

Witness name: Nick Read

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THE POST OFFICE HORIZON IT INQUIRY

First Witness Statement of Nick Read

on behalf of Post Office Limited in the Post Office Horizon IT Inquiry

1. I, Nick Read, of 100 Wood Street, London, EC2V 7ER, say as follows:

A. Introduction

2. I am Nick Read, Group Chief Executive Officer ("**CEO**") at Post Office Limited ("**Post Office**") This is my First Witness statement to the Inquiry. As CEO I lead the Executive team and I am also a member of the Board. I am giving this witness statement in a corporate capacity on behalf of Post Office, in response to the Rule 9 request dated 2 July 2024 (the "**Rule 9(58) Request**"). In particular, I address a number of issues in relation to governance, risk and culture from a corporate perspective.

3. I have also provided a separate witness statement in my personal capacity in response to a separate request made by the Inquiry pursuant to Rule 9 of the Inquiry Rules 2006, dated 18 July 2024 (the "**Personal Rule 9 Request**"). I therefore include my own individual reflections as CEO and a member of the Board in that statement. I am also aware that the Inquiry has requested witness statements from the other members of the Board.

4. I have aimed to include within this witness statement evidence relating to all matters or issues detailed in the Rule 9 (58) Request insofar as the relevant facts are within my own knowledge. The Rule 9 (58) Request sought evidence relating to some matters or issues that are not within my own knowledge. In those cases, to assist the Inquiry, I have been assisted by others within Post Office whom I name where relevant. The facts in this witness statement are true, complete and accurate to the best of my knowledge and belief. Where my knowledge and belief, as set out in this witness statement, has been informed by another person or by documents that I have reviewed, I acknowledge that person or those documents. I have been assisted in preparing this witness statement by Burges Salmon LLP and Fieldfisher LLP (together "**BSFF**"), who act on behalf of Post Office in the Post Office Horizon IT Inquiry (the "**Inquiry**").

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A: Introduction

6. At the outset of this statement, and on behalf of Post Office, I would like to reiterate my apologies to every person who has been affected by the Horizon IT scandal. I sincerely apologise for Post Office failures that have impacted the lives of Postmasters, their families, and others who have been directly affected.

7. The evidence has shown that in the past, Post Office focused excessively on profitability and reputation. In doing so, it lost sight of its social purpose, and of the Postmaster's central role in fulfilling that purpose. Post Office did not foster a culture in which people felt able to speak up about their concerns, or in which senior leaders were sufficiently rigorous in their scrutiny of the business.

8. Post Office is committed to rebuilding the trust of Postmasters. Doing so remains a key pillar of the Post Office strategy. Rebuilding that trust will require addressing the failings of the past and building a better Post Office for the future. Post Office recognises that at times the pace of progress on both fronts has been slow.

9. The Horizon Shortfalls Scheme has not provided Postmasters with financial redress as quickly as either they or Post Office would like. The process was designed to deal with each application fairly and appropriately. It has taken longer

than anticipated in part due to the volume of applications being higher than originally anticipated and the overly detailed nature of the process through which these applications must pass.

10. Whilst the years since the Common Issues Judgment (“**CIJ**”) and Horizon Issues Judgment (“**HIJ**”) have seen a significant number of important operational and cultural changes and improvements within Post Office, much work remains to be done.
11. In particular, though the reasons are complex and the challenges have been significant, Post Office has been unable yet to deliver a new and bespoke IT system for Postmasters. As a result, Postmasters have not yet benefited from the reduced operating costs (some direct but mostly indirect), speed to market and usability that the proposed system is intended to provide.
12. Post Office accepts that it has lacked a shared sense of vision and purpose with its Shareholder. This has negatively influenced the day-to-day running of the business; undermining the effectiveness of its governance and hindering the pace of decision-making within Post Office. Post Office accepts that there will be challenges which it will need to address in order to overcome these issues. In addition to the governance changes required, Post Office must continue its work to change and improve its culture. Post Office must continue to enhance its leadership effectiveness, build a positive workplace, and ensure fairness and equity in its processes.

B: Post Office: Background and Context

13. Post Office is one of the United Kingdom's oldest, largest and most significant retailers. It is the only independent retail postal operator in the world and one of the largest physical retailers in Western Europe. Post Office plays a crucial role in communities across the country, ensuring 99% of households live within three miles of a Post Office. It has a long history of providing vital services to the most vulnerable, disadvantaged, rural and isolated members of society - through its cash and banking services, and in person face-to-face support.
14. During times of crisis, Post Office has a particularly important role to play. Post Offices were a lifeline for many during the COVID-19 pandemic, including staying open when other service providers closed, acting as a focal point for communities across the country and making cash and other deliveries to customers isolating at home. During the cost-of-living crisis, Post Office facilitated over seven million payments to customers receiving energy bill support, and extended help through collaborations with Citizens Advice and the British Gas Energy Trust to set up advisory centres to ensure vulnerable customers who may not have internet access received information on energy bills. Post Office is proud of its public role and service. Post Office is aware that, as a result of the Horizon IT scandal, Post Office has breached the trust that the British public placed in Post Office and damaged its once proud reputation, and it must work hard to rebuild this trust. Post Office remains confident that at a local level, postmasters continue to benefit from

the trust of their communities given the service they provide and consequently remain a valued and important part of the national infrastructure.

15. Post Office has been an independent organisation since its separation from Royal Mail Group in 2012. This separation was driven by the Postal Services Act 2011, which required "*each organisation to focus more effectively on its own challenges*" and, in the case of Post Office, for it to "*benefit from a strengthened Board giving increased levels of oversight and challenge*".

16. Since separating, Post Office has received more than £2.5 billion from the Government, to fund the cost of the Shareholder's policy for Post Office's network and to invest in both the modernisation of the network as well as the sustainability of Post Office's wider business. These activities, which included the Network Transformation and Crown Transformation programmes, have helped to improve Post Office's financial position significantly; since 2012 Post Office has gone from losing more than £100 million a year in Trading Profit to 2022/23 when it generated a Trading Profit of £50 million. This is in huge part thanks to the work of Postmasters, who sit at the heart of our business.

17. The Network Transformation and Crown Transformation programmes saw large sums invested in improving the fabric of Post Offices and customers' experience of our branches, including very significant improvements in convenience and a material extension of opening hours across the network. Alongside establishing

Post Office as a viable standalone entity, these transformation programmes were a key focus of Post Office and its Shareholder in the years following its separation from Royal Mail Group, with their scale making this period a challenging one to navigate alongside running Post Office's core operations.

18. The improved financial performance achieved following Post Office's separation from Royal Mail Group has allowed Government to reduce the amount it provides to Post Office on an annual basis. This results from Post Office reducing the cost it faces to deliver the Shareholder's policy, due to its improved efficiency, but also by generating more income from its commercial operations, Post Office can also use these funds to subsidise loss making Post Offices in a way that reduces the burden on the public purse. Since 2012/13 the subsidy provided by Government, to fund the cost of maintaining at least 11,500 Post Offices and to meet the Access Criteria, two obligations placed on Post Office by the Shareholder, has declined by 76 per cent to £50 million a year, as outlined in the 2023 Board Away Day Session 1 slide pack (**POL00448415**). It has been held flat at this level for the last six years, declining significantly in real terms.

19. Post Office has successfully delivered these obligations every year since its separation from Royal Mail Group, with the exception of 2020/21 when due to the pandemic it was 85 branches short of the minimum 11,500 target at year-end.

20. Over the same period the retail landscape has changed considerably. Post Office, together with other retailers, has faced some of the most difficult conditions for retail in generations including markedly increased digitisation and significant changes in customers' behaviours, and more recently a global pandemic and a cost-of-living crisis. The recent cost-of-living crisis in particular has contributed to soaring inflation and rising energy bills which has put significant pressure on Postmasters, impacting the viability of many Post Offices. Today around 4,000 Post Offices are considered loss making for Post Office, with many of these also believed to be loss making for the Postmasters that operate them.

21. While many businesses and retailers have responded to these challenges by reducing their footprints, Post Office branches keep their doors open and they continue to add significant value to communities that rely on them across the United Kingdom. A Market Financial Solutions report in 2024 found that 91% of people asked about what makes up a great local high street considered a post office to be an 'essential' or 'important' element of a high street. Rural Shop Reports from 2021-2023 consistently found Post Office to be amongst the most valuable service offered in their convenience stores or to have the most positive impact in their local areas.

22. In light of the above, however, Post Office is now finding it increasingly challenging to meet the obligations placed on it by the Shareholder, to maintain a network of at least 11,500 Post Offices and to meet the Access Criteria. In particular Post

Office is finding it hard to identify and recruit new Postmasters and it is also finding itself having to intervene more frequently to retain current Postmasters, where it needs to keep a branch open that might otherwise be at risk. As the cost of delivering these obligations increases Post Office is having to make very difficult decisions around where it allocates its scarce capital and the activities it must prioritise.

23. Post Office is not unique in being publicly funded and the funding constraints it faces are common across the public sector. However, the business' wider financial position has deteriorated significantly in recent years. It reported net liabilities of £799 million in 2022/23 and a total statutory loss of £76 million – which means the constraints it faces have worsened considerably. Operating as a commercial business with a social purpose, that continues to be reliant on funding from its Shareholder, is the reality in which Post Office operates.

Post Office today

24. Following the CIJ and HIJ, and the settlement of the Group Litigation, Post Office has been working to remediate the problems of the past, ensuring justice for Postmasters, and rebuilding Postmaster's trust. I set out some of the changes where relevant to governance and culture below. Post Office has provided a number of corporate statements in response to requests from the Inquiry. Further details of the changes which have been made in relation to postmasters, investigations, governance and Horizon/SPMP and compensation are set out in

the witness statements of Tracy Marshall (Retail Engagement Director),¹ Melanie Park (Central Operations Director),² John Bartlett (Director of Assurance and Complex Investigations),³ Rachel Scarrabelotti (Group Company Secretary),⁴ Jonathan Hill (Compliance Director),⁵ Simon Oldnall (Branch Technology Director)⁶ and Simon Recaldin (Remediation Unit Director)⁷.

25. Post Office wanted to be in a position where it could demonstrate to everyone, including the Inquiry, that its change programmes were well progressed, and all issues have been remediated. The ambition was appropriate, however, regrettably that is not yet where we are.

26. Since 2019 Post Office has recognised the need for change; however, its operational and financial capacity to deliver change is finite. Since 2019, Post Office had an average of 120 change projects running each year and difficult decisions are made about what to prioritise, which itself must reflect the priorities set for Post Office by the Shareholder. Where those changes affect how Postmasters manage their businesses, Post Office must be mindful not to place too great a burden on Postmasters through the sequencing of programmes introduced by Post Office.

¹ WITN11610100.

² WITN11600100.

³ WITN11190100 and WITN11190200.

⁴ WITN11120100, WITN11120200, WITN11120300, WITN11120400, WITN11120500

⁵ WITN11110100 and WITN11110200.

⁶ WITN03680200 and WITN03680300.

⁷ WITN09890500.

27. Post Office is in many ways a different organisation to the Post Office of the past. However, there is a long way to go. As referred to in Grant Thornton's Governance Report, which I discuss in detail at paragraphs 74 – 144 of this statement, Post Office has been operating in a crisis since 2019. Post Office's staff are highly aware of the catastrophic failures of the past and affected by the ongoing scrutiny of both the media, Parliament and this Inquiry. As a result, they are often reluctant to make decisions or take risks for fear of making mistakes. This will inevitably affect the rate and effectiveness of Post Office's planned changes. Post Office must move forward from crisis toward stability.

28. Post Office has commissioned a strategic review of the business, supported by Teneo – a corporate consulting, strategy and advisory firm ("the **Strategic Review**"). The Strategic Review is intended to help Post Office develop a clear and long-term plan for the future and to align Post Office and the shareholder on the Shareholder's needs and expectations for the future. It is hoped that the outcome of this review will facilitate clarity on Post Office's social purpose and how, within the constraints upon Post Office, that social purpose can be met in a manner that is economically and commercially sustainable and which recognises the central role that Postmasters play in fulfilling that purpose.

C: Governance within Post Office

29. Post Office became independent from Royal Mail Group on 1 April 2012 and had to form its own independent structures and processes for its governance. The

Grant Thornton Governance Report dated 25 June 2024 (**POL00446477**) (the “**GT Governance Report**”) states that “*since 2019, when a settlement agreement was reached with 555 former or serving Postmasters against POL, it has been operating year-to-year in crisis mode*”.⁸ Post Office agrees with this assessment, for the reasons set out in this statement, and that further work is required in order to ensure that it has an effective corporate governance system in place.

30. The day-to-day running of Post Office is inherently challenging, particularly as the environment within which Post Office operates undergoes structural change. There have been a range of events from 2020 onwards which have required significant Board and executive time, both within existing governance processes and structures as well as requiring new structures. One important element, which ties many of these events together, is the importance of Post Office’s relationship with its shareholder, in terms of clarity of its purpose, funding arrangements, and key appointments. I would summarise those events as follows:

a. The Coronavirus Pandemic

In 2020, the Board was significantly occupied with the response to the coronavirus pandemic. The executive was split into two parts: one dealing with day-to-day operations, and one managing the future and exit from the pandemic, with distinct operational management meetings every single day. Post Office worked collaboratively with government, who wanted Post

⁸ POL00446477, page 6.

Office branches to stay open and be able to continue fulfilling its social purpose. Postmasters were, understandably, concerned about exposure to the virus and financial losses. Post Office as a business did not have the funding to respond to the additional needs such as PPE and hardship funds. A huge amount of time was spent, ultimately successfully, working with government to set up additional streams of support for Postmasters.

b. The Inquiry

- i. The Permanent Secretary of BEIS at the time initially proposed a 4-month independent public inquiry which would be forward looking. This was deemed manageable. As the Inquiry has evolved in size and scope, this has had significant ramifications for the day-to-day running of the organisation as it has required considerable additional time and focus from the Board, the executive and business as a whole.

- ii. There have been several issues which have arisen during the lifetime of the Inquiry related to its important work which have rightly dominated executive time. This includes the Transformation Incentive Scheme (executive bonus scheme), the disclosure failures (and additional hearings in September 2023 and January 2024), the complexities around the compensation scheme (such as the taxation of the scheme,

the complexity of the application and the legal support),⁹ and the identification codes document.

- iii. In addition, a large amount of Board and executive time has been taken up with preparing for Select Committee appearances and an increased number of Freedom of Information Act (FOIA) requests and responses following the ITV drama.
- iv. These additional and unplanned for events have meant that a significant amount of executive time has not been available for day-to-day running of the business.

c. The Historical Shortfall Scheme (“HSS”):

The HSS was set up in 2020. The Treasury was very clear that Post Office would have to bear the administrative and operational costs of the Scheme. As the scale of the Scheme grew, this became crippling for Post Office and impacted on how Post Office was able support Postmasters.

d. Criminal appeals

During 2021/22, the Board held over 60 meetings regarding Post Office’s response to CCRC and criminal appeals, its role as a prosecutor, and Post

⁹ In 2019, in designing the settlement of the Scheme, Post Office wanted to make the application process as straightforward as possible for Postmasters and avoid an excessively complicated legal process. Please see Simon Recaldin’s evidence for further detail about this.

Office's response to criminal appeal processes. These were very difficult and complicated issues, which were outside the expertise of the Board. This took up additional Board time and it could therefore only offer limited capacity on strategic direction and oversight of the business.

e. Funding issues

From Autumn 2022 Post Office has faced risks associated with its funding arrangements, going concern status and wrongful trading position, which have required resolution with the Government.¹⁰ A number of senior executives in Post Office have spent and continue to spend a very significant amount of time on these issues.

f. The change in the Chair of Post Office

- i. There was a significant interregnum where Post Office did not have a permanent Chair between Tim Parker's departure on 30 September 2022 and Henry Staunton's start date on 1 December

¹⁰ For context, *Going Concern* is an accounting assessment made in the financial statements of a company. A company prepares its financial statements on a *going concern* basis unless management either intends to liquidate the entity or to cease trading or has no realistic alternative but to do so. In the case of Post Office, the significant liabilities that exist or may arise (contingent liabilities) combined with the reliance on Government to continue to provide financial support whilst not being able to provide uncapped guarantees around these liabilities, potential or realised, raises a serious question as to whether the Post Office remains a going concern as the point of signing the financial statements. The position is considered in great depth each year as part of the financial statements process with a detailed statement included in the financial statements. *Wrongful trading* occurs when the director of a company continues to trade when they know, or ought to know, that there is no reasonable prospect of the company avoiding insolvent liquidation or an insolvent administration and from the time that they were first aware of this situation (or should have been aware of the situation) the director failed to take every step with a view to minimising the potential loss to the Company's creditors.

2022. Although Henry Staunton was due to start on 1 December 2022, he was absent for a significant portion of this time.

- ii. A further period where Post Office was without a Chair occurred earlier this year following Henry Staunton's removal as Chair by the Shareholder on 27 January 2024. Post Office was also without a Chair until May 2024 when an Interim Chair, Nigel Railton, was appointed. The absence of a permanent Chair on the direction and governance of a business, particularly one in crisis, cannot be under emphasised.

g. The Board

- i. There has been a high level of turnover of non-executive directors on the Board, including those with significant roles, between September 2022 and March 2023. This is further set out at paragraph 39.
- ii. Further, Alisdair Cameron was informally away from the business from March 2023. He was then formally off from May 2023 on sick leave for 2 months at a time. Throughout this period, it was unclear how long he would be away for, and he left the business in June 2024. The appointment of the CFO, who is also a member of the Board, requires Shareholder approval which adds a layer of additional bureaucracy for a business. This absence has been difficult for the business to manage

and there is still no permanent CFO. As a result, there remains only a single executive director (myself) on the Board.

h. Compensation

The Board was also significantly focused in 2023 on compensation. This included changes to the Remediation Committee (previously known as the Historical Remediation Committee) which manages compensation.

31. Cumulatively, these additional and competing demands, above and beyond the day-to-day running of the business, have meant that during this period Post Office was not able to invest more in the evolution of its corporate governance, although corporate governance issues were becoming more apparent.

32. In March 2023 there was an exchange of emails between Alisdair Cameron, Tim McInnes (Strategy and Transformation Director), and me regarding Alisdair's concerns about governance (see Email from Alisdair Cameron to Nick Read, Tim McInnes and Ben Foat re The robustness of our governance, (POL00423699)). In October 2023, Post Office commissioned Grant Thornton to review Post Office's governance.¹¹ I set out below how Post Office has started to and plans to act on Grant Thornton's recommendations and details of the Strategic Review by Teneo that is has commissioned.

¹¹ POL00446477.

33. During the remainder of 2024 and into early 2025, there are a few key events which are likely to impact on corporate governance within Post Office and its ability to make meaningful changes to its corporate governance arrangements. These include Phase 7 of the Inquiry, the conclusion of compensation matters, any policy objectives for Post Office set by the new administration and agreement as to how Post Office will operate commercially and be funded.

The Shareholder's Policy for Post Office

34. The last time the Shareholder reviewed its policy for the Post Office was in November 2010 in 'Securing the Post Office Network in the Digital Age'.¹² In light of the time that has elapsed since this last review and also given the significant changes in Post Office's markets over this time, in 2021 Post Office submitted a request to its Shareholder to undertake a review of its policy for the Post Office, in the form of a policy or strategy review. This request was supported by the Shareholder and in 2022 a review commenced, initially run within the Department for Business and Trade ("DBT") (**POL00448435**)¹³ but latterly with the support of external consultants. This work remains ongoing.

35. Since 2010 there have been fundamental changes in Post Office's markets, in particular: increased digitisation, the growth in ecommerce and government's policy

¹² This is available publicly: <https://www.gov.uk/government/publications/securingthe-post-office-network-in-the-digital-age> .

¹³ See letter from RT HON Kwasi Kwarteng MP, Secretary of State for BEIS to Tim Parker and Nick Read, dated 11 March 2022 (**POL00448435**).

to go 'digital by default'; the reduction in letter volumes and growth in parcels, as well as increased competition within the United Kingdom's parcels' market; and bank branch closures and declines in both the prevalence of face-to-face financial services and in the use of cash. These changes have had a material impact on Post Office's commercial operations as well as its social purpose. Combined with the financial challenges Post Office faced, it recognised that clarity was required on whether the Shareholder's priorities had also evolved. This was particularly the case as there is an inherent tension between maximising commercial outcomes and optimising Post Office's social purpose, since the social purpose has a cost which may conflict with improving Post Office's commercial delivery. Without this clarity it has been very hard for Post Office to set a vision, commit to a clear strategy, prioritise in the right way and, in particular most recently, secure necessary investment.

36. DBT's work has been led by its policy team, which was set up in 2019, and Post Office has worked closely with officials to support this important workstream. Two phases of this work have been completed to date, led by Grant Thornton . Post Office understands that a third phase is about to get underway in the Autumn under a separate tender which means it could be led by a second external consultancy depending on the outcome of the tender. The first two phases considered the Shareholder's current policy position and the cost to deliver this, including whether it might be possible to deliver it at lower cost, as well as the long-term viability of the policy position itself, including whether in light of changes in Post Office's markets that policy position could evolve. Post Office has separately undertaken work with

London Economics on how its markets have changed since the Shareholder's last policy paper was published, and what this means for the policy 'value' Post Office is delivering, and this has been used as an input by Grant Thornton.

37. For Post Office, a successful review will provide clarity on what the Shareholder wants from Post Office's network, supported by alignment across Government on these outcomes that means it is possible, where required, for Post Office to secure necessary funding. It is also important that any changes to the policy are 'future proofed' to allow Post Office to evolve its network as its markets and customer behaviour change in the future.

38. The external Strategic Review that Post Office is undertaking, led by Teneo, will be complementary to the work being undertaken by DBT, as it intends to set out a future model for Post Office to deliver sustainably against the Shareholder's requirements. This Strategic Review is considering a number of areas including but not limited to Post Office's operating model and culture, its product and service portfolio and the technology it operates across its more than 11,500 Post Offices. It is expected to conclude in September 2024.

Recent corporate and other governance changes within Post Office

39. A number of changes to Post Office's corporate governance were addressed in Rachel Scarrabelotti's Second Witness Statement dated 16 February 2024 (**WITN11120200**) and her fifth witness statement dated 19 July 2024 (**WITN11120500**). Below I add some of my own comments and updates in terms

of corporate and operational governance. I have been assisted in this section by information provided to me by Rachel Scarrabelotti (Group Company Secretary), Chrysanthy Pispinis (Chief of Staff) and Simon Jeffreys (Chair of ARC).

- a. As explained above, Post Office was without a Chair from 27 January to 24 May 2024. The lack of a Chair was very significant for the organisation, and the appointment of Nigel Railton has been an important change. From a corporate governance perspective, without a Chair, certain corporate governance actions cannot happen, no-one is leading the Board and the CEO has no reporting line.
- b. In September 2023, a new Chief of Staff (“**CoS**”) role was introduced within Post Office. The role's main objective is to make Post Office more efficient, and ensure the right people are working on the right priorities at the right time. The CoS works closely with the CEO and the Company Secretariat, as well as across the SEG and the Leadership Team.¹⁴ In December 2023 the CoS refreshed the accountabilities of the CEO's direct reports. This will be an ongoing exercise as structures evolve.
- c. Another core part of the role is to help drive forward operational governance improvements; these have included the regular capturing and follow-up of

¹⁴ The Leadership Team was formed in January 2024 and refers to 23 individual who sit beneath the SEG.

actions in the weekly executive meetings, and the beginning of executive subcommittee streamlining.

- d. The CoS has also helped galvanise priorities for the business, with these being communicated to senior leaders in the second half of 2023/24 and then again in early 2024/25, to ensure alignment against and focus on our key priorities. In addition, the CoS is taking a lead role in operational actions coming out of the GT Governance Report.
- e. As set out in Rachel Scarrabelotti's second and fifth witness statements, the group executive was reduced in January 2024. This was to focus discussions, improve the speed of decision-making and create capacity for me as the CEO to better enable me to run the business. It has introduced more formal procedures, including on following-up on actions to enhance accountability. Additionally, the CoS identified that the reporting into SEG from its various subcommittees was inconsistent. There is now a standardised reporting template from subcommittees into SEG.
- f. Culture, Behaviours and Performance management – these are set out below from paragraph 174.
- g. Additional work on the Board paper template has been undertaken to further reduce the length of Board papers and to differentiate between papers

being required for the Board (more strategic) and the Executive (more operational). Further work is being carried out on the Board papers to encourage papers to be more concise and distil pertinent information in a meaningful way, with the Company Secretariat now having the support of the Chair / CEO in rejecting papers that do not meet the required standards. This remains an area for continuous improvement.

- h. The Board protocols have been amended. For example, pre-reading is circulated a week in advance of each meeting, with no slippage allowed. The 'Reading Room' in the Board pack platform has been closed.
- i. Delegated authorities and matters reserved for the Board were subject to an annual review in March 2024 and some minor refinements were made. These documents may be amended again following Teneo's Strategic Review and the GT Governance Report.
- j. The Committee Terms of Reference were also subject to an annual review in March 2024 and may be amended following the Strategic Review. In addition, as set out in subparagraphs 43-47 below, the ability of the Board to pass written resolutions is also expected to free up time on the agenda.

- k. Management information is being considered with a view to it becoming more synthesised, action-oriented and focused providing considerations around wider stakeholder impact.

- l. The recommendations to the Remuneration Committee contained in the Amanda Burton Report in June 2023 (**POL00448769**)¹⁵ and the Simmons and Simmons Report in August 2023 (**POL00363154**)¹⁶ (together the “**Remuneration Review Reports**”) are complete although the response to recommendations contained in the December 2023 Grant Thornton Remuneration Review (“the **GT Rem Co Review**”) (**POL00446475**) is ongoing.

- m. A number of changes have been made to ARC:
 - i. ARC is asking management to change the RCC materially to become a more conventional management risk committee rather than a group which ‘vets’ papers which colleagues would like presented to ARC. This is a major governance change to ensure that the executive take full responsibility for the identification and management of all risks. ARC will then be better placed to exercise oversight over risk and assurance functions.

¹⁵ Final Review of the Transformation Incentive Scheme (TIS) (“the **Amanda Burton Report**”).

¹⁶ Simmons & Simmons - Department for Business and Trade - *Review of the government relevant to Post Office Limited's Senior Executive Remuneration Report* (the “**Simmons and Simmons Report**”).

- ii. ARC is reducing the number of people attending meetings to facilitate a more focused strategic discussion of agenda papers.
- iii. ARC is reducing the length of agenda papers and requiring management to avoid simply presenting detail to the committee, and instead to present reasoned analysis of material along with management's conclusions and recommendations for the committee to consider and challenge.
- iv. ARC has introduced supplementary short, focused meetings to take time pressure off the scheduled meetings. These shorter additional meetings deal with more urgent matters like shareholder funding requests, developing tax discussions with HMRC, external audit status reports, and procurement decisions.
- v. ARC has asked management to change the description of the most significant risks which are outside appetite to provide more clarity on management's view of those risks.¹⁷ The current description -

¹⁷ Risk appetite refers to the amount of risk Post Office aims to operate within in order to achieve its objectives and reflects the two-sided nature of risk encompassing both an upper limit (i.e., too much risk being taken to achieve objectives) and a lower limit (not enough risk being taken). Risk tolerance is the variation from risk appetite that the business is willing to operate within in. Setting the risk tolerance ensures the business makes risk decisions and manages risk exposures according to established expectations. It helps clarify what is and what is not an acceptable risk exposure and clarity helps the organisation to know with certainty what risk exposures it can take and what risk exposures it must avoid. Furthermore, setting the risk tolerance helps the organisation to evaluate actual risk exposures against authorised exposures which in turn helps determine whether it needs to do more or less to manage the identified risk.

“outside of tolerance” - suggests that the risks are so extreme that they cannot be tolerated and immediate action, however radical, should be taken to correct the situation. This is not the message that management intends to convey. The Risk Appetite is the level of risk with which an organisation aims to operate within, whilst the risk tolerance is the level of risk the organisation is willing to operate within, in order to achieve the organisations objectives.

- vi. ARC has agreed with the new Investment Committee (“**IC**”) those risks relating to technology which will be dealt with by the IC to provide more capacity for ARC to deal with other matters.

- vii. ARC has engaged with management to support a new interim structure for group assurance which will enable management to co-ordinate better the various assurance functions across Post Office, thereby strengthening governance. ARC has also put additional safeguards in place to ensure the operational independence of Internal Audit.

- viii. ARC has introduced visits to Chesterfield to strengthen governance over Finance.

- ix. To strengthen governance ARC introduced the engagement of an external service provider to review those sections of the 2022/23 Annual Report and Accounts not covered by external audit. This is unusual but important to enhance oversight over the accuracy of sensitive information reported publicly.
- x. ARC discussed potential governance enhancements with Grant Thornton at the time of their review and is actively addressing the remaining recommendations in their final report.¹⁸

40. Below, at paragraphs 79-145, Post Office's plans for corporate and operational governance change are set out in the context of the GT Governance Report.

41. The Strategic Review being undertaken with Teneo will provide clarity on *"the purpose and ambition of the Board to guide efforts and governance design"* by enabling it to *"focus on strategic initiatives that foster trust, operational effectiveness, and provide a clear sense of purpose"*, with a clearly defined purpose and strategy being *"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 due to clearer prioritisation"* (see Grant Thornton: Post Office Limited Board Effectiveness Report dated 19 June 2024 (the "**GT Board Effectiveness Review**"), (POL00446476)).

¹⁸ GT Governance Report, POL00446477.

42. Post Office is reviewing the redrafted Framework Document from DBT (see the current Post Office Limited: Shareholder Relationship Framework Document, **POL00362299**) which has been transposed into the new Cabinet Office format. The current version of the redraft is being considered (**POL00448772**) - this draft is an iterative process and there will likely be further versions of the draft between UKGI and Post Office before it is finalised. It was received on 5 July 2024, although it was originally due to be reviewed by March 2023. There are some important changes which Post Office is considering, and the redraft which needs to be checked to ensure it reconciles with Post Office's Articles of Association and funding agreement. Further, Post Office is acutely aware that this is a long-awaited opportunity for governance reform through changes to Post Office's core constitutional framework documents, as recommended by Grant Thornton. While Post Office is aware that UKGI would like this exercise to be completed by 21 September 2024, this timescale would not realistically permit proper consideration of the required reforms. Post Office also wishes to avoid a situation where Post Office's core constitutional documents are revised before the outcome of the Teneo Strategic Review, whose outcomes could be profound for the business.

2022 Articles

43. The Articles of Association (“**Articles**”) were not amended earlier this year following the Board meeting of 1 March 2024 (**POL00447855**).

44. At the 1 March 2024 meeting, the Board was asked to consider two amendments to the Articles as follows (Amended Articles of Association, **POL00447857**):

- a. Article 8.1(AA)(a)(v) – to reflect changes to IFRS 16 on the accounting treatment of leases, which technically required Post Office in the vast majority of cases to seek DBT approval prior to entering into a lease or hire purchase of an asset. UKGI and DBT accepted that this was not the intention of the Article, and whilst UKGI confirmed that *"BEIS (now DBT) does not intend to bring a claim for a breach of Article 8.1(AA)(a)(v), whether retrospectively or otherwise,"* UKGI and DBT both confirmed that they were happy to remove this Article.

- b. Article 63 – to provide for Written Resolutions for Board business (not including Board Committees, therefore) to be passed if signed by 75% of Directors (rather than all Directors), to allow for more efficient and effective decision-making, particularly given lack of availability of all Directors (which in effect had meant the Board was unable to conduct business this way given the absence from the business of the CFO).

45. Despite the Board paper noting that *“the proposed amendment has been discussed informally with UKGI colleagues, who are supportive of the amendment,”* it is understood that DBT was not in favour of reducing the Written Resolution percentage. As such, this change to the Articles was not progressed.

46. By way of reflection, the context in which the request for changing the Written Resolution percentage was made, is important. The absence of the CFO in May 2023 meant that Written Resolutions could not be used for straightforward decisions because all directors are required to participate and approve written resolutions unanimously. This meant that additional Board time was being spent approving items which could have been dealt with outside the Boardroom, as well as slowing down decisions for the business. With the recent departure of the CFO (June 2024), Written Resolutions to be approved by all directors are now a tool that can once again be used to enhance Board and organisational efficiency.

47. As one of the foundational governance documents, the Articles will be reviewed as part of DBT’s review of the Framework Document (see paragraph 42).

Reflections on specific documents

48. I am asked to consider a number of documents and set out Post Office’s reflections as to what these documents show about how effective its governance is now. For ease of reference, these documents are:

- a. the internal 2022/23 Board and Committee Evaluation paper (see below from paragraph 50 and Board Evaluation Report 2022/2023 dated 6 June 2023 (the “**Board Evaluation Report 2022/23**”) (POL00447838) ;
- b. the GT Governance Report on Post Office’s corporate and operational governance (POL00446477);
- c. the most recent Chair and Board annual effectiveness reviews and the information that was reported back to DBT on them (see below from paragraph 146 and GT Board Effectiveness Review (POL00446476));
- d. key documents relevant to the Ethos cultural transformation programme (see below from paragraph 226 and Group Executive Report - Ethos Programme dated 13 September 2023 (the “**GE Ethos Programme Report**”) (POL00447844); Post Office Board Report – Ethos Programme dated 26 September 2023 (the “**Post Office Ethos Programme Report**”) (POL00447845); Post Office Board Report – 3 year People Plan and People Structure dated 27 February 2024 (the “**3 Year People Plan and People Structure Report**”) (POL00447854); Post Office Board Report – Code of Business Conduct update dated 4 June 2024 (the “**June 2024 Code of Business Conduct Report**”) (POL00447898); and Code of Business Conduct (long form) last updated July 2024 (the “**July 2024 Code of Business Conduct (Long Form)**”) (POL00447907);

e. Post Office's most recent annual report presented to the ARC by Post Office's Accountable Officer (see below from paragraph 155 and Post Office Limited Annual Report and Consolidated Financial Statements (2022/2023) (the "**2022/23 Annual Report**") (UKGI00044323));

f. details of all meetings Post Office has had with the Minister for Postal Affairs and senior officials at DBT and UKGI in 2024 to date (see below from paragraph 163); and

g. the 'Chair Letters' provided to Henry Staunton and Nigel Railton (the letter from the Parliamentary Under Secretary of State, DBT, to Henry Staunton dated 29 June 2023 (the "**June 2023 DBT Letter to Henry Staunton**") (UKGI00044317) (see below from paragraph 169); the letter to Nigel Railton has not been finalised by DBT (see below at paragraph 172).

49. I have been assisted in the following sections by information provided to me by Rachel Scarrabelotti.

The internal 2022/23 Board and Committee Evaluation papers

Board Evaluations

50. The 2018 UK Corporate Governance Code provides that the chair should consider having a regular externally facilitated board evaluation and in FTSE 350 companies this should happen at least every three years. It is noted that the board effectiveness review process, including the results stemming from that, should be acted upon by the Chair.

51. Looking back at the recommendations in the 2021/22 Board Evaluation dated 29 March 2022 (**POL00438073**) the Post Office was subject to numerous pressures. In that year, there were over 60 Board meetings, whereas the annual Board planner drawn up for the start of the financial year had envisaged 8 meetings. Further, much of that year was spent reviewing critical decisions made by Post Office regarding historic prosecutions.

52. Indeed, in the Board update dated 24 January 2023 entitled "*Board Evaluation 2021/22 actions – progress actions recommendations*" it was noted that:

- a. *"The pressure of historical matters continued to mean that the Board had insufficient time to focus on strategy and key developments in the business, notwithstanding the very high number of meetings during the period";*
- b. Greater clarity on the role of the shareholder representative *"does not appear to have been progressed during this period";* and
- c. *Bi-annual discussions on succession planning have been added to the Board forward planner, however given pressures on Agenda time, these sessions have not been held as yet.* (However, it is relevant to note that succession planning is considered in more depth at Nominations Committee).

53. Post Office carried out Board effectiveness reviews for financial years 2022/23 and 2023/24. There were two Internal Board Evaluation Papers for the year 2022/23 – a draft produced in March 2023 (**POL00447866**) and the final version, the Board Evaluation Report 2022/23, produced in June 2023 (**POL00447838**). Another version, dated July, is substantively the same as the June version (**POL00447842**). The Board effectiveness review for 2023/24, the GT Board Effectiveness Review, was carried out by Grant Thornton and was completed in June 2024 (**POL00446476**).

54. Furthermore, the GT Board Effectiveness Review notes that *“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 the issues”*.¹⁹ As mentioned above, this failure to address certain actions coming out of previous Board effectiveness reviews was due to circumstances which required the Board to quite rightly prioritise dealing with the human issues emerging from the Horizon scandal.

55. In addition, there was a lack of stability in the Board from the end of Tim Parker’s chairmanship onwards. Tim Parker had been asked to extend his tenure to navigate Post Office through the COVID-19 period and this extension ended on 30 September 2022. From 1 October to 30 November 2022 Post Office had no

¹⁹ **POL00446476**, page 9.

permanent Chair although Ben Tidswell was appointed as an Interim Chair during this period.

56. This period of instability for the business overlapped with turnover in Board members in particular between December 2022 and June 2023:

a. Departures:

- i. Carla Stent (Chair of the Audit, Risk and Compliance Committee) in February 2023;
- ii. Zarin Patel in March 2023 (as the Senior Independent Director);
- iii. Tom Cooper (Shareholder Representative) in May 2023; and
- iv. Lisa Harrington (Chair of the Remuneration Committee) in June 2023).

b. New members:

- i. Simon Jeffreys (Chair of the Audit, Risk and Compliance Committee) in March 2023;
- ii. Amanda Burton (Chair of the Remuneration Committee) in April 2023;
- iii. Lorna Gratton (Shareholder Representative) in May 2023; and
- iv. Andrew Darfoor (Chair of the Investment Committee) in June 2023.

57. This was followed by a busy and difficult period in terms of the amount of work required by the executive outside of the day to day running of the business including a number of issues related to the Inquiry such as the Transformation Incentive Scheme issue.

2022/23 Committee Evaluations

The Audit, Risk and Compliance Committee (“ARC”)

58. The Audit, Risk and Compliance Committee Report - Committee Evaluation 2022/23 dated 16 May 2023 (the “**ARC Evaluation 2022/23**”) (**POL00447836**) was presented to its meeting on 16 May 2023. I should note here that I am not a Member of the ARC although I am a regular attendee, and I have relied on information provided to me by the Company Secretariat.

59. There have been a number of changes to the membership and standing attendees of ARC over the last year. Until May 2024, the executive director who attended ARC on a standing basis was Alisdair Cameron. Kathryn Sherratt was Interim Group CFO from 4 December 2023. She was invited to attend ARC from 21 June 2023 although did not actually attend the committee until 25 September 2023. The current longest serving member of ARC is Elliot Jacobs, who joined the Committee in September 2022. In other words, at a time of significant change for Post Office, the entire Committee membership changed.

60. Grant Thornton was looking at ARC at a time when Simon Jeffreys (its current Chair) was new and Alisdair Cameron (previously a standing attendee at ARC)

was not present. It is indisputable that the capability of ARC had been diminished at this point in time. There has been a lack of any executive director support for ARC since Alisdair Cameron's departure. This has significantly reduced the financial and accounting understanding on the Board at a time when there have been real questions about whether the Post Office is a going concern. Although I regularly attend ARC, governance would be assisted by an executive director standing attendee of ARC with a finance and risk background.

61. The evaluation feedback contained in the ARC Evaluation 2022/2023 was that *"the Committee continues to remain effective, despite the headwinds and challenges faced by the Post Office"* (**POL00447836**). It is noted that unlike at the Board level, all of the actions arising from the 2021/22 ARC evaluation had been addressed. An area identified for improvement in the financial year 2023/24 was the *"quality of papers and presentations received by the Committee"* (**POL00447836**) This was also raised a year later in the GT Governance Report and the GT Board Effectiveness Review.²⁰

62. A status update for the 29 January 2024 ARC meeting set out that the actions from the Committee Evaluation 2022/23 were still in progress including (Audit, Risk and Compliance Committee Report - Committee Evaluation 2022/2023 dated 29 January 2024 (**POL00447852**)).

²⁰ **POL00446477** and **POL00446476**.

- a. significant improvements have been made to risk reporting, however more works needed to be done in ensuring coverage and timely visibility of risk and issues; and
- b. templates for papers to the ARC had been circulated, but not all areas of the business were cross referencing reading room material appropriately.

63. Other changes which had been identified were mostly complete which has supported Post Office in embedding a continuous assurance model:

- a. the ARC reviewing the 'Forward Plan' every 6 months;
- b. presenters of papers providing explanations to the ARC when their reports are delayed or were in progress; and
- c. papers being more action focused and including more analysis, interpretation and recommendations.

64. Finally, some remained under consideration including whether a balanced scorecard regarding Postmaster detriment should be developed and a template for a one-page top sheet for papers. A further assessment of progress against actions was planned for May 2024, but did not take place because of other priorities.

Nominations Committee

65. The Nominations Committee Evaluation 2022/23 was presented to the meeting on 6 June 2023 (Nominations Committee Evaluation 2022/23 dated 6 June 2023)

(POL00447837)). I should note here that I do not sit on the Nominations Committee, and I have relied on information provided to me by the Company Secretariat. As with the previous year, and the following year with Grant Thornton, succession planning was highlighted as being the key area of improvement for the Committee.

66. The ability to address succession planning has been adversely impacted by the high turnover of Chief People Officers in the business, on whom much of the required work rests. The conclusion contained in the GT Board Effectiveness Review that the current Committee *“appears to be very reactionary in its remit delivery, focusing only on its immediate recruitment, appointment and Board and NED evaluation remit”*²¹ is a fair one.

67. As set out in the GT Governance Report, actions to address Grant Thornton’s recommendations have been identified, and will be tracked to ensure that they are effective.²² There is an action tracker which combines corporate governance actions with operational governance items mapped in on a summarised basis which will be considered by the Board (see Grant Thornton Governance and Board Effectiveness Reviews: Recommendations tracker as at 26 July 2024 (the **“Board Action Tracker”**)) (POL00448414)). There is then a more detailed tracker for operational governance due to the additional level of detail.

²¹ POL00446476, at page 33.

²² POL00446477.

Remuneration Committee

68. I do not sit on the Remuneration Committee. I am invited to attend occasionally on specific issues, but otherwise I do not attend. I have relied on information provided to me by Karen McEwan, the Chief People Officer. The Remuneration Review Reports recommended that Post Office undertook a review of governance structures, processes, and systems at the Remuneration Committee to improve and record effective decision-making and ensure alignment with the foundational shareholder governance documents. As a result, Post Office commissioned Grant Thornton to conduct the GT Rem Co Review, which was completed in December 2023 (**POL00446475**).

69. The Inquiry will also be aware of the issue which arose in 2023 regarding the Transformation Incentive Scheme. In December 2020, the Remuneration Committee agreed a new "Transformation Incentive Scheme" which would form part of the remuneration package for senior leaders. Under the Transformation Incentive Scheme, part of the remuneration package for senior leaders was made conditional on, amongst other things, the achievement of metrics geared towards the success of Post Office's business transformation plans. The metrics were intended to align and focus senior leaders on the critical priorities needed to transform the Post Office. Of the four business transformation priorities that were identified, one related specifically to the Inquiry. Post Office apologised to the Inquiry for the way in which this metric was set and measured, by letter dated 6 April 2023. In my letter to the Chair of the Inquiry, Sir Wyn Williams, dated 6 April

2023, I described these as unacceptable errors. They were caused by failures in governance.

70. Recommendations from both the Remuneration Review Reports²³ were largely aligned and were accepted by Post Office. The GT Rem Co Review noted that Post Office was addressing all nine recommendations *“at pace, with two of the project plans marked as complete and seven in progress”*.²⁴ In addition, the Remuneration Committee Chair, Amanda Burton added two further suggestions,²⁵ both of which were actioned. Grant Thornton has since observed that the Remuneration Committee is *“rebuilding trust among stakeholders through governance policy and procedure improvements as outlined in the Simmons and Simmons report”*.²⁶

71. The implementation of the Remuneration Review Reports recommendations (with UKGI monitoring these) is tracked, with the tracker being presented to the Remuneration Committee at periodic meetings. The latest tracker from 4 June 2024 shows that all Recommendations are ‘green’.

72. The Remuneration Committee Evaluation Report 2022/23 (commissioned in early 2023) was presented to the Committee’s meeting on 3 July 2023 (**POL00447839**).

²³ The Amanda Burton Report is **POL00448769** and the Simmons and Simmons report is **POL00363154**.

²⁴ **POL00446475**, page 5.

²⁵ That POL re-engage with the Shareholder and that RemCo should not award any element of bonus specifically relating to the Horizon IT Inquiry both now and going forward, as outlined in **POL00446475**, page 5.

²⁶ GT Governance Report **POL00446477** at page 64.

This report recommended that the Remuneration Committee focus greater efforts to ensure that remuneration structures/packages are simplified, that the Committee could work with management to provide regular feedback on the calibre of papers and to call out papers that are inadequate, and that the Committee could allocate time annually to review Willis Towers Watson's ("WTW") work and advice²⁷ (in the past WTW has been involved in some bespoke benchmarking work for Post Office and more recently were involved in the review of Post Office's Reward Strategy). The contract with WTW was extended by a year and comes to an end in September 2024. Post Office is now tendering for a replacement.

Remediation Committee (previously Historical Remediation Committee)

73. The Remediation Committee Evaluation Report 2022/23 was presented to the Remediation Committee on 16 August 2023 (**POL00447806**). The report recommended that information flows between the Remediation Unit and the Remediation Committee could be improved; and that the Committee should ensure that it understands the new Overturned Convictions remediation process, establishes the compensation principles, and obtains shareholder support for them. I do not sit on nor attend the Remediation Committee.

Grant Thornton Governance Report

²⁷ POL00447839, page 1.

Commissioning the Report

74. I have been assisted in this section by information contained within contemporaneous documents and provided to me by Rachel Scarrabelotti, Group Company Secretary and Chrysanthy Pispinis, Chief of Staff. On 12 October 2023 Post Office commissioned Grant Thornton to carry out a review and prepare a report on its corporate and operational governance. A draft Governance Report was provided on 6 February 2024 (**POL00448770**) and a revised draft Governance Report on 4 March 2024 (**POL00448771**). Some time was required for the Board to consider and provide comments on the Report and with the absence of a Chair the report remained in draft. The content did not significantly change during that period and Post Office did not seek to make significant changes. Following the Interim Chair's appointment in May 2024 matters moved more swiftly and the final GT Governance Report was provided on 25 June 2024 (**POL00446477**). During this period, the Board digested the findings and recommendations prior to the July Board meeting where the tracker (referred to below) was considered.

The GT Governance Report 25 June 2024: Overall reflections

75. Grant Thornton has identified that one of the most pressing areas to address is a purpose/cohesive strategy at the Group level which sets direction and ambition for the business. The key findings of the GT Governance Report²⁸ can be summarised as follows:

²⁸ **POL00446477**.

- a. Lack of a unified purpose and group-wide strategy between Post Office and its Shareholder;
- b. Conflict around the role of the Shareholder versus the Board and breakdown of the relationship;
- c. Leadership capacity;
- d. Decision-making forums at Enterprise level lack pace and do not enable accountability; and
- e. Culture – a lack of trust, accountability, and performance management.

76. Grant Thornton concludes that *“these issues highlight the need for; a unifying strategy, greater role clarity through updating foundational governance documents, streamlined decision-making processes, significant improvements in succession planning and a cultural shift towards accountability and long-term planning.”*²⁹

77. Post Office accepts the five key findings as set out on page 7. Post Office keeps its governance arrangements under review, and in light of the GT Governance Report will be making some changes as set out below.

78. Post Office’s plans in response to the GT Governance Report are set out in two trackers. One is a combined Board Action Tracker which covers both corporate governance actions with operational governance actions mapped at a high level **(POL00448414)**. The Board Action Tracker has recently been combined from two

²⁹ POL00446477, page 7.

separate trackers (corporate and operational) and updated versions of this will be provided to the Board on a regular basis. The other is an Operational Tracker which covers the operational governance actions in more detail and is used by the Strategic Executive Group (“**SEG**”). These will be updated on a regular basis as actions progress. This will ensure that those recommendations which Post Office has accepted crystallise a positive and meaningful impact on Post Office’s corporate and operational governance. Post Office provided DBT and UKGI with GT’s reports on 12 July 2024.

Specific reflections on Grant Thornton’s recommendations

79. The Report groups its recommendations into eight categories, as follows:

Board Priority Actions

- a) Group strategy / ambition
- b) Clarity on the role of the Shareholder vs the Board
- c) People agenda (Incl. succession planning and reward)
- d) Board meeting processes

Executive Priority Actions

- a) Division of responsibilities – streamline the accountability chain
- b) Leadership capacity and succession planning
- c) Strategic / Culture focus
- d) Risk Management

80. In this section I set out brief updates and reflections organised by these topics.

81. As stated above, Post Office has produced a tracker which sets out its action plan in response to the Report (**POL00448414**). The combined Board Action Tracker was shared with the Chair and the Shareholder NED, and their comments have been incorporated. Grant Thornton also provided comments and the combined corporate and operational tracker has been issued to Board members. As already mentioned, both the combined and the operational trackers remain subject to change as they reflect ongoing pieces of work.

82. The trackers identify the timeframe for each recommendation and the individual owners who are responsible for taking forward actions. The SEG will be regularly appraised of progress against the operational tracker. The Board has asked for reporting on a monthly basis commencing in August 2024.

83. The trackers will be refined and updated when Post Office receives and agrees other recommendations, such as the outcome of the Strategic Review, and any corporate governance recommendations from the Inquiry. I have been assisted in the following sections by information provided to me by Rachel Scarrabelotti, (Group Company Secretary), Chrysanthy Pispinis, (Chief of Staff) and Tim McInnes, (Transformation and Strategy Director) .

Board Priority Actions

(1) Group strategy / ambition

84. The GT Governance Report recommended that the Board agree strategic design principles with the SEG and explore steps to develop a strategy / ambition which the leadership team can coalesce around, with the aim to address the *“tension at Board between governing for Shareholder value and governing for social purpose, without a clear longer-term vision to balance these priorities effectively”*.³⁰ As part of this, it was recommended that the Board frame for the Shareholder what Post Office is about, where it wants to get to and how it is going to meet these aims, while also taking into consideration the tension between Post Office’s commercial objectives and its social purpose.

85. Post Office agrees that an essential step in addressing weaknesses in its governance structure is to agree on its purpose and strategy, and how it will meet its aims. This must involve the Shareholder and to support this, in May 2024, Post Office commissioned Teneo to undertake a comprehensive Strategic Review. Teneo commenced work in early June 2024.

86. The Strategic Review is structured across three principal stages and is intended to weave together a number of existing programmes of change taking place across Post Office’s business, as well as new activities required to deliver the recommended and approved outcomes of the review. Once complete the findings

³⁰ POL00446477, page 9.

of the Strategic Review will be presented to Post Office's Board and, subject to their approval, ultimately the Shareholder. The first stage of Teneo's work completed in July 2024 and the second phase is already well progressed, with the final output expected to be delivered in 2024. This final output will allow Post Office to "*frame, prioritise, and guide governance design, decision-making structures, and inform culture and performance management*", as outlined in the Board Action Tracker **(POL00448414)**. Post Office will then take on the necessary work to deliver the approved recommendations, subject to the availability of funding.

87. The Strategic Review involves significant and broad stakeholder engagement at every stage, including critically from the Postmaster community. The Shareholder is supportive of the review and there has been engagement with both DBT and UKGI. The Shareholder NED attends the Strategic Review Steering Committee, and they were actively involved in setting the direction of travel for the review at the point its scope was being agreed.

88. The Shareholder's support will be critical to delivering the outcomes of the Strategic Review, both in terms of endorsing the recommended actions stemming from Teneo's work, providing alignment and a consensus among Post Office and the Shareholder, but also in enabling Post Office to deliver these actions. This includes but is not limited to the provision of funding.

(2) *Clarity on the roles of the Shareholder versus the Board*

89. The GT Governance Report (**POL00446477**) draws similar conclusions to previous Board Effectiveness reviews, in that it recommends greater clarity on the role of the Shareholder. Whilst the lack of clarity as to the role of the Shareholder impacts adversely on the operation of the Board, Post Office agrees with Grant Thornton that the lack of clarity also “*extends throughout POL, resulting in high decision-making costs and a lack of accountability, such as the absence of a shared understanding regarding the roles and responsibilities*”.³¹

90. The Board Action Tracker (**POL00448414**) sets out that UKGI are looking to have the revised Shareholder Framework Document and Delegations Letter in place in the near future, and the September Board meeting is being targeted for Board consideration although as explained at paragraph 42 above, Post Office anticipates that it will take longer to fully consider the proposals and respond. A working group is being established at Post Office to support this review exercise and will aim to clarify any ambiguities across foundational governance documents. A briefing note on Managing Public Money and the role of the Accounting Officer was prepared and settled with UKGI and issued to the Board and Executive on 28 June 2024, and training for the Board and executive on these issues is expected to be delivered on 10 September 2024.

³¹ **POL00446477**, page 9.

91. Post Office held a session in early July on ‘Strengthening the Postmaster voice’, which considered alternative governance structures. This was led by the Post Office's Corporate Affairs Director, Charlotte Cool, (Interim) with the Postmaster Non-executive Directors (“**Postmaster NEDs**”) attending (Saf Ismail and Elliot Jacobs), a member of the NFSP, and two external speakers. A follow up session for mid-August took place on 14 August 2024. The alternative governance structures considered were mutuals, cooperatives, franchises and the proposal for an oversight committee. The Strategic Review will also play a role in considering how some of the recommendations in this category might be achieved. The minutes of the July and August 2024 workshops were circulated by Charlotte Cool, the Corporate Affairs Director (Interim) on 16 August 2024 (see email **POL00448773** and attachments: the 2018 Franchise Landscape Report **POL00448774**; the Postmaster Oversight Committee Powerpoint presentation **POL00448775**; and the executive summary of the Strengthening the Postmaster Voice meetings **POL00448776**).

(3) People agenda (including succession planning and reward)

92. The people and culture agenda is regarded as being fundamental to ensuring change at Post Office, and so is the need to strengthen succession planning and to ensure effective management of the people agenda is fully accepted, with actions designed to address this. Please see Section D: Culture at Post Office (beginning paragraph 174) for further information and reflection.

93. There are obvious gaps in skills required at Board level, related to the needs of the organisation, such as technology, and recruitment of NEDs needs to reflect that. A Board skills matrix has been drawn up, which will inform the upcoming NED recruitment (POL Board Skills Matrix, **POL00447913**).

94. Steps have been taken to increase transparency by ensuring that the Postmaster NEDs have access to Board and Committee papers. However, as with any NED, there will still be some areas of conflict where papers cannot be provided to Postmaster NEDs.

95. The GT Governance Report discusses the Postmaster NEDs in relation to succession planning.³² The GT Governance Report also notes the valuable insight into the experience of Postmasters that the Postmaster NEDs bring into the Boardroom³³ (with which Post Office agrees).

96. Post Office does not intend to make significant changes regarding Postmaster representation at the Board level, i.e. Post Office would want to continue with two Postmaster NEDs on the Board. There is, however, an accepted need to evaluate and develop the Postmaster NED role as well as harness the voice of Postmasters further and more broadly within the business.

³² **POL00446477**, page 20.

³³ **POL00446477**, page 34.

97. As highlighted by Grant Thornton, Post Office accepts that the Postmaster NED role does have limitations. Postmaster NEDs are directors and are bound by those duties and need to consider the interests of all stakeholders. So, while Postmaster NED contributions are invaluable on the Board, they need to be supplemented by operational contributions from those who can do so from a management point of view. On the operational side, Postmaster input is particularly invaluable; the Postmaster Engagement Director role is a central element of that, and why Post Office has been holding workshops with Postmasters (see paragraph 196). As set out above, the focus is on improving the onboarding experience for Postmaster NEDs. Post Office wants to continue the Postmaster NED role, with improvements to the selection process and onboarding. The Postmaster NEDs have brought an invaluable challenge and Postmaster-centric view to the Board. This has brought the Board closer to current operational issues.

98. The original step down date for the Postmaster NEDs term was June 2024. Both current Postmaster NEDs have had their tenures extended until June 2025 and have applied for re-election. Post Office is currently recruiting for two incoming Postmaster NEDs. Both current Postmaster NEDs were consulted on how to approach the next round of Postmaster NED recruitment, and based on their input, the criteria for the role have been rebalanced and made more objective and clearer. I exhibit a letter to the Minister (Letter to Kevin Hollinrake MP, Parliamentary Under Secretary of State at Department of Business and Trade dated 7 December 2023), which seeks consent to commence the appointment process for new Postmaster

NEDs, and which appends the updated role description and a timeline of the appointment process (**POL00448417**).

99. Upon appointment, the new Postmaster NEDs will be provided with a more bespoke induction, partly assisted by a third party. This follows feedback that the induction process for the original two Postmaster NEDs could be improved upon. Particular points of improvement suggested were greater thoughtfulness and sensitivity given to the background and skillsets of the Postmaster NEDs, as well as assisting them in further understanding the role of a Board and that of a NED. Additionally, training on identifying conflicts will be very important.

100. It is important to note here that Post Office also introduced the role of Postmaster Engagement Director in 2021. The current Director, Mark Eldridge, who is also a current serving Postmaster, was appointed on 6 December 2023 (see paragraph 191). It is important that this role continues, and also that Postmaster NEDs are able to bring their experience and perspective to the Board.

101. Reflecting on the level of time and commitment given by the Postmaster NEDs, Post Office initially expected this would be in line with other NEDs and around 1-2 days a month. However, the experience to date has been that the Postmaster NEDs have dedicated a much more significant amount of time in their role, particularly in engaging with operational aspects of the business.

(4) Board meeting processes

102. A key observation of the GT Governance Report is the “*impact that poor MI has on the effectiveness of discussion and decision making at Board (and other decision-making forums) thereby reducing accountability and effectiveness within POL’s governance hierarchy*”.³⁴ Post Office agrees with these findings. Some actions to address improved Management Information (“MI”) are already underway (see paragraphs 39(g) and 39(k) which highlight the changes on board papers introduced by the new Interim Chair). Additionally, there is new dashboard reporting for some areas (culture, whistleblowing and investigations, retail and technology) which will be presented regularly to the Board along with the Postmaster and Employee pulse and full survey results.

103. I have set out above at paragraph 39(m) recent changes to the ARC. Updates on the work of Nominations Committee and Remuneration Committee are standing agenda items on the Post Office Board Agenda and time is allocated for Committee Chairs to provide verbal updates. Further, all NEDs have been provided with access to Nominations Committee and Remuneration Committee materials and access in Diligent has been updated so that all NEDs (save in conflict situations) have access across all Board and Committee papers.

104. As set out above at paragraph 39(g)-(h):

³⁴ POL00446477, page 10.

- a. the Interim Chair has requested shorter, sharper and more strategically focused Board papers;
- b. the 'Reading Room' will no longer be used;
- c. the Board paper template is being updated and will provide guidance to authors on ensuring the right focus for Board decision-making/strategic responsibilities;
- d. the Secretariat are empowered to return papers to authors that do not meet the guidelines; and
- e. matters arising are allocated to an executive member in addition to SMEs to ensure oversight, accountability and delivery. The Interim Chair has made it abundantly clear that the expectation of the Board is that all matters arising must be attended to ahead of the next scheduled Board meeting.

105. Post Office recognises the need to increase trust amongst Board members. In addition to NED only sessions (informal), Board dinners have been reinstated to facilitate unstructured dialogue outside the formal setting of Board meetings.

106. Notwithstanding these recent changes, this will be an area for continuous improvement, including in response to priorities following the Strategic Review and the evidence, conclusions and recommendations of the Inquiry.

Executive Priority Actions

(1) Division of responsibilities – streamline the accountability chain

107. The correct division of responsibilities and a streamlining of the accountability chain are seen as being fundamental in addressing Post Office's need for change, and go to the core of the Inquiry's Terms of Reference requiring Post Office to *"examine the historic and current governance [and whistleblowing] controls in place at Post Office Ltd, identify any relevant failings, and establish whether current controls are now sufficient to ensure that failings leading to the issues covered by this Inquiry do not happen again."*

108. Post Office agrees with the observation made in the GT Governance Report that *"the accountability chain for POL is complex and further complicated by no clear purpose and strategy from which to performance manage and prioritise efforts. The web of stakeholders and their related interests in POL has influenced an unnecessarily multifaceted governance framework at Enterprise level where resolution to issues has been through layering of Committees and passing decisions up rather than streamlining the accountability chain."*³⁵ As mentioned, this then places a significant burden on the Board due to matters that should ideally be addressed at a lower level being pushed up to the Board.

³⁵ POL00446477, page 12.

109. Structural change will only be effective alongside cultural and behavioural change.

Whilst actions are already underway to address governance design and structures, which are essential foundations to addressing the identified issues, the timeline for overall organisational change is a longer one given the need for behavioural change to make those governance structures work as intended.

110. A wholesale review of the executive level committees that are in place will be undertaken to assess their utility, terms of reference and membership. The required streamlining of executive committees will take place between October 2024 and March 2025, and the CoS is responsible for this action.

(2) Leadership capacity and succession planning

111. As with Board succession planning, enterprise level succession planning is also essential for the long-term sustainability of Post Office. Intrinsicly linked with this is the wider people and culture agenda, including learning & development, equity, diversity & inclusion, leadership and recruitment.

112. Although some action has already taken place at a senior management level (the appointment of interim COO, CFO, GC and GC (Inquiry) effective from July 2024, see paragraph 263(h)), and clarity on purpose from the Strategic Review which will help to frame the people agenda, Post Office recognises a lot more work needs to be done.

(3) Strategic / Culture focus

113. Please see above, as well as the culture section of this statement (section D from paragraph 174).

(4) Risk Management (Board and Executive actions)

114. A decision was taken by the Nominations Committee at a meeting on 12 June 2024 to restructure Post Office's risk governance. I was not present at that meeting (I am not a member but attend occasionally on specific action points), and information on this topic has been provided to me by Karen McEwan.

115. The restructure will bring together Risk, Assurance and Compliance into a single function so that Post Office will have a fully integrated view of its risk environment. A new role of Group Risk and Assurance Director is being recruited to lead the combined team. That individual will report into the Interim CFO with a dotted line into the chair of the Board's ARC to maintain independence. Once a permanent CFO appointment is made that reporting line will move to that executive role.

116. I understand that one reason for this decision is that as CEO there are many demands on my attention, and it is thought that the Interim CFO will have more bandwidth to receive these reports.

117. I have received correspondence from Deloitte on 19 July 2024 (**POL00447914**), to which Post Office responded on 22 July 2024 (**POL00447908**), and 31 July 2024

(POL00448501) regarding this restructuring. This is because the original restructure included internal audit within the new team and Deloitte had concerns about this. Post Office has carefully considered this correspondence and Internal Audit will remain outside of the accountabilities of the new Group Risk and Compliance Director.

118. Upon appointment, it is intended that the new Group Risk and Assurance Director will be responsible for responding to the relevant recommendations in the GT Governance Report,³⁶ including that there should be a root-and-branch review of Post Office's control environment and risk management. Specific and pertinent recommendations from Grant Thornton are dealt with briefly below.

Risk Management, Risk Policies and Procedures (GT Governance Report, Appendix 6³⁷)

119. I have been assisted with the below section by the Group Assurance Director, Anshu Mathur, and the Head of Risk.

120. The Post Office Group Risk Management Policy sets the minimum operating standards relating to enterprise risk management throughout the Post Office **(POL00447853)**. The Post Office Risk Management Policy is supported by the Risk Management Policy Guidelines **(POL00447894)**.

³⁶ **POL00446477**, page 14.

³⁷ **POL00446477**, page 56.

121. The Post Office has accepted that updates and improvements are required to the Group Risk Management Policy, including the refinement of roles and responsibilities, emphasising the need for independent challenge, reporting frequency and terminology. The risk management policy will go through the annual review in October / November and any refinement to roles and responsibilities will be included within the annual review (when they are confirmed by the business). I am aware that an independent audit will be carried out within the next 12 months.

122. Grant Thornton concluded that the introduction of Service Now in 2021 is a positive development for automating risk reporting.³⁸ All Post Office risks (across all levels of the risk hierarchy) are now identified, analysed, evaluated, managed and recorded in an electronic risk management application. Service Now provides risk performance data, allowing it to more accurately gauge its exposure risk. Nonetheless, Post Office accepts that a more holistic and strategic review is required.

123. As noted by the GT Governance Report, the Central Risk Team, as the second line, *“has undergone a transformation and has resourced appropriate skills and experience.”*³⁹ The Central Risk Team reports and escalates risks through:

³⁸ POL00446477, page 21.

³⁹ POL00446477, page 56.

- a. Bi-monthly Intermediate risk dashboards, provided to GE (now SEG) members which provide an overview of each business area's risk position and a complete list of the enterprise and intermediate risks.
- b. Risk deep dives that are carried out every 6 months. The deep dives consider all three levels of risk within a business unit. Conversations are held with the senior leadership team area to assess their intermediate risks, discuss emerging risks and also the risk posture for their departments. A report is provided to the RCC and the ARC. Whilst these measures have been introduced to effectively monitor and report upon the identification and management of risk in the Post Office, Post Office accepts Grant Thornton's conclusion that ownership of risk in Post Office needs to move away from the second line of defence and into the business. This is less a matter of governance and more a matter of culture, in how the business perceives and thinks about risk.

ARC and Risk Appetite (GT Governance Report, Appendix 6⁴⁰)

124. The ARC provides oversight of Post Office's Group risk management systems, operational controls and key systems, including monitoring exposures to the Group Risk Appetite (see Terms of Reference of the Audit, Risk and Compliance Committee, **POL00363155**). Risk updates are submitted to the RCC and the ARC bi-monthly with the latest position on enterprise and intermediate risks, grouped

⁴⁰ **POL00446477**, page 57.

under their enterprise risk. The Risk update specifically highlights to RCC and ARC where risks are outside of tolerance.

125. Post Office notes the conclusion of the GT Board Effectiveness Review that Post Office should consider separating the Audit and Risk Committees.⁴¹ Post Office has previously considered and rejected splitting the ARC but upon receipt of the GT Board Effectiveness Review the Board has undertaken to revisit the question.

126. Post Office accepts that the number of regular attendees at the ARC meetings has grown large and that the volume of papers is now significant. The ARC Chair has confirmed that attendance, balance of representation, capability and time for executive contribution will be considered by the ARC in September 2024.

127. Prior to 2021 the Post Office operated with a single Risk Appetite statement which had been in place across Post Office since 2015. Risk Appetite statements were developed across 11 categories through 2021-2024. The GT Governance Report concluded that Post Office operates with a conservative risk appetite.⁴²

128. The Post Office's risk appetite is informed by the circumstances within which the Post Office operates; namely that Post Office will not take any unnecessary risks that may cause a detriment. The Strategic Review should consider the operational and commercial effect of this conservative risk appetite on Post Office and, as

⁴¹ POL00446476, page 25.

⁴² POL00446477, page 58.

noted in the GT Governance Report, the appropriate risk appetite statements and risk tolerances for the future should be aligned with the overall business strategy.⁴³

129. In December 2022, tolerances were introduced in addition to the Risk Appetite statements. In doing so the Board provided an extended Risk Appetite to ensure that reporting to the ARC focused on the key risks which were significantly outside the Risk Appetite. Risk appetite refers to the amount of risk Post Office aims to operate within in order to achieve its objectives.

130. In 2023 the Post Office introduced the Policy Exception Process as a result of which Central Risk is aware of anyone who wishes to operate outside the agreed risk policy, providing the opportunity to take action to address the risk that emerges.

131. In June 2024, the Board reviewed the Group Risk Appetite scale and approved an adjustment to the Corporate Averse appetite scale from 1-5 to 1-6 to provide greater flexibility to risk owners who may now accept as opposed to mitigate the risk. This change will only affect the lowest level risks faced by the Post Office and will not change the way Post Office identifies or acts upon the more significant risks.

132. As noted in the GT Board Effectiveness Review, there is a lack of adequate funding to address some risks within known time horizons.⁴⁴ In December 2022 the then Chair of the ARC, Carla Stent, wrote to the Chair of the ARC for the Department

⁴³ POL00446477, page 58.

⁴⁴ POL00446476, page 35.

for Business, Energy and Industrial Strategy to provide a summary of key risks that were out of tolerance at that time (see Letter to Dr Vikas Shah, Chair of Audit, Risk and Assurance Committee at BEIS dated 19 December 2022, **POL00447765**). In particular, recognising that many out of tolerance risks cannot be remediated without the necessary funding to do so, the ARC Chair emphasised three risk areas would remain out of tolerance until the funding position improves, namely:

- a. the cyber risk from the loss of availability of critical systems;
- b. the inability to extend the Fujitsu contract; and
- c. data governance resulting in poor management of unstructured information.

133. Those three risk areas continue to be listed in the top risks outside of tolerance highlighted to the ARC in July 2024.

RCC and Risk Culture (GT Governance Report Appendix 6⁴⁵)

134. In accordance with the RCC Terms of Reference (**POL00447910**), the RCC is charged with supporting the Group Executive in fulfilling their responsibilities in the effective oversight of risk management, internal control and assurance, and compliance in the Group. Post Office is in the process of revising the RCC's terms

⁴⁵ **POL00446477**, page 58.

of reference to emphasise its decision-making function and place greater accountability across the Business Functions.

135. The Post Office has invested in improving risk awareness and risk culture in Post Office but accepts the conclusions of the GT Governance Report that there remains a lack of importance attributed to risk management across all levels, including the top executive layer.⁴⁶ Recent actions to improve in this area include the following:

- a. All new risk owners are offered one to one training from the Central Risk team but levels of education and training on risk vary through Post Office. Post Office are in the process of piloting a new training module on control effectiveness. We agree that specific training to senior leaders on risk management practices would be beneficial.
- b. A Service Now Risk Management User Guide was introduced in May 2024 (**POL00447891**) to assist risk owners in the first line to correctly identify and record risks in Service Now.
- c. In May 2024 Post Office commenced a pilot for the introduction of Risk Champions. Risk Champions will act as the risk subject matter experts within their business units to assist the first line to better understand and identify emerging risks, and to

⁴⁶ POL00446477, page 58.

develop their risk management skills (see Post Office Risk Champion Framework dated April 2024, **POL00447909**).

Internal Audit and Control Environment (GT Governance Report, Appendix 6⁴⁷)

136. A draft Control Framework for Post Office was approved by the ARC in 2022 (see Audit, Risk and Compliance Committee Report – Draft Internal Control Framework dated 26 September 2022, **POL00447843**) to provide Post Office with a clear and consistent approach against which its control environment can be maintained, measures, monitored and demonstrated. Whilst the Control Framework remains in draft due to funding constraints, the principles are applied on a best endeavours basis. The ARC Chair has confirmed that the steps to better embed the draft Control Framework and address the practical adherence to documentation will be added to the upcoming ARC agenda.

137. Group Assurance was introduced to the Post Office as a second line in 2022 to address an over reliance on Group Internal Audit and limited first line assurance, without systemic processes to ensure regular and objective oversight. The purpose of Group Assurance is to objectively assess and monitor aspects of the business, invite objective challenge and help to foster a culture of objective challenge. Group Assurance applies the draft Control Framework and complies with the Group Assurance Standard Operating Procedures (“SOP”) (**POL00447896**).

⁴⁷ **POL00446477**, page 59.

138. I am told by Post Office's Group Assurance Director, Anshu Mathur, that in addition to reviews under the SOP, Group Assurance also carry out desk top reviews. These involve performing a review with a heavily restricted scope and approach, namely reviewing, and assessing information submitted by the stakeholder or business function to support their assertion(s). The review does not take into consideration any other source of information or involve wider investigation and does not leverage prior information / knowledge. Such reviews are performed to provide a quick and objective opinion on whether the direction of travel adopted is correct or has significant gaps.

139. Group Assurance initially prioritised business areas requiring 'legacy' assurance reviews before continuous assessment could commence. Those legacy assurance reviews are now complete, save for one outstanding review: Overtaken Historic Convictions and Detriment. The outcome of the Legacy Reviews was reported to the RCC and the ARC. Following this, Group Assurance has pivoted to continuous assessment of business areas. Its remit currently covers: Retail, A&CI, Speak Up, Remediation Unit, Technology, Shortfall Schemes, the Inquiry and Culture. Group Assurance also undertakes ad hoc reviews of other business areas when requested by SEG.

140. A continuous assurance model and a risk/control approach will inevitably take time to be properly embedded across Post Office operationally and culturally.

141. Internal Audit's activities are governed by the Internal Audit Charter **(POL00447840)**. Grant Thornton concluded in its GT Governance Report that Post Office has established *"an appropriate Internal Audit framework and supporting documentation"* and there was a *"good working relationship between the Director of Internal Audit and the ARC Chair."*⁴⁸

142. From the 2024/2025 financial year, an independent evaluation of the risk management framework, and governance will be undertaken by a third party to ensure independence.

Subsidiaries (GT Governance Report Appendix 6⁴⁹)

143. The latest version of the Risk Management Policy Guidelines states expressly that all colleagues, contractors and Postmasters should be risk aware and both the Risk Management Policy and the Internal Audit approach consider the risk to Postmasters and their operations **(POL00447894)**. Upon appointment, it will be for the Group Risk, Compliance, Assurance and Audit Director to determine how to take forward the recommendations contained in the GT Governance Report⁵⁰ to make clearer the Postmasters' role in risk management.

Conclusion

⁴⁸ **POL00446477**, page 59.

⁴⁹ **POL00446477**, page 59.

⁵⁰ **POL00446477**.

144. As requested by the Inquiry, this statement has focused on the effectiveness of Post Office's governance arrangements now rather than its historical arrangements (those will be addressed in its submissions on Phases 5/6 in due course). However, it is clear from the evidence heard during those phases that there were significant issues with Post Office's corporate governance during the relevant period, to the detriment of Postmasters. More recently, Post Office accepts that there have been (and continue to be) some concerning issues with its corporate governance. In particular, Post Office accepts that there has been a lack of clear vision on its purpose, objectives and relationship with the Shareholder. This has negatively influenced the day to day running of the business, undermining the effectiveness of our governance and hindering the pace of decision-making within Post Office. Post Office now has a roadmap which identifies the necessary changes. This will be further informed by the current Strategic Review. Post Office is committed to achieving real reform of its governance, with the support of the Shareholder.

Most Recent Chair and Board Annual Effectiveness Reviews

2023/24 Chair Effectiveness Review

145. Whilst the process for conducting a Chair annual effectiveness review for 2023/24 was agreed with the Senior Independent Director and the Shareholder Representative in January 2024, it is understood that Henry Staunton gave instructions to pause the review. In light of the departure of Henry Staunton at the end of January 2024, no Chair annual effectiveness report has been produced in 2024.

2023/24 GT Board Effectiveness Review

146. As acknowledged in the GT Board Effectiveness Review: *“POL continues to navigate a turbulent period with the ongoing Horizon IT Inquiry, the recent absence of a Chair and several upcoming Board rotations.”*⁵¹

147. The GT Board Effectiveness Review also notes that there are *“numerous challenges that are impacting on POL Board's effectiveness and therein POL's ability to address pressing issues”*.⁵² These are listed as being the ongoing Select Committee Hearings and the Horizon Inquiry, as well as the proximity to the 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.”*⁵³

148. It also highlights the *“intense and critical media scrutiny faced by the POL remains a significant concern, as it is impacting the culture and operations of the business.”*⁵⁴ And it notes that *“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.”*⁵⁵

⁵¹ POL00446476, page 7.

⁵² POL00446476, page 7.

⁵³ POL00446476, page 7.

⁵⁴ POL00446476, page 7.

⁵⁵ POL00446476, page 7.

149. It is also worth noting the positive aspects of the Board and its operations that Grant Thornton identifies, including the diversity of debate, the engagement of Board members and the tactical work being undertaken within ARC and the Remuneration Committee alongside a general willingness to enhance governance and decision-making.

150. Nevertheless, the Post Office cannot, and does not, look to excuse the ultimate conclusion of the GT Board Effectiveness Review, which states that: *“there is limited cohesion within the Board, exacerbated by the absence of a unifying purpose and strategy, insufficient succession planning for key roles, a significant amount of operational matters coming up to Board and ongoing internal and external scrutiny. 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”*.⁵⁶

151. Some changes have been made to date, as set out above at paragraphs 79-145. Post Office recognises that there remains a lot to be done to make sure that its Board operates effectively including to address succession planning, to change the pervasive risk adverse culture, to build leadership cohesion and to enable transformation. Post Office commissioned Grant Thornton in order to obtain an

⁵⁶ POL00446476, page 7.

external view on the effectiveness of its Board. Post Office intends to implement the changes that it has accepted as set out in the action trackers.

152. Post Office will also carefully consider any findings and recommendations made by the Inquiry's governance experts as to what can be done to improve Board effectiveness.

153. The GT Board Effectiveness Review states that "*solving several of the issues are not within POL's gift, and for example, require the active engagement of the Shareholder*".⁵⁷ Post Office recognises that it needs to engage actively with UKGI and DBT to solve certain of its problems and where additional funding is required, to present carefully considered proposals for funding which align with its purpose and strategy. DBT have been provided with the GT Governance Report,⁵⁸ the GT Board Effectiveness Review⁵⁹ and the GT Rem Co Report.⁶⁰

Ethos cultural transformation programme

154. I address this at paragraphs 226 onwards when discussing culture.

Annual report

⁵⁷ POL00446476, page 7.

⁵⁸ POL00446477.

⁵⁹ POL00446476.

⁶⁰ POL00446475.

155. Post Office prepares an Annual Report and Accounts each year. The latest annual report is the 2022/23 Annual Report dated 11 December 2023 (**UKGI00044323**). This was published within the required timeframe, including taking into account the requirements to place it before Parliament pursuant to section 77 of the Postal Services Act 2000.
156. Post Office believes that the process for the preparation of the 2022/23 Annual Report was well-run, and an improvement on the previous year. This is supported by the GT Governance Report, which rated Post Office as ‘green’ against Principle 4(N) of the UK Corporate Governance Code for the Board to *“present a fair, balanced and understandable assessment of the company’s position and prospects”*.⁶¹
157. The final form 2022/23 Annual Report was presented to the ARC at its meeting on 27 November 2023 on the basis that it was ready to be presented to the Board for approval. The accompanying ARC paper stated that the 2022/23 Annual Report had: *“been reviewed by a significant number of interested parties with comments reflected in the version presented to ARC. These parties include – management, GE, ARC, Board, UKGI, DBT and PwC. In addition, specific reviews have been undertaken by an external Copywriter, TB Cardew, Deloitte and Pinsent Masons over defined items / areas”* (Audit, Risk and Compliance Committee Report –

⁶¹ POL00446477, page 21.

FY22/23 ARA Update paper dated 27 November 2023 (the "**November 2023 ARC ARA Update**") **POL00447846**).

158. Having an enhanced review and assurance process was seen as being of particular importance following the failings of the 2021/22 Annual Report (**POL00363151**). This is referred to by the Chair in his Foreword to the 2022/23 Annual Report: *"Regrettably, the year will also be remembered for the failings of governance included in last year's remuneration report which included an inaccurate description for one element of a senior bonus scheme"* (**UKGI00044323**).

159. The additional assurance provided by Deloitte, for example, involved verifying management identified metrics and statements included in the first half of the 2022/23 Annual Report, with many of these relating to Remuneration Committee reporting. In addition, Post Office instructed a law firm, Pinsent Masons, to carry out an external assurance review of Code reporting compliance (who consequently reported that *"a high level of compliance is being achieved"*).

160. A further enhancement was the ownership of specific sections of the 2022/23 Annual Report by members of SEG, who were then required to provide attestations over the accuracy and completeness of their respective sections, and Executive declarations identifying material items to be aware of. An example of this is the Board paper in relation to the Accountable person (the Audit, Risk and Compliance

Committee Report – Accountable Person dated 27 November 2023, **POL00447847**).

161. In addition, meetings were “*held with all Board members where requested, to discuss the Going Concern position in more detail and enable any concerns to be raised and addressed ahead of the Board meeting on 28/11/23*” (see the November 2023 ARC ARA Update, **POL00447846**). A number of papers were also produced to address this issue. This was in light of “*the wording around the material uncertainty, in addition to the expected funding position as at the time of signing*” (see the November 2023 ARC ARA Update, **POL00447846**).

162. Therefore, Post Office has adopted a different approach to the preparation of the 2022/23 Annual Report in arranging for it to be reviewed by additional third parties with a view to ensuring the accuracy of the report. The changes to the process this year has led to a greater degree of scrutiny over the accounts prior to finalisation.

Post Office meetings with the Minister for Postal Affairs and senior officials at DBT and UKGI since 1 January 2024

163. I am asked to provide details of any meetings the Post Office holds with the Minister for Postal Affairs and senior officials at DBT and UKGI since 1 January 2024 and provide reflections as to what this means for corporate governance now. Where I

do not attend the meeting, I have been provided with the information set out below by someone who does or by considering a summary of key documents related to the meetings.

164. Post Office typically meets on a monthly basis with the Minister for Postal Affairs.

I attend those meetings, along with other members of the Post Office executive team depending on the meeting's agenda. As well as attendees from DBT, this meeting is attended by the Shareholder Representative, Lorna Gratton. In 2024, these have been held on 23 January, 29 February, 28 March, 30 April and 25 June. There has not been a meeting since the election. The items on the agenda vary but have recently been dominated by issues of compensation.

165. The 23 January meeting was focused on measures to overturn Postmaster convictions, compensation and funding issues (see Email regarding Hollinrake/Read Monthly Meeting dated 23 January 2024, **POL00448486**). The 29 February meeting included compensation tax, and the possibility of compensation for pre-Horizon issues (see Email regarding Ministerial Meeting & Today's Statement dated 19 – 23 February 2024, **POL00448489**). The 28 March meeting was focused on compensation, and shortfalls (see Email regarding Nick March Ministerial Meeting dated 12 - 22 March 2024, **POL00448490**). The 30 April meeting was focused on compensation issues (see CEO Briefing Notes, Meeting with Minister of State, Kevin Hollinrake dated 30 April 2024, **POL00448495**) and (see Email regarding Nick Read/Minister Hollinrake Monthly Meeting dated 22 –

25 April 2024, **POL00448493**). As explained above at paragraph 29, 2024 has been characterised by crisis management rather than the long-term future of Post Office. As the agendas suggest almost all the Ministerial meetings in 2024 have been focused on issues associated with compensation and the mass exoneration of Postmasters and how Post Office can speed up the process of both to ensure timely and fair redress. These can be characterised as tactical updates and the focus is upon actions to drive immediate improvements and address specific issues rather than the overall strategic direction of Post Office.

166. I meet fortnightly with the Shareholder Representative, Lorna Gratton and a DBT official at Director level. These meetings are designed as an operational update for the Shareholder and will cover a range of current issues ranging from : trading performance, funding, and people and culture issues, to redress and Inquiry matters, especially costs.

167. In responding to the remainder of the question, I have set out details of formal meetings which take place at Senior Civil Servant level and above which are relevant to the Inquiry's terms of reference. This is because there are a large number of meetings with senior officials at DBT and UKGI. These meetings take place for a wide variety of reasons and on a number of topics. Some are also formal with a regular cadence and others take place more informally or irregularly. Some of the meetings I detail below are attended by others, such as representatives from HM Treasury, BEIS, other retail leaders, and the NFSP. This can help to bring

together different interests and viewpoints. I set out below a list of those which are relevant to the Inquiry's Terms of Reference and which take place with a regular cadence:

a. Quarterly Shareholder Meetings with UKGI and DBT attendance

These take place quarterly. Prior to each meeting, there is an agreed agenda, update on actions and priorities and Post Office produces a progress update report. I exhibit examples for April and July 2024 (see Shareholder Quarterly Briefing Progress Report dated 11 April 2024, **POL00448492** and Shareholder Quarterly Briefing Progress Report dated 11 July 2024, **POL00448500**).

b. Quarterly tripartite meetings between Post Office, DBT (officials and sometimes the Minister) and NFSP

These take place quarterly. I exhibit an example agenda and minutes from January 2024 (see POL/NSFP/DBIT Working Group Meeting Agenda and Minutes dated 17 January 2024, **POL00448488**).

c. Meetings between the Post Office CFO (and selected members of their team) and UKGI (Deputy Director)

These usually take place fortnightly. There is usually an ad hoc agenda and the meetings focus on current live issues. The meeting is used as an escalation route mainly for working level activities.

d. Remediation Unit and Inquiry spend

These take place monthly. They cover Remediation Unit and Inquiry spend. UKGI and DBT are in attendance.

e. Monthly finance reporting meetings with UKGI

These take place monthly. These are mainly with junior officials, although senior officials can and sometimes do attend, to answer questions on Post Office's monthly financial performance. This is a key part of UKGI's financial oversight of Post Office.

f. Monthly meetings on overturned convictions and the Horizon Shortfall Scheme

These take place monthly. They are attended by DBT officials and sometimes with attendance from UKGI (including the Shareholder Representative).

g. Daily Strategic Platform Modernisation Programme ("SPMP") meetings

These meetings take place daily. They are attended by UKGI and DBT officials and Post Office's Transformation and Strategy Director. The focus of the meeting is on funding.

h. Meetings of the Horizon Fujitsu Governance Group

These are attended by the Shareholder Representative and DBT officials.

168. These meetings would be improved through greater role clarity across officials, clearer and more precise information sharing and tighter alignment across the various shareholder groups. It would be helpful going forward to bring all stakeholders together for key meetings to ensure timely sharing of information and so that fully informed decisions about Post Office can be made. This should include, for example, officials and Ministers in HM Treasury.

Chair Letters

Letter to Henry Staunton

169. The June 2023 DBT Letter to Henry Staunton letter from the Parliamentary Under Secretary of State, DBT, to Henry Staunton dated 29 June 2023 (**UKGI00044317**) acknowledges that *“this is a difficult time for the Post Office and that you are facing significant headwinds and immediate challenges”*.

170. In addition to Henry Staunton being asked to continue *“to lead the Board and provide support and challenge to the Chief Executive and management team in stewarding the company through this challenging period”*, the letter specifically asks that Mr Staunton focus on *“the following priorities, and align the reward package to the shareholder priorities”*.⁶²

⁶² The June 2023 DBT Letter to Henry Staunton, UKGI00044317.

- (a) effective financial management and performance, including management of legal costs, to ensure medium term viability;
- (b) addressing Post Office's historic failures and set the business up for success in the future;
- (c) maintaining and improving Post Office's capacity, capability, and resilience at all levels of the organisation;
- (d) supporting and challenging the CEO's efforts to improve the expertise, depth, and resilience particularly at the Group Executive team to ensure the team is capable to deliver the business plan presented;
- (e) updating the Shareholder on how cultural transformation is being incorporated and embedded into the organisation; and
- (f) facilitating the sharing of information with UKGI and the Shareholder in an open and transparent manner.

171. The letter states DBT's expectation is of updates in *"the regular 1:1s between the DBT Permanent Secretary / Chair and DBT Director General / CEO"*.⁶³ It also requires a signed written report from the Chair and CEO on progress in advance

⁶³ UKGI00044317.

of each Quarterly Shareholder Meeting, to include “*commentary on key personnel risks and contingencies at both the Board and Executive level*”.⁶⁴

The letter to Nigel Railton

172. The letter to Nigel Railton has not yet been finalised by DBT. Post Office is therefore not able to provide any further details about what it says about corporate governance at the time of submitting this statement.

D. Culture at Post Office

173. I have been assisted in responding to the Inquiry’s questions regarding culture in R9(58) by the People Director (People Services).

174. Post Office recognises the need for fundamental cultural change. It recognises the presence of oppressive behaviour and intimidating actions in the past which led to a lack of respect and trust between Post Office and its Postmasters. It acknowledges that there has been a lack of effective leadership, a lack of effective training and support; and a lack of responsibility within the organisation. It accepts that it has work to do to restore trust with Postmasters and with the public as a whole. Cultural changes in the Post Office are integral to the rebuilding of that trust.

175. The years from 2019 to the present have been a period of significant flux for Post Office. Paula Vennells stepped down as CEO in February 2019; Alisdair Cameron was appointed as Interim CEO; I joined as CEO in September 2019. Since that

⁶⁴ The June 2023 DBT Letter to Henry Staunton, **UKGI00044317**.

time there have also been several changes to the Group Executive Structure: 10 individuals at Group Executive level have left the organisation. This turnover, and the ensuing lack of consistency at the corporate level, has necessarily slowed and hindered change. In particular, since 2019 there have been five Chief People Officers and three Chief Information Officers. The individuals in those roles should be amongst the most instrumental to the changes Post Office needed to make.

176. Whilst there have been five individuals in the CPO position, the reasons for leaving have varied, including a voluntary resignation, an individual not returning following maternity leave, and a planned short-term contract for maternity cover. The current CPO has been in position since September 2023.

Post Office's Response to the GLO judgments

177. Following the criticisms of Post Office's culture by Fraser J in both the CIJ and the HIJ, external and internal reviews were conducted from 2019 onwards to determine what had gone wrong in the organisation and to inform the steps required to put things right.

178. In the autumn of 2019, on my arrival, work began on building an overarching strategy for my tenure in the Post Office; to set the purpose, focus and tone of the organisation. As part of that work an Organisational Health Index Survey was conducted by McKinsey. Its report was presented to the Board on 26 November 2019 (Report by McKinsey – Organisational Health Survey - "Purpose, Strategy

and Growth” Board Presentation dated 26 November 2019 (the “**McKinsey Report**”), **POL00447762**).

179. The results combined with data from Postmasters and customers and employee surveys led to the development of Post Office’s new purpose: “*We’re here, in person, for the people who rely on us*”. This purpose was intended to recognise that Post Office was a business built upon the service that Postmasters deliver to customers through their branches every day, and that Post Office was there to support the Postmasters to do so.

180. This new purpose was intended to support a reset of the culture of Post Office, renewing its focus and providing clarity across the organisation and making clear the fundamental importance of Postmasters to the organisation.

181. Prior to the CIJ, Postmasters were referred to as agents or operators: they are now referred to solely as Postmasters; the term “subpostmasters” is also no longer used within the organisation in order to reinforce their centrality and importance. The expression “agent” is no longer used for the same reason.

182. In February 2021, a report from KPMG set out reflections on the issues that emerged because of the HIJ and this Inquiry (**POL00030396**).⁶⁵ Its core conclusion

⁶⁵ **POL00030396**, ‘Horizon Report / Report on the progress made to address six areas derived from HIJ Findings’, KPMG LLP, June 2021, V4.2,

was that change was happening but that fundamental issues remained to be addressed to effectively re-establish Postmaster trust.

183. In March 2021, Post Office commissioned a report from Deloitte, (Deloitte Report – Post Office Limited: Postmaster Journeys - Final Report dated March 2021 (the “**Deloitte Report**”, **POL00038115**). The Deloitte Report was intended to examine the extent to which the organisation had moved towards its stated aim of “*putting Postmasters at the heart of the business*”. It built on findings and improvements made by Post Office as a result of both the CIJ and HIJ, as well as looking at wider improvements that had been (or should have been) made to mitigate the risk of Postmaster detriment. It observed a need for a “*shift in culture throughout the organisation*”.⁶⁶

184. Regrettably, the momentum needed for effective change during this period was not always consistent. For example, the proposals in the McKinsey Report⁶⁷ were announced to the business in January 2020. Necessarily, the Post Office’s strategic focus shifted to maintaining the business during the COVID-19 pandemic. The changes made and the effort exerted at every level to respond to the needs of the public during the pandemic were profound, from keeping branches open, to repurposing our distribution centres and procuring PPE.

⁶⁶ The Deloitte Report, **POL00038115**, page 8.

⁶⁷ **POL000447762**.

185. It was difficult to formally implement the resulting strategy during the pandemic period, when the focus was on the immediate challenges. As a result, the new strategy was only properly launched in September 2020. However, the pandemic was also culturally significant for the Post Office. It was a demonstration of the Post Office's key purpose and role in society: to be "*here, in person, for the people who rely on us*".

186. Various practical changes were put into effect following the CIJ, and to reflect the findings of the reviews undertaken. In 2020/2021, a new Contract Performance Policy, a new Suspension Policy, and a new Termination Policy were put in place as part of a renewed commitment to handle contractual matters in good faith with fairness, transparency and professionalism. A Postmaster Support Guide was published which set out the support available.

Improvement Delivery Group ("IDG")

187. In tandem with the above, Post Office established the Improvement Delivery Group ("IDG") in February 2021. A subcommittee of the GE, IDG was tasked with providing oversight of improvement activities undertaken to ensure conformance with the findings of the CIJ and HIJ. From February 2021 to October 2021, the IDG focused on the change delivery and tracked what actions were completed in response.

188. Detail on the implementation of the key changes has been provided by Melanie Park (Central Operations Director), Tracy Marshall (Retail Engagement Director), John Bartlett (Head of A&CI) and Simon Oldnall (Branch Technology Director) in response to Rule 9(57) and Rule 9(58).

189. A further review of the CIJ, HIJ, GLO and the Hamilton Judgment, along with the evidence heard during Phase 1 of the Inquiry, was carried out by the Improvement Delivery Group (“**IDG2**”) in 2024. It identified that there were seven areas in which additional cultural improvements could be made which built on the work carried out since the original CIJ, HIJ and Hamilton criticisms. For ease of reference, these themes were: oversight, capability, curiosity, transparency, failure to speak up, pre-conceived biases and behaviour (see Culture IDG update dated 16 January 2024, **POL00447851**). IDG2 noted a large number of improvements implemented at that time of the review in 2024:

- a. Appointment of a new CEO in 2019;
- b. Appointment of two Postmaster NEDs to the Board;
- c. Appointment of a Postmaster Director to the Leadership Team;
- d. A new Chair, Shareholder Director and Non-Executive Directors;

- e. The disbanding of the Group Executive and Senior Leadership Group and creation of a new SEG and new Leadership Team in January 2024 respectively;
- f. Establishment of the Remediation Unit and Public Inquiry Teams;
- g. Group Assurance Function;
- h. Reporting of internal audit culture findings;
- i. Establishment of organisational design principles in 2021; and
- j. Draft indicators of culture established working with the Institute of Business Ethics.

Postmaster NEDs

190. In April 2021 two non-executive director (“**NED**”) Postmasters, Saf Ismail and Elliot Jacobs, were appointed to the Post Office Board. In September 2021, a serving Postmaster, Hithendra Cheetirala, was appointed to the role of full-time Postmaster Director on a two-year term. He was subsequently replaced in December 2023 by Mark Eldridge who now serves under the title, Postmaster Experience Director, as part of the Senior Leadership Team.

191. The recruitment of Postmaster NEDs onto the Board is the first time in 360 years that Post Office has had serving Postmasters on its board. The change reflects Post Office's commitment to the prioritisation of building and maintaining strong relationships with Postmasters. Further detail on the Postmaster NEDs is provided at paragraphs 94 to 101.

Retail Improvements

192. Various restructuring work has taken place aimed at refocusing the business on Postmasters:

- a. Post Office has established:
 - i. a dedicated Postmaster Training Team;
 - ii. improvements to training facilities;
 - iii. new training modules for Postmasters; and
 - iv. an upgraded online training platform.

- b. A new team field structure has been introduced, giving every branch an Area Manager responsible for managing day-to-day relations with Postmasters. Over 25,000 Area Manager visits were carried out in the first year 2019/2020, increasing to over 44,000 in 2023/2024. These visits are intended to improve dialogue between Postmasters and Post Office and to provide a point of contact for Postmasters to raise concerns.

Engagement with Post Office employees

193. Post Office has taken steps to address and improve engagement between Post Office Executives and Post Office employees:

- a. In November 2019, shortly after joining the business, I introduced Ten@Ten, a weekly 10-minute update delivered by me or a deputy at 10am on a Wednesday providing an opportunity to talk about business performance, corporate issues and share successes. Within these sessions we also have a “fact or fiction” section, in which any employee online or in person can ask questions of me directly, which will be answered during the session or afterwards in writing. This was introduced to demonstrate transparency and openness. The sessions have been well attended with around 700-1000 online viewers and 80-100 in person.

- b. On the back of Ten@Ten, I introduced longer monthly “Townhall” sessions which include a question-and-answer session with online and in person questions welcome. These sessions were intended to enhance communication between colleagues and the Group Executive; increasing visibility and approachability.

194. However, the results of the Colleague Engagement Survey 2024 (Post Office presentation titled 'Engagement Survey 2024') (**POL00446681**) have demonstrated that further work is required to improve communications with Post Office employees.

- a. 29% of colleagues said improving internal communications would help make Post Office a better place to work⁶⁸ – less than half of colleagues feeling that Post Office’s communications were open and honest (46%).⁶⁹
- b. Whilst a small increase on the 2023 Pulse Survey results (40%), this demonstrated a decline since the 2023 Survey of 4%.⁷⁰
- c. This perspective directly contrasts with the surveyed views of the senior leadership population (“**SLP**”) that openness and honesty were improving (63%, up 10% since 2023)⁷¹ and is acknowledged to demonstrate a disparity between the perception of senior leadership and employees of Post Office.

195. In considering these figures it is of note that this survey was completed soon after the ITV drama aired and following the media coverage relating to the former Chairman of the Board, both inevitably eroded confidence. The events of the past and the existing media scrutiny will undoubtedly have had some effect on our employees’ trust and confidence in the leadership.

Engagement with Postmasters

⁶⁸ POL00446681, page 3.

⁶⁹ POL00446681, page 16.

⁷⁰ POL00446681, page 16.

⁷¹ POL00446681, page 16.

196. Post Office has also taken a number of steps to strengthen communication relations between Post Office employees, including senior leaders, and Postmasters:

- a. In 2019, when I joined as CEO, I and other members of the senior leadership team, travelled across the UK and met with Postmasters from rural, urban and suburban post offices in a more informal setting. This allowed me to hear about issues they faced and to allow them to hear directly from me. These were discontinued during the pandemic lockdowns. They now take place, in the form of listening groups, at least quarterly.
- b. In April 2020, Post Office launched an online portal, Branch Hub, which gave Postmasters access to Post Office information and services, branch data, training and onboarding materials and knowledge materials. Its aim was to introduce clearer communication with Postmasters to assist them in running their branches and to provide a mechanism for providing feedback to the branch support centre. Further detail on Branch Hub has been provided in Tracy Marshall's response to Rule 9(57) and Rule 9(58) (see **WITN11610100** at paragraphs 44-45 and 75-80).
- c. In January 2021 the "Adopt an Area" initiative launched, which paired members of the senior leadership group ("**SLG**")⁷² with Area Managers. Senior Leaders were provided with a system to log and resolve issues raised by Postmasters on their

⁷² The SLG was a team of approximately 100 senior leaders within Post Office. This effectively closed down in January 2024 when the Leadership Team and SEG were established.

visits: the programme has been rolled out across the UK and requires Senior Leaders to visit their branches at least twice a year, with an expectation that they will visit once per quarter. In the summer months the Post Office "Perfect Day" expects Senior Leaders to visit branches to help with and advise on the key summer marketing campaign materials. The "Adopt an Area" initiative also requires one individual objective per quarter to be aligned to Postmaster-centricity to ensure the focus is on what is important.

- d. The "Christmas Helper" initiative allows Post Office employees to spend a day in a Post Office Branch or a Customer Support Centre to help and to understand the pressures Postmasters face at that busiest time.

- e. In February 2021, Service First Training was introduced which provided a series of workshops aimed at supporting any Post Office employees with direct contact with Postmasters or Customers. The training was designed, in light of the findings of the CIJ, to focus on developing stronger communication skills by truly listening and, in turn, by building better relationships with Postmasters. The training was rolled out across branch support centres and supply chain support teams and was intended as an opportunity to reset service culture and remind Post Office employees of the expectations of their behaviour. In short, to remind them that their purpose is to serve the Postmasters and to help them to serve their customers.

- f. In May 2021, the introduction of a series of short films, “*Week in the Life of a Postmaster*,” helped colleagues understand and appreciate the challenges and rewards facing Postmasters responsible for running their own businesses. These films and related eLearning subsequently became part of Post Office employee inductions to encourage a focus on Postmasters across all areas of the organisation.

- g. In April 2022, Postmaster forums were launched and aimed to involve Postmasters in decisions and resolving more issues at a regional level. They are hosted by regional managers, with subject matter experts invited to address Postmasters on the emerging or continuing issues of note for them. These forums have been well attended. They have been held monthly and they have become a key element of Post Office’s engagement with Postmasters.

197. Unfortunately, the results of the 2024 Postmaster Sentiments survey (**POL00446682**) demonstrated that the initiatives described above had not proven as successful as Post Office had hoped. Just 37% of respondents were aware of regional forums,⁷³ only 20% knew that senior leaders were visiting branches through the Adopt an Area Programme and 44% had heard about the twice-yearly Postmaster conferences.⁷⁴ Nonetheless, those who were aware of the many initiatives aimed at rebuilding trust, proved more likely to say they have a positive

⁷³ **POL00446682**, page 15.

⁷⁴ **POL00446682**, page 15.

relationship with Post Office, which may indicate some measure of success for the initiatives themselves and a need to better communicate and promote them.

198. The Postmaster Sentiment Survey showed a high awareness of Branch Hub, measuring at 85% of respondents.⁷⁵ Through Branch Hub, Post Office provides an accessible means for Postmasters to obtain the information, communications and support they require to run their branch and 60% of Postmaster respondents thought Branch Hub tools helped them to run their branch on a day-to-day basis. Awareness of branch profitability initiatives proved significantly higher than those initiatives aimed at rebuilding trust.

GLO Awareness

199. Post Office has taken steps to raise awareness of the issues arising out of the GLO and concerns so far raised by the Inquiry, in order to ensure that those currently employed in the Post Office are aware of the mistakes made in the past:

- a. In March 2022, Post Office launched and ran a mandatory training module for all colleagues and new starters covering four key themes: “the Group Litigation”, “the Duty of Good Faith”, “Continuous Conformance” and “Calling Something Out”.
- b. In February 2024, mandatory e-learning and live sessions, “The Post Office Scandal” were rolled out across Post Office workplace sites. These were followed

⁷⁵ POL00446682, page 15.

up by an e-learning module and integration into the induction process. These sessions had been developed through the course of 2023 but their impact was emphasised by the ITV broadcast of the drama "*Alan Bates vs the Post Office*" in January 2024.

Restorative justice meetings with victims

200. From June 2023 onwards Post Office arranged meetings for affected Postmasters with senior Post Office colleagues. These meetings were held predominantly with me and the Director of the Remediation Unit, Simon Recaldin, but also with various members of the senior leadership team. Over 60 such meetings have so far been conducted wherever they have been requested. The offer and conduct of these meetings recognises the need to make amends to, and rebuild the trust of, individual Postmasters who have suffered. The meetings provide an opportunity for myself and senior Post Office executives to listen and personally apologise to individuals affected by Post Office's conduct in the past. The feedback about these meetings has been positive. Further detail on the conduct and feedback on these sessions has been provided by Simon Recaldin in response to Rule 9(56).

ED&I Workstream

201. Since 2020, Post Office has attempted to adopt a more strategic approach to equity, diversity and inclusion ("**ED&I**"), in recognition of the need to go beyond awareness-raising and into the implementation of an effective ED&I agenda across

the workforce. Further detail on the key actions taken to progress the ED&I agenda are provided in my second statement in response to R9(61).⁷⁶

202. An ED&I Hub was launched in 2021 to make ED&I resources available to all employees and in November 2022 an 'Inclusion Playbook' was launched **(POL00448664)**.

203. In November 2022, Post Office's ED&I priorities were consolidated and agreed by the General Executive as follows (as outlined in the GE Report dated 30 November 2022 entitled '*Equity, Diversity and Inclusion Commitments*') **(POL00448662)**:

- a. The CEO will be accountable for Diversity and Inclusion in Post Office and will appoint an executive sponsor with ownership for each Network Group;
- b. Post Office will ensure there is no bias in the recruitment process and will undertake a transparent process of audit;
- c. Post Office will take positive action that supports open career opportunity and progression and will undertake a transparent process of audit;
- d. Post Office will commit to capturing and publishing diversity data, including tracking our commitment to our 2024 targets of 14% ethnic minority representation, 50%

⁷⁶ (WITN00760200).

female representation, 5% disabled and 5% LGBT+ representation at levels up to SLP;

- e. Post Office believes that supporting equity in the workplace is the responsibility of all leaders and line managers and will commit to introducing ED&I objectives for all People Managers;
- f. Post Office commits to creating a respectful, inclusive work environment within which every employee has the opportunity to make meaningful contribution to the company's vision and values, taking a zero-tolerance approach to harassment and bullying; and
- g. Post Office will ensure that all elements of reward and recognition, from performance development reviews to bonus and pay, are fair and will report on this, and take action to close the gap through our Ethnicity and Gender Pay Gap Reporting.

204. Post Office has established and funded employee network groups to support underrepresented groups within the Post Office:

- a. Prism (connects and supports LGBTQ+ employees);
- b. Affinity (promotes the progression of women at Post Office);

- c. Complexions (supports and celebrates religious and cultural diversity); and
- d. Be You (represents disability, mental health, neurodiversity and wellbeing at Post Office).

205. In April 2023 an ED&I objective was set for all Senior Leaders, and a new Post Office Manager development programme was created with a specific training module on EDI. All employees are now also required to have one ED&I objective as part of their Personal Development Review, which is measured through the year. This sends the message that Post Office takes its ED&I responsibilities seriously. Individuals must lean in and take responsibility for their part in this process. Post Office has also created a 'Diversity Dashboard', which is sent around to all Executive and senior leaders every 3 months along with trend analysis, narrative and insights.

206. Nonetheless, the Post Office has accepted the findings of the November 2023 Grant Thornton review, '*ED&I at the Post Office: Inclusion Insights Assessment*', **(POL00447900)** which identified in particular the need to review Post Office's recruitment process to address concerns and enhance consistency around ED&I and to ensure a structured approach to promotions and the adoption of appropriate skills and competency frameworks: Grant Thornton has recommended mandatory

ED&I training for Post Office executives and the setting of requirements for interview panels.

207. Post Office is concerned that the results of the 2024 ED&I Survey, conducted as part of the Colleague Engagement Survey (**POL00446681**) show that colleagues with a disability report that they were less likely to feel they can be their “full selves” at work (59%, 18% lower than non-disabled colleagues);⁷⁷ that their views were generally heard or that they feel generally included in their team (63%, 14% points lower than their non-disabled colleagues)⁷⁸ and to feel included in their team (75%, 12% lower than non-disabled colleagues).⁷⁹

208. There was also less positivity around diverse representation across all levels of Post Office among diverse ethnic background colleagues and variation in the belief that Post Office is a diverse organisation (8% and 7% lower in comparison to the views of white colleagues respectively).⁸⁰ One in five colleagues reported that they had received an unwelcome comment, with “LGB+” colleagues 13% more likely to receive these comments compared to straight colleagues, and women 4% more likely than men.⁸¹ The results show that experiencing unwelcome comments or conduct rises with seniority for women at Post Office.

⁷⁷ **POL00446681**, page 22.

⁷⁸ **POL00446681**, page 22.

⁷⁹ **POL00446681**, page 22.

⁸⁰ **POL00446681**, page 23.

⁸¹ **POL00446681**, page 24.

209. These results were presented to the Board in July 2024 who have confirmed that action is required to address these findings. Hawa Newell-Sydique, Post Office's new Talent and Capability Director, joined the organisation in June 2024. Post Office, recognising that further improvements are required, has asked her to review the ED&I policies, procedures and practices in place in order to finalise, launch and embed a renewed ED&I strategy. The role of Head of ED&I has been introduced within the ED&I team to provide a senior expert role.

210. In June 2024 Post Office ED&I team held an ED&I Summit (see presentation dated 11 June 2024) (**POL00448413**). They are held every six months. Having considered the survey results, five high level themes from the overall strategy as key priorities for the next 12 months:

- a. The view beyond 2025: colleagues are asking for a refreshed strategic direction and for it to be communicated effectively;
- b. The research suggests that the strain experienced by more senior Post Office colleagues can be linked to their exposure to politics and bureaucracy;
- c. Poor communication is driving a lack of confidence in Post Office and senior management from our colleagues;

- d. At a time when communications are critical, our colleagues have highlighted that they don't think we are getting it right; and
- e. Colleagues with diverse characteristics continue to have a different (less positive) experience of working at Post Office.

Whistleblowing/ Speak Up

211. A formal, credible and resourced whistleblowing procedure is important for the development of a culture in which individuals throughout the Post Office feel able to report concerns.

212. Recognising this, and as a result of criticisms in the CIJ, Post Office has made significant changes to its Speak Up functions, which sits within the Assurance and Complex Investigations Team (**A&CI**). Details of these improvements have been provided by John Bartlett. In particular, Post Office has broadened the reporting function to include Postmasters as well as Post Office employees. In line with best practice, a NED Champion, currently Amanda Burton, provides oversight and an independent reporting line.

Steps taken to address wider cultural issues

213. Real cultural change needs to be embedded from the foundations of the organisation. Post Office is committed to becoming an open, forward-looking institution where colleagues take responsibility for their actions and support one

another to keep asking the questions that need to be asked. Alongside the various initiatives Post Office has launched on a micro level, it has also been carrying out work on a macro level to examine and resolve the various cultural issues which have been identified both in the GLO and in the Inquiry.

Launch of Ways of Working

214. In April 2021, Post Office launched a behavioural framework called “Ways of Working” (“**WOW**”) (**POL00447915**) to replace Post Office’s previous values and strategic pillars of: Care, Challenge and Commit. WOW was intended to describe “how” an individual should act in Post Office, to define behaviours that were expected of all Post Office personnel when interacting internally and externally with both Post Office colleagues and with Postmasters.

215. The behaviours underpinning the previous pillars of “care, challenge and commit” were:

- a. *“We care by always thinking customer”;*
- b. *“We strive to make things better through honest challenge”; and*
- c. *“We commit to decisive delivery”.*

216. The WOW values (**POL00447915**) focused on the relationship between the Post Office and its Postmasters: “*we are one team*”, “*we work in partnership*” and “*we deliver*”. The decision to move to the WOW model was intended to reset expectations of behaviours of colleagues and to ensure that the importance of a Postmaster-focus was clearly signposted to everyone, regardless of where they worked in the business. Post Office wanted to make clear to all employees that they as individuals had a role to play in changing the culture of the organisation.

217. In April 2022 Post Office relaunched its performance management process as “Everybody's Conversations”, which was intended to support an agile, responsible, high performing and sustainable organisation. In doing so the WOW model was integrated into Post Office’s Performance Management Policy (**POL00448418**) in that colleagues are rated on their demonstration of WOW at their mid-year and full-year reviews; the how (demonstration of the WOW) is equally weighted with the what (performance against objectives). Post Office recognises that the implementation of WOW against talent acquisition has, however, only recently begun. This will be taken forward through the new Behaviours Framework set out below.

218. Although the Performance Development Review process has involved an aspect of examining how an individual performed against behaviours since 2018/19, in April 2023 a completely separate rating for behaviours was introduced. The colleague Performance Ratings Matrix considers behaviours demonstrated when

assessing performance. Ratings above 3/5 require consistent demonstration of behaviours and to score a top rating, colleagues must be role models of great behaviour.

219. In April 2023, a 360-feedback tool was designed to support professional development. It was designed to provide feedback on leadership competencies linked to WOW. In October 2023, the feedback tool was introduced to assess and capture feedback on how senior leaders demonstrate the WOW as part of the performance development review process. These tools assist in holding those in management and leadership roles to account for the behaviours and ways of working expected of all Post Office employees.

220. The Colleague Engagement Survey (see paragraph 248) asks colleagues "*whether they see the Ways of Working demonstrated across the business*". In 2021 this was 41%, in 2022, 50%, in 2023, 58%, in 2024, 53%.⁸² Colleagues were also asked to indicate their agreement to the following statement: "*Where I work people are held accountable for their performance and behaviours*". In 2022, 38% of colleagues agreed with this statement. In 2023, it was 59% of colleagues agreed and in 2024, it was 63%.⁸³

221. However, there was also a decline in colleagues' belief that senior leaders were leading by example and in line with the WOW, with 38% agreeing that they behave

⁸² POL00446681, page 29.

⁸³ POL00446681, page 29.

in line with the WOW (reducing 6% from the 2023 results and 2% from the 2022 results).⁸⁴

Work on Ethics

222. I understand from Sarah Gray, interim Group General Counsel, that Post Office's in-house legal team began a thorough refresh with training on Solicitor Regulation Authority standards in October 2021. This was followed by attendance at Law Society ethical challenges roundtables in March and April 2022; in-person mandatory ethics training with the Law Society in June 2022; further ethical training delivered by Norton Rose Fulbright in December 2022 and additional Mandatory LCAS training in March 2024. Further Ethics Training sessions and training by Simmons and Simmons took place in July 2024, with additional sessions planned.

223. Further, that in December 2022, the Institute of Business Ethics ("**the Institute**"), was brought in to carry out a review of Post Office's existing Code of Conduct, and its ethical decision-making model. Alongside a review of existing plans and key documents, the Institute convened focus groups with Post Office employees and Postmasters to help identify what was and was not working well and what opportunities there were to improve. Thereafter, the Institute was tasked with running workshops at Board and Executive level to ensure any agreed strategy to improve Post Office's ethical structure was properly taken on board. Finally, there was to be a bespoke ethics programme delivered across Post Office making clear what was expected of all stakeholders with regard to ethical behaviours.

⁸⁴ POL00446681, page 15.

224. While the Institute of Business Ethics involvement with Post Office did not result in the sort of bespoke ethics programme that was anticipated, it did form part of the Ethos programme initiated in 2023.

The Ethos Programme

225. Having redefined its purpose in 2020 and having rolled out a large number of initiatives, Post Office recognised that it did not form part of a cohesive whole and felt overly complex to our people. It was accepted that many colleagues would struggle to list out all the things Post Office had launched and that whilst previous initiatives had launched with the best of motives, aspects felt overly complex.

226. The Ethos programme was initiated in August 2023 with the express intention of coordinating and accelerating cultural initiatives across Post Office (see the GE Ethos Programme Report, **POL00447844**). Despite the work done from 2020 it was felt that Post Office was missing absolute clarity on our distinguishing characteristics, our sentiments towards each other and our Postmasters, the morality that drives our behaviour and our guiding beliefs as an organisation. This approach was adopted on the basis that organisational culture change requires consistent, and systemic change over time to support broader iconic actions that might be taken.

227. Ethos was intended to achieve the following outcomes (see the Post Office Ethos Programme Report, **POL00447845**):

- a. establish a clear definition of the guiding ethics and shared beliefs of the organisation;
- b. deliver some iconic actions that would redefine culture through actions rather than words;
- c. enable an organisation-wide reckoning with the past, recognising and understanding the conditions that allowed past failings to occur;
- d. radical simplification of the frameworks in place associated with culture;
- e. an agreed set of metrics or a scorecard to facilitate measurement of organisational culture; and
- f. ongoing assurance of the organisational culture.

228. The work carried out by the Ethos programme led ultimately to the creation of the Strategic People Plan (see the 3 Year People Plan and People Structure Report, **POL00447854**) which is designed to enable the People team to transform Post Office into 'a great place to work' by April 2027. The plan is focused on colleague

experience, capability and inclusion. The Strategic People Plan was approved by the Board in February 2024.

229. In January 2024 the SEG was introduced to streamline the number of direct reports to the CEO from 10-12 to just 5. At that time, ownership of culture was moved away from the Chief People Officer to me as CEO to recognise and signify the central importance of Post Office's culture and the need for change to be embedded across every aspect of the business and its people. The CEO should epitomise the culture of an organisation and should be held accountable for it.

230. It was apparent, during the course of the work undertaken by the Ethos Taskforce that Post Office's organisational culture remained unclear. Post Office recognised that assurance and measurement of its cultural health was still missing and that ownership of culture was not seen to sit within the Group Executive. Please see paragraphs 235-241 for further details.

231. In light of this recognition, the Ethos Programme was planned to continue for several months. In fact, culture indicators were developed by the Ethos Taskforce, working alongside the Institute of Business Ethics, in late 2023/early 2024. These were used to report to the Board for the first time in July 2024 (measuring May 2024).⁸⁵

⁸⁵ POL00446704.

232. As part of the Ethos review of key documentation and frameworks used across the business, it was determined that the existing Ethical Decision-Making Framework (“**EDMF**”) contained in the Code of Business Conduct was not as embedded as it could have been and had never been launched separately across the business (see the June 2024 Code of Business Conduct Report, **POL00447898**).

233. In March 2024 a new EDMF was proposed. It challenged decision-makers to ask the following questions:

- a. *“Have I actively demonstrated Post Office behaviours when considering this decision?”*
- b. *“Is it legal?”*
- c. *“Am I acting with integrity, fairness and thinking inclusively?”*
- d. *“Have I sought out, listened to and taken different perspectives into account?”*
- e. *“Would I be happy to explain this decision to relevant stakeholders, colleagues, Postmasters, customers, communities?”*

234. The EDMF provided a mechanism for seeking advice and further guidance if the answer to any of the above questions is “no”. The refreshed EDMF was subsequently approved by the Executive on 6 March 2024, and it sits within an updated Code of Business Conduct which was launched on 29 July 2024 (see July 2024 Code of Business Conduct (Long Form), **POL00447907**).

Evolution of WOW: the Behaviours Framework

235. In late 2023, Post Office engaged consultants, businessfourzero, to support an assessment of its overarching cultural framework to ensure it was fit for the future. The intention was to gain a collective understanding of the cultural conditions that led to the failings of the past; to review the way that the current purpose, strategy, and the Ways of Working were delivering for Post Office and to establish a new or refreshed purpose.

236. These workshops were aimed at enabling the SEG to lead the evolution of the business’ culture and own its development. As part of the workshops, the SEG were presented with various stimuli to help develop the business outcomes and new behaviours. These included headline questions, such as identifying Post Office’s unique strengths and where most of the business’ energy was being spent, and materials relating to reacting to a crisis. The SEG were also presented with comments received from colleagues, the Colleague Engagement Survey 2022 and SEG about the culture of the organisation. These centred around themes of:

- a. The culture was too slow and too risky – people reported feeling slowed down by governance and failure to manage big risks;
- b. Poor performance has zero consequences – a lack of accountability leading to decreasing levels of motivation;
- c. Confusion – not enough clarity on long-term priorities and a lack of consistency in short-term decisions;
- d. Mistrust; and
- e. Passion for the business – a need to harness the commitment people at Post Office have for the business and be aligned for the future.

237. Building on the work of businessfourzero, the SEG developed and approved the new Post Office Behaviours Framework, to replace WOW. The Post Office Behaviours Framework (see Post Office: “Our New Behaviours” presentation (“the **“Our New Behaviours’ Presentation”**) (POL00447912) outlines the expected behaviours of all staff and for those in management grade the behaviours will factor into their performance assessment. The Behaviours Framework will systematically assess behaviours, and ensure the principles are embedded into the employee lifecycle.

238. The Behaviours Framework was launched with the Senior Leadership Team on 26 March 2024 and to the rest of the business on 17 July 2024 (see ‘Our New Behaviours’ Presentation, **POL00447912**). The Behaviours Framework will

replace WOW in the Performance Management Policy⁸⁶ as the measure against which Post Office employees' conduct will be measured.

239. The new behaviours on which Post Office will focus going forward, as set out in the 'Our New Behaviours' Presentation (**POL00447912**) are:

- a. ***“Be curious** – Ask the questions that you think need to be asked and push for the truth if you ever think it is missing.”*
- b. ***“Move it forward** – Maintain momentum, keep pushing things closer to completion and be demanding of others to do the same”.*
- c. ***“Own the outcome** – Take responsibility for the issue and run with it until it is resolved.”*
- d. ***“Back each other** – We're all in this together so embolden your colleagues and catch them if they fall.”*

240. Senior leaders are expected to live and to demonstrate these behaviours, and to hold each other to account against them, and for this reason the Behaviours Framework has been embedded into the Performance Management process and into talent acquisition through the use of interview guides, as set out in the 'Our New Behaviours' Presentation (**POL00447912**).

241. Post Office has also taken steps to specifically promote positive leadership behaviour:

⁸⁶ 'Our New Behaviours' Presentation, **POL00448418**.

- a. In 2023, Post Office held a leadership development programme "Leading to Serve" for over 400 senior colleagues. I attended and introduced each one to explain why service in leadership was important and culturally significant for the Post Office. We have received very positive feedback from those attending these programmes; and

- b. In summer 2023, Post Office redesigned and relaunched the Post Office Managers' Programme for all new people managers and existing managers up to band 4.

Monitoring the effect of cultural change

242. From 2021 onwards Post Office has introduced a number of surveys to measure engagement and collate feedback from both colleagues and Postmasters. Whilst Post Office had previously conducted colleague engagement surveys until 2019, the introduction of Postmaster surveys was a significant step to understand their views and experiences of Post Office.

Postmaster surveys

243. The annual Postmaster Survey, launched in January 2021 as the Postmaster Consultation Survey, and subsequently rebranded as the Postmaster Sentiment Survey examines how Postmasters have received changes made by the organisation. The 2024 Postmaster Sentiment Survey received 1,917 responses which was an increase in the response rate from previous years, as outlined in the

Engagement Survey Results Deep Dive, dated 8 July 2024 (“the **Engagement Survey Deep Dive**”) (POL00446704).

244. These surveys ask Postmasters to describe the relationship they have with Post Office: whether they feel like a “subordinate business partner” or a “valued/equal business partner” and how supported they feel by Post Office.

245. Of the 1767 Postmasters who responded in 2021, only 17% percent fell into the highest category of feeling like a valued/equal business partner, while 25% fell into the two lowest quartiles of feeling like subordinates. Positive sentiment increased, peaking at 26% in 2023 but then fell back to 22% with a low quartile percentage of 29% in 2024.⁸⁷ This negative sentiment was ascribed cumulatively to the cost-of-living crisis and its impact on remuneration, the ITV Drama and the Inquiry, the disclosure of bonus payments and Project May (about which further detail will be provided by John Bartlett in his Third Witness Statement).⁸⁸ Over half of those responded confirmed that the ITV drama, Mr Bates vs the Post Office, coupled with Post Office’s appearance before the select committee had had a negative impact on their reputation and staff.⁸⁹

246. The Postmaster Sentiment survey showed that remuneration is the top priority for Postmasters and therefore is a key critical driver of positive sentiment: despite

⁸⁷ POL00446704, page 4.

⁸⁸ POL00446704, page 4; WITN11190300.

⁸⁹ POL00446682, page 25.

some increases, it remained a top priority for many Postmasters and the area with the lowest perceived improvement.⁹⁰

Post Office employee surveys

247. The Colleague Engagement Survey was launched in October 2022. It is an annual survey designed to listen to colleague feedback and identify meaningful actions to address their concerns. The survey results are used to create action plans.

248. Previously, the survey results were provided to the Board through the CEO's report. In recognition of their significance and to better utilise the surveys to drive change within the Post Office, the full results of the 2024 Colleague Engagement Survey were presented to the Board. Post Office has shared the Colleague Engagement Survey 2024 results with the SEG and Leadership Team as well as with colleagues generally. All line managers have been given access to dashboards to enable them to build local action plans.

249. The most recent results demonstrate that whilst Post Office employees remain largely motivated to work for Post Office, with 73% feeling motivated (12% above the UK norm), the 2024 survey found that Post Office staff reported finding it hard to do their best due to cultural factors in the organisation.⁹¹

⁹⁰ POL00446704, page 5.

⁹¹ POL00446681, page 6.

250. The 2024 Colleague Engagement Survey also recorded a high potential attrition rate for senior leadership employees with 47% of senior leadership (reduced 18% since 2022)⁹² and 46% of Band 4 colleagues (increased 15% since 2022) reporting a plan to leave Post Office within the next two years due to concerns over Post Office's culture and future.⁹³ 18% of colleagues who planned to leave within the next two years reported concerns about Post Office's culture, and 22% did not feel confidence in Post Office's future.⁹⁴

251. A Pulse Survey is usually conducted in the Autumn of each year to monitor progress against action plans. Post Office also produce an enterprise-wide action plan in response to the Pulse Survey which is presented to Townhall events on a quarterly basis to report on progress.

Confidence in Senior Leadership

252. As stated in paragraphs 74-145, Post Office has accepted, in the face of the findings of the GT Governance Report that actions and improvements are required to address a lack of confidence in senior leadership within Post Office (**POL00446477**). This is reinforced by the findings of the Post Office Colleague Engagement Survey (Core Report) (**POL00448659**) in which 35% of colleagues

⁹² **POL00446681**, page 10.

⁹³ **POL00446681**, page 10.

⁹⁴ **POL00446681**, page 9.

reported that they had confidence in senior leadership.⁹⁵ This has fallen 5% since the 2023 survey and 4% since the 2022 survey.

253. Analysis of the results suggest that confidence in senior leadership is important for pride and belonging. 45% of those in senior leadership roles had a negative sentiment towards pride for working for Post Office (up 30% from 2023).⁹⁶

254. 42% of senior leadership colleagues reported feeling able to balance their work and personal life (a decline of 18% since 2022), and 4 in 5 have felt under constant strain in recent months.⁹⁷

255. There were some positive findings relating to managers, including support for career development (up by 3% since 2022) and help with prioritising work (up by 7% since 2022). Colleagues reported a broadly positive experience of their managers and colleagues' experiences of their line managers are seen to have improved across Post Office since 2022.

256. Post Office identified key takeaways from the Colleague Engagement Survey 2024. This included awareness that communications issues were undermining colleagues' confidence in Post Office and senior leaders; Post Office colleagues were noted to be asking for a refreshed strategic intent beyond 2025 to be

⁹⁵ POL00448659, page 15.

⁹⁶ POL00448659, page 7.

⁹⁷ POL00448659, page 11.

communicated. Among matters of particular concern was the fact that colleagues with a disability were found to be least likely to feel included at Post Office; those from diverse ethnic backgrounds were less likely to feel positive about career progression, and senior women were the group most likely to have received unwanted comment.

257. In addition to business-wide and local (functional) plans, Post Office intends to produce three action plans that are specific to certain populations whose experience of working for Post Office differs from the norm. These are:

- a. Senior Managers and SLP colleagues – the plan will focus on addressing the strain they report they are under;
- b. colleagues with a disability – the plan will focus on their level of inclusion; and
- c. colleagues from an ethnic minority background – the plan will focus on their career progression.

Cultural Conclusions in the GT Governance Report

258. The Post Office has accepted the five key findings of the June 2024, the GT Governance Report.⁹⁸ The conclusions in that report have demonstrated that Post Office still has much to do in order to address a lack of trust, a lack of accountability and weaknesses in its performance management.

⁹⁸ POL00446477.

259. Specifically, the Post Office has accepted Grant Thornton's conclusions that, notwithstanding the actions taken described above, Post Office:

- a. is plagued by a pervasive culture of reluctance to make decisions;
- b. is driven by fear of public scrutiny;
- c. has a lack of clear accountability; and
- d. has a reluctance to manage underperformance.⁹⁹

260. The GT Governance Report concluded that these factors had led to a perception of "them" and "us" within the ownership structure, which was hindering the ability to identify leadership capability and capacity within Post Office, resulting in a "layering" of decision-making forums.¹⁰⁰

261. Post Office has accepted that we need *"a unifying strategy, greater role clarity through updating foundational governance documents, streamlined decision-making processes, significant improvements in succession planning and a cultural shift towards accountability and long-term planning"* as was recommended in the GT Governance Report.¹⁰¹ The GT Governance Report made a number of recommendations, some of which were within Post Office's control, others of which

⁹⁹ POL00446477.

¹⁰⁰ POL00446477, page 7.

¹⁰¹ POL00446477, page 7.

were subject to Shareholder approval/buy-in in particular the need to address the lack of a unifying purpose and group-wide strategy between Post Office and the Shareholder and a perceived “*conflict around the role of the Shareholder versus the Board.*”¹⁰²

Actions taken in response

262. The following GT Governance Report recommendations, which have been accepted by the Board, were concerned particularly with culture:

- a. Streamlining the executive level committees.¹⁰³ Post Office proposes to build on this recommendation plus any further recommendations that might be made by the Inquiry, from October 2024 onwards.
- b. Embedding a new Leadership Team with performance-based job descriptions.¹⁰⁴ This is already in progress as part of the Reward and Role Review scheduled to take place by end September 2024.
- c. Agreeing cultural / leadership principles.¹⁰⁵ This has formed part of the refreshed Behaviours Framework, launched in July 2024 (see 'Our New Behaviours' Presentation, **POL00447912**).

¹⁰² **POL00446477**, page 7.

¹⁰³ **POL00446477**, page 13.

¹⁰⁴ **POL00446477**, page 13.

¹⁰⁵ **POL00446477**, page 13.

- d. Ensuring strategic design is supported by a culture framework with performance management as a key pillar.¹⁰⁶
- e. Considering a refresh of values and aligning with the culture framework and Project Ethos work¹⁰⁷ – a project already in train from the second quarter of 2024.
- f. Developing a culture dashboard:¹⁰⁸ in train as culture indicators (see paragraph 264).
- g. Creating a high-level communication plan with key milestones focusing on the themes of reset (governance and leadership), renew (strategic framework) and reboot (culture and behaviours).¹⁰⁹ This is proposed to be completed as part of the Strategic Review (on which see below).
- h. Urgently addressing Executive succession planning including ED&I principles with input from Nominations Committee and SEG:¹¹⁰ this is in progress with Neil Brocklehurst (“Interim COO”) appointed in June 2024 and Preetha McCann (“Interim CFO”), Sarah Gray (“Interim Group GC”) and John Dillon (“Interim GC (Inquiry)”) commencing their roles in July 2024.

¹⁰⁶ POL00446477, page 13.

¹⁰⁷ POL00446477, page 13.

¹⁰⁸ POL00446477, page 13.

¹⁰⁹ POL00446477, page 13.

¹¹⁰ POL00446477, page 14.

263. As part of the response to the findings of the final GT Governance Report, Post Office produced a set of culture indicators, the purpose of which was to provide a single set of measurements by which the culture of the Board of Post Office could be considered and assessed (see Engagement Survey Deep Dive, **POL00446704**). This is an attempt to bring together the results of the many external and internal reports and reviews and surveys into one “dashboard” of information.

264. The resulting “dashboard” (also referred to internally as both a “scorecard” and a “matrix”) establishes a mechanism by which updates on culture can be provided to the Board on a twice-yearly basis and to the SEG every two months. The decision to create this singular matrix was in recognition of the fact that the Board had historically been presented with multiple competing reports and updates which Post Office recognises was unhelpful to the development of a coherent culture.

265. The dashboard has 27 indicators that providing a quantitative view of culture, with associated supporting commentary; outcomes from any employee or Postmaster engagement surveys; and outcomes from any assurance work completed on culture. They were developed by working with stakeholders from the Ethos Taskforce and have been reviewed by the Institute of Business Ethics, which has provided assurance that the proposed set of indicators would bring Post Office in line with best practice ethical culture reporting seen in the big banks and big 4

accounting firms. The indicators were taken to Board for the first time on 8 July 2024.

Staffing and remuneration

266. Post Office has faced a significant degree of staff churn with a great deal of movement of senior staff at a Board, SEG and Leadership Team level. The GT Governance Report in particular noted problems arising out of *“the complexity of legacy reward schemes, mistrust around pay, high staff churn and confusion due to lack of corporate memory”*.¹¹¹

267. Post Office plays an important social function, but it remains, as a result of decisions made by successive administrations, a corporate entity run as a business.

268. What this means is that Post Office is required to recruit its executives in the same manner and on the same terms as other businesses. As the high churn rate of staff demonstrates, maintaining valuable staff during the last five years of crisis has not been easy. Competitive pay commensurate with other executive roles is vital in reducing senior colleague churn within the business. Post Office recognises the difficulty – and resentment – this engenders at a time when Postmasters do not feel adequately remunerated for the work they do.

¹¹¹ POL00446477, page 50.

269. In December 2023 the GT Rem Co Report (**POL00446475**) set out the importance of strategically linked executive pay. It noted that Post Office's remuneration strategy was based on attracting, motivating and retaining the right talent, using appropriate incentives to reward the achievement of strategic business goals while reinforcing a culture of sustainable performance, partnership and mutual ways of working with a transparent approach to the disclosure of pay.¹¹²

270. The GT Rem Co Report recommended that Post Office re-engages with the Shareholder prior to the December 2024 conclusion of the current three-year funding cycle.¹¹³ It further recommended that Remuneration Committee should not award any element of bonus specifically relating to the Horizon IT Inquiry both now and going forward.¹¹⁴ The GT Rem Co Report stated that both of these recommendations had already been implemented.¹¹⁵

271. In terms of future remuneration, the GT Rem Co Report recommended that the development and reporting of remuneration strategy, including incentive schemes, be managed by the CPO rather than any other senior executives to ensure accountability, transparency, objectivity and consistency in the process.¹¹⁶

¹¹² **POL00446475**, page 17.

¹¹³ **POL00446475**, page 15.

¹¹⁴ **POL00446475**, page 5.

¹¹⁵ **POL00446475**, page 5.

¹¹⁶ **POL00446475**, page 17.

272. Post Office recognises that it has historically had issues with remuneration, particularly with the payment of bonuses. It recognises that this issue has caused some conflict in the organisation, in particular given Postmasters' ongoing and legitimate concerns regarding their own remuneration.

273. I have committed that Post Office will work towards sharing 50% of branch generated revenue with Postmasters, which represents a significant change to their remuneration. In the last financial year Post Office achieved 45.6% and will continue to drive this figure upwards.

E: Conclusions

274. As set out above, during my time in the Post Office there have been a significant number of programmes, changes and initiatives to address Post Office's culture. However, further change is still required. Post Office has already committed to the following, but the direction of travel for the Post Office will inevitably also be shaped by the outcomes of the Strategic Review and the outcome of this Inquiry:

- a. Work is planned from October 2024 to March 2025, with the intention that it will capture any further reflections and conclusions produced by the Inquiry specifically addressing streamlining the executive level committees, simplifying decision-making structures to improve approvals, speeding up of decision-making, reduce siloed working, and free up capability that is currently taken up by producing multiple papers, and reviewing and communicating decision-making protocols and accountabilities.

- b. A new “Reward and Role Review” is scheduled to take place by the end of September 2024. Organisational design work includes a review of accountabilities, with a focus on SEG, the Leadership Team, Senior Leader Population and Band 4; this will clarify who is accountable for what and remove duplication.
- c. Work is planned from October 2024 to March 2025 to design new terms of reference for committees reporting into SEG.
- d. As set out above, refreshed behaviours have been launched to create new cultural/leadership principles aimed at holding members of the organisation to account; values have been refreshed as part of the Ethos programme.
- e. Culture framework and performance management will form part of the People Plan.
- f. A strategic skills gap review is proposed to ensure better succession planning. A skills matrix for the leadership team with appropriate job descriptions and performance matrix is proposed to support this action.

275. I recognise that the GT Governance Report, its recommendations and the resulting actions, as well as the Teneo review, will focus on how Post Office functions rather than on Postmasters explicitly. However, the best way for Post Office to effectively

serve Postmasters and thereby regain their trust is for Post Office itself to function effectively, ethically and sustainably.

276. As described above, the People Function intends to align structures to support future opportunities, e.g. strengthening the contractor resourcing team and processes to better manage the way that contractors (contingent workers) are used within Post Office, reducing reliance, risk, cost and bringing in better in-house capability. Post Office will ensure a consistent way of recruiting is deployed across the organisation, thereby removing single points of failure and providing opportunities for career development and growth. It is hoped and anticipated that this will allow growth within the organisation and thereby foster greater staff retention and ensure future corporate collective skills and memory are preserved.

277. Post Office acknowledges that the systemic changes that needed to happen through the leadership of the business partnered by a strong People Function have not previously been in place. Post Office recognises that insufficient work was done to plan for succession, to ascertain how staff felt about the organisation and to ensure that the right people remained in the right jobs. It has done the work to explore these issues and has a clear plan for the future but recognises a significant amount of work remains to be done.

278. Post Office intends properly to embed its new Behaviours Framework (see 'Our New Behaviours' Presentation, **POL00447912**) into the organisation by promoting

them from the very beginning of the staff lifecycle: selection and recruitment will be informed by understanding and application of the Behaviours; promotion will be contingent on demonstration of the Behaviours; those who do not adopt them will be challenged. Appraisal will focus on application of those Behaviours.

279. Post Office has been very explicit that the Behaviours are not simply a framework for leaders: they are the behaviours all staff at the organisation are expected to live by. This is a significant change and one which it is hoped will have a significant effect on Post Office's culture and conduct.

Statement of Truth

I believe the content of this statement to be true.

Signature: 

Date: 02.09.2024

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62	POL00447843	Audit, Risk and Compliance Committee Report – Draft Internal	POL-BSFF-106-0000083

		Control Framework dated 26 September 2022	
63	POL00447896	Post Office Group Assurance Standard Operating Procedures	POL-BSFF-106-0000136
64	POL00447840	Post Office Group Policy: Internal Audit Charter (V0.2)	POL-BSFF-106-0000080
65	POL00447894	Post Office Risk Management Policy Guidelines v1.2	POL-BSFF-106-0000134
66	POL00447846	Audit, Risk and Compliance Committee Report – FY22/23 ARA Update paper dated 27 November 2023	POL-BSFF-106-0000086
67	POL00447847	Audit, Risk and Compliance Committee Report – Accountable Person dated 27 November 2023	POL-BSFF-106-0000087
68	POL00448486	Email regarding Hollinrake/Read Monthly Meeting dated 23 January 2024	POL-BSFF-111-0000001
69	POL00448489	Email regarding Ministerial Meeting & Today's Statement dated 19 – 23 February 2024	POL-BSFF-111-0000004
70	POL00448490	Email regarding Nick March Ministerial Meeting dated 12 - 22 March 2024	POL-BSFF-111-0000005
71	POL00448495	CEO Briefing Notes, Meeting with Minister of State, Kevin Hollinrake dated 30 April 2024	POL-BSFF-111-0000010
72	POL00448493	Email regarding Nick Read/Minister Hollinrake Monthly Meeting dated 22 – 25 April 2024	POL-BSFF-111-0000008
73	POL00448492	Shareholder Quarterly Briefing Progress Report dated 11 April 2024	POL-BSFF-111-0000007
74	POL00448500	Shareholder Quarterly Briefing Progress Report dated 11 July 2024	POL-BSFF-111-0000012

75	POL00448488	POL/NSFP/DBIT Working Group Meeting Agenda and Minutes dated 17 January 2024	POL-BSFF-111-0000003
76	POL00447762	Report by McKinsey – Organisational Health Survey - “Purpose, Strategy and Growth” Board Presentation dated 26 November 2019	POL-BSFF-106-0000002
77	POL00030396	Horizon Report / Report on the progress made to address six areas derived from HIJ Findings, KPMG LLP, June 2021, V4.2	POL-BSFF-114-0000005
78	POL00038115	Deloitte Report – Post Office Limited: Postmaster Journeys - Final Report dated March 2021	POL-BSFF-106-0000004
79	POL00447851	Culture IDG update dated 16 January 2024	POL-BSFF-106-0000091
80	POL00446681	Post Office presentation titled 'Engagement Survey 2024'	POL-BSFF-097-0000009
81	POL00446682	Postmaster Sentiment Survey Results - April 2024	POL-BSFF-097-0000010
82	POL00448664	Inclusion Playbook	POL-BSFF-121-0000011
83	POL00448662	GE Report dated 30 November 2022 entitled 'Equity, Diversity and Inclusion Commitments')	POL-BSFF-121-0000009
84	POL00447900	Grant Thornton: ED&I at the Post Office – Inclusions Insights Assessment dated November 2023	POL-BSFF-106-0000140
85	POL00448413	ED&I Summit presentation dated 11 June 2024	POL-BSFF-119-0000001
86	POL00447915	Ways of Working - Graphics	POL-BSFF-106-0000155
87	POL00448418	Post Office Performance Management Policy	POL-BSFF-119-0000006

88	POL00447912	Post Office: "Our New Behaviours" presentation	POL-BSFF-106-0000152
89	POL00446704	Engagement Survey Results dated 8 July 2024 – Board Deep Dive	POL-BSFF-097-0000032
90	POL00448659	Colleague Engagement Survey Results 2024	POL-BSFF-121-0000006
91	POL00447848	Post Office Board Report - Ethos and People Update dated 28 November 2023	POL-BSFF-106-0000088
92	POL00447911	Code of Business Conduct (short form)	POL-BSFF-106-0000151
93	POL00447916	Post Office Scandal Live Training Schedule and Script dated February 2024	POL-BSFF-106-0000156