reflecting appropriate risk appetite statements and tolerances in line with strategic objectives. Undertake a holistic risk assessment to ensure all pertinent risks are captured in the risk register.

Appendix 3 - Committees

ARC and RCC (continued)

Internal audit and control environment

- POL has established an appropriate Internal Audit framework and supporting documentation. The Internal Audit Charter has been set out to describe the main purpose of Internal Audit, how the function approaches its work and the rights and arrangements in place to provide quality assurance to the Board and the ARC
- The Charter also defines the role of the Internal Audit function, the standards and policies that apply, reporting lines, access and principles for setting up the Audit Plan. In accordance with good practice, the Director of Internal Audit has a direct reporting line to the Chair of the ARC, and we understand that they benefit from a very good working relationship
- The Internal Audit Plan is developed on a risk-basis in line with a conventional industry approach. The Director of Internal Audit and Risk submits a rolling risk-based plan for approval by the ARC, we are aware that the Plan for 2024 was just submitted for approval to ARC, although we have not seen a copy of it
- We have also observed that the Internal Audit updates to the ARC are amongst the better papers, in that they are concise, highlight clearly the key themes and findings for each audit, and utilise visuals and tables to show progress and illustrate other trends
- Based on the review of the draft Internal Controls framework and the information gathered about the internal control environment here are some key points to consider:

Internal Audit:

- Continue the good working relationship between the Director of Internal Audit and the ARC Chair.
- Ensure regular updates to the ARC on Audit Plan progress and changes to reflect evolving risk priorities.

Internal Controls Framework:

- Conduct a thorough review of the effectiveness and practical adherence to the Internal Controls framework.
- Provide relevant training to ensure that all stakeholders understand and adhere to the controls in practice.
- Accelerate efforts to ensure that the Internal Controls framework is effectively embedded across the organization.

Overall:

- Proactive steps by the ARC to better embed the Internal Controls framework and address the practical adherence to otherwise well-designed documentation.
- Ensure that the ARC is proactive in preparation for the new UK Code coming into force in 2025 and 2026. The ARC should aim to attest positively to the effectiveness of the internal controls and take necessary actions to ensure that the control environment is robust and compliant with regulatory requirements.



ARC and RCC

(continued)



Subsidiaries

- We have seen limited evidence, based on the documentation we have seen, of alignment between POL and its subsidiaries and Postmasters, as far as risk and internal audit arrangements are concerned
- In our understanding, risk is managed separately at a franchise level, but we consider that some appropriate aggregate reporting should be brought to the attention of RCC and ARC, as required. We can see that there is some reporting from the subsidiaries into the RCC
- We are also unsure as to how the subsidiaries and Postmasters are captured by the Internal Audit plan, although we understand that the Group Internal Audit arrangements apply to all fully owned subsidiaries
- POL to consider a more consistent and effective approach to risk management and internal audit across all entities within POL to include, in particular, Subsidiaries and Postmasters, ultimately enhancing the overall governance and control environment.

Based on the information provided, here are some key considerations for improving the alignment of risk and internal audit arrangements at POL and its subsidiaries and Postmasters:

- **Alignment of Risk Management:** Establish a consistent and effective approach to risk management across all entities within POL, including subsidiaries and Postmasters.
- **Reporting and Oversight:** Implement a more formal approach to aggregate reporting on risk management and internal audit activities across all entities to ensure comprehensive oversight by the RCC and ARC.
- **Inclusion in Internal Audit Plan:** Develop a strategy to include the subsidiaries and Postmasters in the Internal Audit plan, tailoring audit activities to the specific needs and risks of each entity.
- **Formal Governance Structure:** Establish a formal governance structure that oversees risk management and internal audit arrangements across all subsidiaries and Postmasters, with clear reporting lines and escalation procedures to ensure consistent oversight.
- **Training and Development:** Invest in training and development programs to ensure that employees in the subsidiaries and Postmasters are aware of the policies and procedures related to risk management and internal audit, equipping them with the necessary skills and knowledge to effectively manage risks.

Nom Co

Observations

- Nom Co seems to be reactionary in its remit delivery, focusing only on its immediate recruitment, appointment and Board and NED evaluation remit when needed. As an example, currently it is running two new Postmaster recruitment processes, and the process for recruiting new INEDs. This is due to fast approaching rotations. However, we were unable to conclude that the Nom Co is meeting its succession planning requirement under its ToR . A more strategic approach is required to look at the wider composition and succession landscape.

Key findings

- We have reviewed the ToR against the UK Corporate Governance Code and the Government Code, and it is in accordance with these and with general good practice in all material respects.
- We received several comments which indicate that medium and longer-term succession planning for the Board and Execs, until recently, has not been occurring at either Board or Nom Co.
- A lack of skills matrices or a skills audit of where the Board and Execs are now in terms of capability and what is needed to support transparent recruitment and future capability. L&D provided, while currently appropriate in content, is ad-hoc and could be more formalised with links to skills audit/matrices.
- The planned reorganisation of the SEG, recently approved by Nom Co, will introduce a COO role and consolidate other key roles and its proposed recruitment approach, supports greater transparency including with Postmaster NEDs and therefore hopefully the Postmaster community.

- Packs are of increasing quality with reports prepared by Tracy Marshall recognised as a good, focused approach to reporting, centred around a target brief and questions & answers to guide Nom Co members.
- The positive impact of the recently appointed CPO is noted by the Nom Co and through their good initial work around Senior Management succession planning at the recent March Nom Co meeting. This is a positive step towards Nom Co meeting its succession planning requirement for senior management, with urgent attention needed for SEG and Board succession planning in a similar manner.
- DoA operate partially effectively, i.e. not everything that should be brought to the Nom Co for approval or review is (Deputy CEO's SEG re-organisation, prior to beginning work on this, is an example) and this should be considered in terms of good governance.
- Composition of Nom Co only recently became in line with its ToR following a brief period where the SID, Postmaster NED and UKGI NED comprised its membership. Current membership consists majority of INEDs, including the Chairs of Rem Co and ARC. Non-independent NED members include the Shareholder Representative and Postmaster NED.
- In the survey scoring, this is one of the areas identified as highest priority, yet it receives the lowest scoring in terms of effectiveness/impact (red score below against the Benchmark in the third column).

The company's leadership and talent management evaluation and planning are in good order.	6.4	50	74
We have a satisfactory succession plan for key roles in the management team.	4.5	49	64
The board's contribution to matters concerning management appointments and development of a diverse pipeline has led to the desired outcomes	1.8	47	73

Appendix 4 Survey results

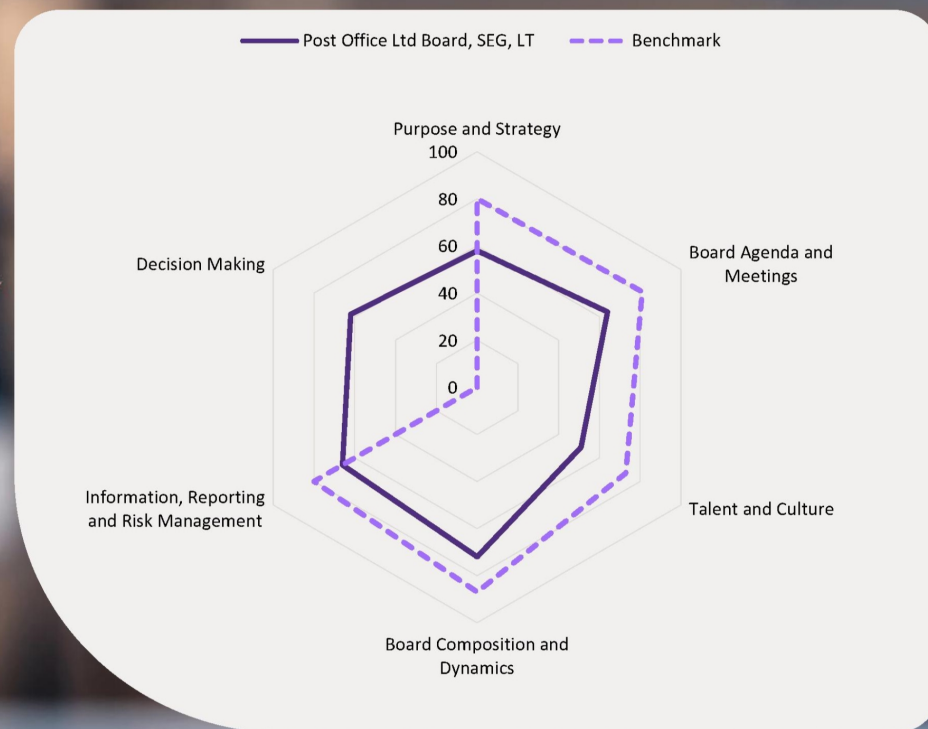
Board survey

Self-reported overview - from Board members and regular SEG and LT attendees

The graph illustrates the summary of POL respondent scoring against each chapter of the survey with results benchmarked against 150+ other UK Boards, spanning the private, listed and public sectors. The two lowest scoring areas by POL, which also have the biggest delta against the Benchmark are Talent and Culture and Purpose and Strategy. The highest scoring area is Board Composition and Dynamics. There is no Decision-making external benchmark as questions are bespoke to POL.

Summary of key themes from survey respondent feedback

- Excessive government interference calls into question the Board's independence
- It is impossible to plan ahead amid uncertainty of funding and lack of clarity from government on what it wants
- There are conflicts between achieving a social and commercial purpose within the current funding arrangements
- Culture, succession planning, EDI targets and associated narrative have been de-prioritised amid remediation and ongoing challenges
- Risk management is not operating optimally, with several risks outside of tolerance and a lack of adequate funding to address risks within known time horizons
- Individually the Board is capable and skilled, but given POL's government participation and current market segments, there are skills gaps in government/public sector experience, crisis management, IT transformation, franchise expertise and banking.



Appendix 4 – Survey results

Board Purpose Survey

The below has been paraphrased from comments provided by Board, SEG and some LT members via the BoardClic platform.

Summary of respondents' survey comments

- **Independence from Government:** Address the perception of insufficient independence by demonstrating objectivity in decision-making. Seek clear direction from the government without undue interference.
- **Board Familiarisation:** Provide comprehensive orientation and ongoing education for Board members to align their understanding with the operational realities of the Post Office.
- **Profitability vs. Community Service:** Develop a strategy that aligns commercial viability with social responsibility, and engage in constructive dialogue with the government.
- **Public vs. Commercial Focus:** Evaluate the feasibility of maintaining 11,500 branches while ensuring commercial viability.
- **Shareholder Policy Framework:** Review the framework to support sustainable decision-making and address conflicts between social and commercial objectives.
- **Uncertainties:** Mitigate potential disruptions from the impending general election and renewal of the Shareholder Framework Agreement.
- **Stakeholder Prioritization:** Leverage consensus on critical stakeholder groups to align strategies and initiatives with their interests.
- **ESG Discussion:** Prioritize ESG topics and integrate ESG considerations into strategic decision-making processes.

Key priorities identified by survey to focus on

The following are recommended actions to address key strategic priorities and foster alignment within POL:

- **Build Consensus on Medium to Long-Term Strategy:** It is essential to engage all stakeholders to establish a clear and balanced strategy for POL that integrates its social and commercial purposes. Developing a comprehensive roadmap for execution, including funding considerations, will be crucial for achieving strategic objectives.
- **Enhance Annual Strategy Day:** Ensure that the annual strategy day is focused, robust, and directly contributes to key business areas for the upcoming year. This will help align leadership and operational teams towards common goals.
- **Foster Alignment and Dialogue:** Strengthen collaboration and communication between the Post Office, DBT, UKGI, and other relevant stakeholders to gain a deeper understanding of priorities. Building greater alignment will support cohesive efforts and effective decision-making.
- **Appoint Board Champions:** Consider appointing Board champions for specific areas such as workforce, diversity, equity, and inclusion (DE&I), and fostering a culture of speaking up. This will emphasize the organization's commitment to these important focus areas.

QUESTION	PROG	SCORE	BENCHMARK	Executive	SEG	Board
The board has ensured, to the extent permissible within the policy framework set by the shareholder, that the company has the right strategy to fulfil its purpose.	5.9	65	-			
The board is not afraid to scrutinise what is making the company money and address issues as needed.	3.6	66	85			
The company is well prepared for business or technology disruptions.	3.6	41	73			
The board has a consensus on which stakeholder groups are the most critical to the company's long-term success.	2.7	70	83			
The board is quick to respond to changing business conditions.	2.3	58	82			
The board regularly assesses the strategy implementation process.	1.4	59	79			
Our agreed strategy includes vital ESG topics.	0.8	47	80			

Highest total

The Board has a consensus on which stakeholder groups are the most critical to the company's long term success

(Benchmark 83%)



Lowest total

The company is well prepared for business or technology disruptions

(Benchmark 73%)



Appendix 4 – Survey results

Succession Survey (continued)

The below has been paraphrased from comments provided by Board, SEG and some SLP members via the BoardClic platform.

- Embrace Automation and Digitalisation: Deploying automation and digitalization initiatives can drive efficiency improvements and cost-savings across various operational functions. This strategic move can position the organization for greater competitiveness and agility.
- Prioritise Purpose and Strategy in Committee Conversations: Ensure that discussions in committees consistently prioritize the organization's purpose and strategy. This will help align decision-making and resource allocation with the overarching strategic direction of POL.
- Implementing these actions will contribute to strategic clarity, alignment, and operational effectiveness within POL, furthering its ability to achieve its long-term objectives and navigate evolving challenges in its operating environment.

Summary of respondents' survey comments

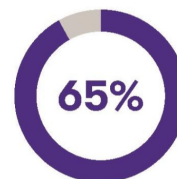
- Concerns around the lack of proper succession planning. Many comments point to the fact that the renewal terms for the Postmaster NEDs, who are some of the longest serving members of the Board, are up for renewal/stepping down simultaneously (summer 2024). Limited visibility expressed outside the Nom Co on how this is formally going to be dealt with beyond being staggered.
- Most respondents do not agree that the Board regularly reviews its diversity regarding background, ethnicity, gender and other minorities.
- There is acknowledgement that the Board membership is ultimately approved by the Shareholder, which influences its composition.
- Respondents remarked on the Board being largely composed of individuals from financial and professional services backgrounds, and less from areas of current POL market segments such as retail. Comments on current skills gaps include retail and digital, public sector/Whitehall experience, managing a government Shareholder, and an individual who has combined commercial and government experience.
- There is also the need to balance the current Board with a 'younger voice' by appointing younger individuals as NEDs.



Highest total

Alignment between Board and management regarding core strategic priorities

(Benchmark 85%)



Lowest total

The Board has a specific framework or approach in place to monitor culture in the organisation

(Benchmark 66%)



Appendix 4 – Survey results

Composition

Survey (continued)

The below has been paraphrased from comments provided by Board, SEG and some SLP members via the BoardClic platform.



Summary of respondents' survey comments

- Determine the main demographic groups that make up POL's target market and ensure Board skills support full understanding of POL's market and stakeholders.
- Skills matrices across the entire Board mapped against the skills required for effective strategy implementation of POL's vision and key risks, identify gaps and overlaps.
- To review the current Board structure with a short, medium to long-term lens to determine Board evolution in current and post Horizon IT Inquiry realities.
- Prioritise L&D for the Board, SEG and LT by developing a robust plan that is based on skills matrices and assessments.
- The Board does not regularly review its diversity with regards to background, ethnicity, gender and other minorities; and

Highest total

There is mutual trust and respect between members of the Board
(Benchmark 91%)



Lowest total

My knowledge and experience are well utilised
(Benchmark 85%)



Appendix 4 – Survey results

Team process Survey (continued)

The below has been paraphrased from comments provided by Board, GE and some SLG members via the BoardClic platform.

- We understand that access to Committee papers and minutes (in Diligent) is granted based on whether a NED is independent or not, and on membership in the case of the RC. We believe this is due to the particularly sensitive nature of the matters that go before that Committee.
- This varying degrees of access hinders debate by the Board and the perceived limited transparency contributes to the lack of trust between Board members (this aspect is commented upon more fully below).

Summary respondents' survey comments

- Respondents shared the view that Board papers are lengthy and not well summarised.
- There are mixed views on the time-efficiency of the Board's work.
- Respondents remarked on the need for more visibility of Board members across the work and activities of the Board committees, to facilitate transparency and open knowledge.
- Board papers are submitted too late and lacking in quality overall. They are voluminous. It gives the impression of laziness although some are good such as Retail.
- Information and informal get togethers have fallen away and are vital for cohesion at Board.

Key priorities identified by survey to focus on

- Shorter, more focused Board papers with a one-page summary of key data, insights and next steps/the ask.
- Identify and synthesise what matters from the data to provide more valuable insights.
- Cross-reference information and reporting with risk reporting in order to better inform and shape decision-making.
- Reduce duplication of papers across decision-making forums.
- Ensure that when actions are assigned from the SEG/LT, those with whom the actions are assigned to are informed as soon as possible.
- Simplify, centralise and streamline papers, reporting and dashboards and key metrics – 'less is more'.
- Provide access to all Board Committee papers (apart from RC) for all Board members papers to create improved synergy, collaboration and alignment across key decision-making priorities.

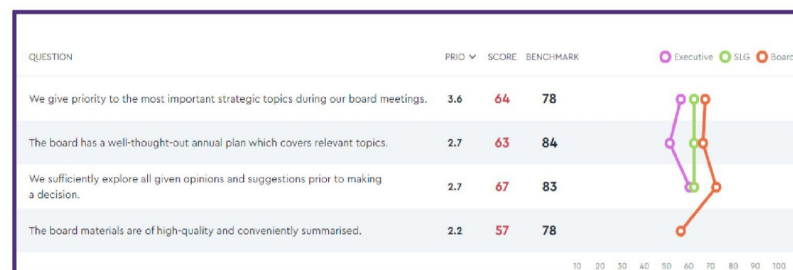
Highest total

We sufficiently explore all given opinions and suggestions prior to making a decision
(Benchmark -83%)



Lowest total

Board materials are of high quality and conveniently summarised
(Benchmark -78%)



Appendix 4 – Survey results

Risk and controls Survey (continued)

The below comments have been paraphrased from comments provided by Board, GE and some SLG members via the BoardClic platform. For full details refer to the BoardClic survey.

Summary of survey comments

- Respondents opined that the current process of top-down risk should be changed to allow individual business units to own their own risks and present these to the Audit and Risk Committee
- Concerns that POL is operating outside of risk appetite in c.8 areas for the next 24 months which is unsustainable. There is a question as to whether risk appetite is set properly, and whether the Board and Executive are aligned on the consequences
- Though the Audit and Risk Committee reporting has evolved and improved with new leadership, there is still a need for more frequent reporting on data and insights about branch profitability, network sustainability, and potential risks
- Respondents highlighted that the Board is risk averse amid the public enquiry and lack of adequate funding to address risks outside of appetite, resulting in the crystallisation of certain risks and the continued non-mitigation of others

Summary of survey comments (continued)

- On that point it is view the restrictive risk profile whilst comprehensive is a barrier to delivery rather than a key management tool
- There is a lack of visibility of the Audit and Risk Committee for Board members who do not sit on the committee.
- There should be a mechanism for reporting/escalating risks during gaps in Board meetings
- Is there a 1st, 2nd and 3rd line of defence – not in the way most commercial organisations understand it

Key priorities to focus on:

- Focused collaboration with the Shareholder to communicate the impact of identified risks on the business towards ensuring that funding is channelled appropriately
- Develop a system for risk reporting outside of scheduled Board meetings
- The employment of a Chief Risk Officer



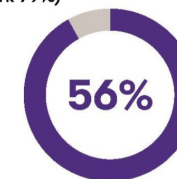
Highest total

The board has sufficient information about the company's most important compliance issues (anti-corruption, sanctions, anti-trust, workplace and product safety, etc)
 (Benchmark 83%)



Lowest total

Investments are given appropriate and robust review
 (Benchmark 79%)



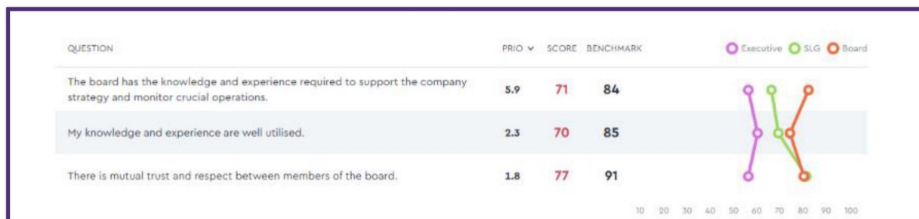
Appendix 4 – Survey results

Dynamics (continued)

The below has been paraphrased from comments provided by Board, SEG and some SLP members via the BoardClic platform.

Summary of respondents' survey comments

- Respondents held the view that with being a relatively new Board, more emphasis should be laid on social time spent together to build relationships.
- Focus on re-introducing Board dinners and opportunities for social interaction to foster good working relationships, trust and positive Board dynamics.



Appendix 5

List of interviews conducted, documents reviewed, and meetings observed

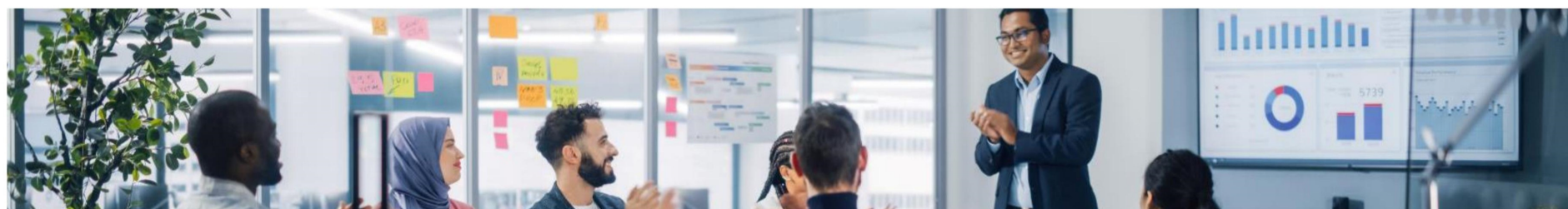
Appendix 5 – List of interviews conducted, documents reviewed, and meetings observed

Interviewees and meetings

Board	Role
Ben Tidswell	SID
Simon Jeffreys	Chair of ARC, INED
Amanda Burton	Chair of Rem Co, INED
Andrew Darfoor	Chair of the Investment Committee, INED
Brian Gaunt	INED
Saf Ismail	Postmaster NED
Elliot Jabos	Postmaster NED
Lorna Gratton	Shareholder Representative (UKG), NED
Nick Read	Group CEO

Company Secretarial	Role
Rachel Scarrabelotti	Group Company Secretary
Allison Hoyland	Deputy Group Company Secretary

Meetings	Date
Board	25 th March 2024



Appendix 5 – List of interviews conducted, documents reviewed, and meetings observed

Additional documents reviewed

Board and Board Committee ToRs

- 12.01.04 POL Board Gov Matters Reserved Tracked Changes 20240325 FINAL
- Delegated Authorities - Tracked Changes
- 12 01 06 POL Board Nom Co ToR Tracked Changes 20230325 Final
- 05 0201 POL Board Rem Co Terms of Reference Tracked Changes 20230301
- 20240206 SEG ToR v4

Governance Frameworks

- POL Register of interests
- POL Ethical Decision Making Framework v1.0
- Ethical Decision Making Framework details

Succession, Culture and Learning & Development

- 20240319 POL Nom Co Additional Min Draft
- 03.00 POL Nom Co Strategic Executive Group Restructuring 20240319 Final PP
- POL Board Training Record FY23-24 and proposal for FY 24-25
- POL NED Appraisals Summary Report 23-24 RS
- Board effectiveness report 2022-23
- Audit, Risk and Compliance Co Effectiveness Report
- Nom Co Effectiveness Report
- Remediation Co Effectiveness Report
- Role profiles & CVs

Board and Committee Packs and Minutes

- POL Board Agenda & Papers 20231128 - Final - Redacted
- POL Board Agenda & Papers 20240130 - Final - Redacted
- POL Board Agenda & Papers 20240301 - Final - Redacted
- POL Board Agenda & Papers 20240325 - Final - Redacted
- POL ARC Agenda & Papers 20231107 - Final
- POL ARC Agenda & Papers 20231127 - Final
- POL ARC PACK 20240129 - Redacted
- POL ARC PACK 20240320

Board and Committee Packs and Minutes

- POL Nom Co Agenda & Papers 20231128 - Final
- POL Nom Co Agenda & Papers 20240130 - Final
- POL Nom Co Agenda & Papers 20240227 - Final
- 03.00 POL Nom Co Strategic Executive Group Restructuring 20240319 Final (password: j^4kL&n9ah)
- 00.00 POL Nom Co Agenda 20240319 - Final
- POL Rem Co Agenda & Papers 20231106 - Final
- POL Rem Co Agenda & Papers 20231128 - Final
- POL Rem Co Agenda & Papers 20231218 - Final
- POL Rem Co Agenda & Papers 20240207 - Final
- POL Rem Co Agenda & Papers 20240227 - Final
- 20231031 POL Board Min Signed Redacted for PwC
- 20231128 POL Board Min Signed Redacted
- 20240130 POL Board Min signed Redacted
- 20240301 POL Board Additional Min Signed
- 20231127 POL ARC Min Signed
- 20240129 POL ARC Min Signed
- 20240320 POL ARC Min Draft
- 20240130 POL Nom Co Additional Min Final
- 20240227 POL Nom Co Min Draft to Chair
- 20240319 POL Nom Co Additional Min Draft
- 20231218 POL Rem Co Additional Min Signed
- 20240207 POL Rem Co Additional Min Signed



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