

Witness Name: Lorna Gratton

Statement Number: WITN11310100

Dated: 13 September 2024

## POST OFFICE HORIZON IT INQUIRY

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### FIRST WITNESS STATEMENT OF LORNA GRATTON

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I, **LORNA GRATTON**, will say as follows:

1. I am a Director at UK Government Investments (“UKGI”). I currently sit on the Board of Post Office Limited (“POL”) as the Shareholder Non-Executive Director (“Shareholder NED”).
2. This witness statement is made to assist the Post Office Horizon IT Inquiry (the “Inquiry”) with the matters set out in the Rule 9 Request dated 19 July 2024. In making this statement, I have been assisted by Eversheds Sutherland (International) LLP, the recognised legal representative for UKGI, a Core Participant (as defined in paragraph 5(a) of the Inquiry’s Protocol on Witness Statements) in the Inquiry.
3. The statement is based both on my own knowledge and experiences and also on information and documents provided to me by colleagues in UKGI. Some

of the topics that I have been asked to address either pre-date my time working on matters relating to POL, or deal with issues on which my personal involvement has been limited (notably in respect of redress and compensation schemes). I have tried to make clear in this statement where my evidence comes from my direct knowledge and where I am more reliant on what I have been told by others or learned from the documents that I have reviewed. This has also affected the amount of detail that I have been able to give when addressing the different topics.

#### **Background and career history**

4. I graduated from the University of Cambridge in 2005, obtaining a degree in Philosophy and Politics. I also have a degree in International Development from The School of Oriental and African Studies (“SOAS”) University of London and am a qualified teacher. I started my career as a maths teacher at an all-boys comprehensive school in Peckham. I was also a Member of the Board of Trustees for Teach First from 2015 to 2021 and for Westminster Kingsway College for over three years before that.
  
5. I joined the Civil Service in January 2010, working at HM Treasury in the Enterprise & Growth Unit and serving as Private Secretary to the Chancellor. I then joined Boston Consulting Group in January 2014, before returning to the Civil Service as Private Secretary to the Prime Minister in July 2016. I worked for the Department for Culture, Media and Sport from November 2019, becoming Director of the Digital and Tech Policy directorate in May 2020.

6. I joined UKGI as a Director in October 2021. The first UKGI Asset for which I acted as the Shareholder Representative NED was Sheffield Forgemasters following its acquisition by the Ministry of Defence that year.
  
7. In May 2023, I was appointed to my present role as Director with responsibility for POL. In this capacity I lead the Shareholder Team within UKGI concerned with POL. I also sit on the Board of POL as the Shareholder Representative NED. I have attended Board meetings since March 2023, initially as an observer (prior to my appointment as Shareholder Representative NED) once it had been confirmed that I would be taking over from Tom Cooper as UKGI's representative on the Board.

### **The Role of the UKGI Shareholder Team**

#### The relationship between the Department and UKGI

8. UKGI performs the shareholder function for a broad and diverse portfolio of organisations on behalf of the Government Departments that own (in part or in full) those Assets. In the case of POL, UKGI performs this function on behalf of the Department for Business and Trade ("DBT" or the "Department").
  
9. UKGI's role is defined by the Memorandum of Understanding between UKGI and DBT (Memorandum of Understanding between BEIS and UKGI with annexes) (**UKGI00013078**). This Memorandum was signed in December 2019 between UKGI and what was then the Department for Business, Energy and Industrial Strategy ("BEIS") but it continues to have effect following the

restructuring that led to the creation of DBT (an updated version of the MOU is currently in the process of being agreed between UKGI and DBT). The MOU applies to assets owned by DBT for which UKGI performs the shareholder function, including POL. It sets out the terms of engagement by which UKGI provides services to DBT. UKGI's approach is defined at Section 3, which contains provisions that (among other things), UKGI will provide independent advice to DBT and its Ministers in a manner consistent with the Civil Service Code and will engage formally with POL as an agent of DBT.

10. The MOU makes clear at paragraph 3.4 that DBT “will have responsibility for developing or formulating policy.” I am aware that the Inquiry has heard evidence about the distinction between the “shareholder function” and the “policy function” in respect of arm’s length bodies (“ALBs”). The MOU formalises the position that the policy function sits with DBT and not UKGI. For POL, the policy function is primarily concerned with the size of the network of Post Offices, the location of Post Offices, the services that those Post Offices are required to provide for their communities, and the level of Government subsidy – in effect, the social function of POL and the amount of public money that the Government spends to achieve it. These matters of policy are decided within DBT (sometimes aided by information and advice given by UKGI where the Department considers this to be appropriate) and communicated to UKGI. The shareholder function, on the other hand, focuses on how POL is being managed, its capability and its organisational performance to deliver DBT's policy objectives. As the MOU states, UKGI will consider the Department and

the Government's objectives when performing its shareholder representative function.

11. The MOU sets out a high-level description of the role and activities UKGI will perform in delivering its shareholder function for DBT Assets including POL. Further detail on each of those activities is provided in the MOU.<sup>1</sup>
  
12. UKGI has drawn up an internal document entitled UKGI Portfolio Operating Principles ("POPs"). The latest iteration of this document, dated March 2024 (version 4.4), is exhibited with this statement (UKGI Portfolio Operating Principles with Guidance March 2024 v4.4) (**UKGI00049040**). The POPs set out six principles describing the shareholder role that UKGI generally seeks to carry out in respect of Assets. These six principles are referred to within UKGI as its "Target Operating Model". The POPs also break down the Target Operating Model into 40 individual activities, which are supplemented by internal UKGI guidance notes, as well as relevant external sources.
  
13. Whilst the POPs articulate a target model, there is no single 'one size fits all' governance model across the UKGI portfolio as the demands and relationships in respect of each of its Assets differs. UKGI therefore expects some flexibility in the approach taken by the shareholder function across its portfolio in order

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<sup>1</sup> These are set out at paragraph 8.2 of the UKGI-DfT MOU. They are to:

- a. Establish and maintain appropriate and effective corporate governance foundations which govern the Department-Asset relationship;
- b. Promote effective objectives, business planning and performance against a business plan;
- c. Promote strong corporate capability;
- d. Promote effective leadership through high quality boards and senior management;
- e. Promote effective relationships between the Department and the Asset; and
- f. Support and supplement the activities above by providing an experienced Shareholder NED on the Asset Board.

to meet the unique demands of each organisation. The purpose of the POPs is therefore to provide guidance rather than a fixed set of rules with which shareholder teams must comply. The POPs are kept under review by UKGI's Corporate Governance and Portfolio team and UKGI provides regular guidance and training on them to shareholder teams.

14. The MOU applies to all DBT Assets for which UKGI performs the shareholder function. The MOU (at paragraph 1.2) provides for the possibility of additional, Asset-specific Framework Documents to be agreed between the Department, UKGI and individual Assets. Such an agreement is in place between POL, DBT and UKGI ("the Framework Document") (Post Office Limited: Shareholder Relationship Framework Document) (**POL00362299**). The Framework Document became effective in April 2020 and, as I discuss below, is currently in the process of being revised to be based on the latest HMT template and guidance for Public Corporations as referenced in Managing Public Money ("MPM"). This process includes the drafting of a Delegations Letter from DBT to POL, something that POL has not previously received.
  
15. The Framework Document describes the parameters within which POL is expected to operate, the obligations with which POL is expected to comply, and how POL, the Department and UKGI (including the Shareholder NED and Shareholder Team) are expected to interact with each other. It builds on POL's key governance documents (including its Articles of Association and the Funding Agreement between POL and DBT) in describing expectations across a range of matters, including, among others: Board composition, remit and

responsibilities; information flow between POL and DBT/UKGI; performance reporting; and legally privileged information/disclosure.

16. Further details about the MOU, the POPs, the Framework Document, and other relevant aspects of the corporate governance architecture are contained in the Second Witness Statement of Charles Donald (**WITN10770200**). I have read that statement and agree with the contents of it insofar as it concerns the period of time for which I have been in my present role at UKGI.

#### The role of the UKGI Shareholder Team for POL

17. The Shareholder Team is responsible for discharging UKGI's responsibilities in performing the shareholder function for POL. I spend the vast majority of my time on POL matters. In addition to me, the team currently comprises two Executive Directors (one for finance, the other for governance), three Grade 6 equivalent appointments, three Grade 7 equivalent appointments and an administrative officer (none of whom work full-time on POL matters; most spend around half their time on POL, and the remainder on other UKGI Assets). As is typical for UKGI, those working on the Shareholder Team come from a variety of backgrounds, some from the Civil Service and some recruited from the private sector with experience and qualifications in accountancy and corporate finance. I lead the team as a Director at UKGI, reporting to UKGI's Chief Executive, Charles Donald. The size of the Shareholder Team has varied in line with its responsibilities, for example the team was larger when UKGI played a greater role in matters concerning compensation and redress, as

described below and in paragraphs 41 to 45 of Charles Donald's Second Witness Statement (**WITN10770200**).

18. As set out in Charles Donald's First Witness Statement (**WITN10770100**, para 26), UKGI's shareholder responsibilities in relation to POL primarily focus on corporate governance, strategy and monitoring POL's stewardship of its financial resources. The principal functional responsibilities of the Shareholder Team include:

- a. monitoring and evaluating POL's corporate and financial performance, including against policy objectives and the obligations in the existing Funding Agreement (albeit that from 2018 this was primarily limited to monitoring POL's performance against its obligations to maintain an appropriate network, in light of the creation of a policy team within the Department) and reviewing POL's strategic plan;
- b. working to ensure the sustainability of POL's financial position;
- c. monitoring significant risk issues and reporting these to the Department;
- d. acting as a liaison between POL and the Department to provide relevant shareholder consents;
- e. advising ministers in respect of the foregoing, and assisting the Department to secure sufficient funding from HMG for POL to deliver the Department's policy objectives, as well as supporting the Department Ministers with Parliamentary or other stakeholder engagement;
- f. advising on appointments to the POL Board, including remuneration for these roles; and



- g. arranging and attending ad hoc meetings between the Shareholder Team/Shareholder NED and POL management to discuss matters relevant to the above.
19. More generally, the Shareholder Team seeks to enable effective communication between DBT and POL. It helps the company to understand the Shareholder's objectives and perspective, and allows for information from POL to be provided to Ministers and officials in DBT.
20. The Shareholder Team and I, as UKGI staff, have a duty to comply with the standards contained within the Civil Service Code and MPM, which sets out the main principles for dealing with resources in UK public sector organisations. This means that we must, in exercising our role with respect to POL, operate with integrity and ensure that public money and other resources are used properly, efficiently and achieve value for money for the taxpayer.
21. The Shareholder Team contains a significant amount of technical knowledge in matters relating to accounting, corporate finance and the public sector duties with which POL are expected to comply, as set out in the Framework Document. UKGI's POL Shareholder Team is also able to draw upon wider expertise in other Shareholder Teams which may have experience of issues that are relevant to issues facing POL. Where legal matters arise, it has access to the UKGI legal team which can provide a steer on what further steps or challenges might be considered in the circumstances. UKGI maintains contact with outside Government agencies who may be called upon to assist on

specific points that arise, such as the Tax Centre of Excellence or the Infrastructure and Projects Authority. However, UKGI recognises the limits of its technical expertise and does not provide specialist advice to DBT or POL on matters of law, or procurement, or on issues concerning IT systems. Where such advice is required, external, specialist advice is sought by DBT. As I describe below, this was done in respect of the work being undertaken on providing a replacement for the Horizon system.

22. The policy function for POL sits with a team within the DBT, in line with the arrangement set out in the MOU (**UKGI00013078**). That team reports to its Director, Carl Creswell, who in turn reports to the Director General of the Business Group, David Bickerton. The Shareholder Team works closely with counterparts in the DBT Policy Team both formally and informally. The two teams speak most days and hold regular meetings, for example to agree quarterly priorities. The Shareholder Team also provides written reports to DBT, including monthly reports to the Policy Team<sup>2</sup> and quarterly reports that are addressed to the Permanent Secretary.
  
23. The MOU contains provision for the Shareholder Team to make submissions directly to the DBT Permanent Secretary, Minister or Secretary of State (**UKGI00013078** paragraph 6.2). This could occur when there is a potential tension between the shareholder and policy functions, for example when the desired policy outcome is likely to impose a significant additional cost to the

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<sup>2</sup> I understand that although these monthly reports are addressed to the DBT Policy Team, in practice they are circulated to the Permanent Secretary by the Policy Team. They are produced with that outcome in mind.

business, although this has not happened during my tenure on the Board. In practice, in most instances the Shareholder Team will liaise with the DBT Policy Team (as is envisaged in the MOU) to produce a single submission that differentiates between the advice coming from UKGI and that coming from DBT. This is intended to provide the relevant decision maker with a comprehensible and comprehensive summary of all the factors relevant to the matter under consideration.

24. Further details of the discussions and reporting structures of the Shareholder Team, within UKGI and to DBT, are contained in the Second Witness Statement of Charles Donald (**WITN10770200**, paragraphs 10 to 16). I agree with the description that he gives.
25. In my view, the relationship between the UKGI Shareholder Team and the DBT POL Team is strong and mutually respectful. The two teams work together closely and productively. There are mechanisms in place to ensure that Ministers are given advice that is distinct and distinguishable from the policy and shareholder perspective, which allows them to take informed decisions having considered any competing interests.
26. The Government Internal Audit Agency ("GIAA") has recently carried out a review into the management of the Department's sponsorship relationship with POL and its responsibilities for governance and oversight. Naturally, this included consideration of the Department's relationship with UKGI. In general, the review identified a reliance on personal relationships, knowledge and

judgment over formal structures. It provided recommendations on how to address this, including by committing more matters to writing, formalising key performance indicators for UKGI and clarifying who within the Department is responsible for managing them. The review also made recommendations about information management and avoiding duplication of work by establishing clearer records of the roles and responsibilities of each team across DBT, UKGI and POL. The audit found that the Framework Document was broadly fit for purpose but needed to be updated (as is discussed above). No issues were identified over the Articles of Association. UKGI is working with the Department to implement the GIAA's recommendations where relevant to UKGI's work.

#### Ministerial Intervention

27. There are several ways in which the Secretary of State and Ministers at DBT can and do intervene in POL's governance and management. Most directly, the Secretary of State has the power under the Articles of Association to dismiss the Chair of the POL Board and POL Directors (including the Executive Directors) (Articles of Association of Post Office Limited) (**UKGI00044318**, Article 42(A)). Kemi Badenoch MP exercised that power when dismissing Henry Staunton in January 2024, in circumstances that I describe further below. The revised Articles of Association also allow the Secretary of State to give directions to POL, which require POL to "take all steps within its power to do what those directions require to be done" (**UKGI00044318**, Article 7(F)) (to my knowledge this power has not been exercised). Further, the Secretary of State has consent rights in respect of, among other things, remuneration of Directors (**UKGI00044318**, Article 8.1(E)) and transactions outside the

ordinary course of business over the value of £50 million (**UKGI00044318**, Article 8.1(X)).

28. In addition to these “hard” powers, the Secretary of State has considerable “soft” influence over the direction of POL. The most formal way of exercising this is through the Chair’s letter, sent annually from the Secretary of State, the relevant Minister, or the Permanent Secretary to the Chair of POL setting out DBT’s priorities for the company. There are also regular and ad hoc meetings between the POL Chair and CEO and the Secretary of State or the Minister responsible for POL. These are opportunities for the Department to influence the direction and priorities for the Board and Senior Executive Group (“SEG”). The Chair, Board, CEO and SEG are all aware of the Secretary of State’s powers of direction and dismissal and are also aware of the reliance of POL on high levels of public subsidy as determined by DBT and HMT. In those circumstances a sufficiently informed, engaged and committed Secretary of State or Minister can wield considerable soft power. Kevin Hollinrake MP, Parliamentary Under-Secretary of State (and later Minister of State) for Enterprise, Markets and Small Businesses from October 2022 to July 2024, was willing to exercise these levers and did so effectively during his tenure as Minister responsible for POL.
29. To the best of my knowledge such Ministerial involvement has always been possible in POL. For example, in September 2015 Baroness Neville-Rolfe wrote to the then incoming Chair of POL to request that he prioritise getting to the bottom of the concerns that had been raised about Horizon. This resulted

in the Parker Review and the instruction of independent legal assistance from a leading Queen's Counsel. Later, in 2020, it was made clear to senior figures within POL that the Department considered that it would be unconscionable for bonuses to be awarded in full considering the rulings of Fraser J in the Common Issues Judgment ("CIJ") and the Horizon Issues Judgment ("HIJ"). As a result, bonuses were reduced by 50 per cent for Executive Directors and 20 per cent for General Executives/Senior Leaders. Where the Shareholder makes clear what it expects of an Asset, and where that Asset is heavily reliant on maintaining a positive relationship with the Shareholder to continue to receive financial support, there will inevitably be considerable pressure on the Chair, Board and Executive to respond to the Shareholder's expectations.

30. Below the level of Ministers and the Permanent Secretary, part of the role of the Shareholder Team, and my role as Director of that team and Shareholder NED, is to ensure that POL is kept abreast of the Shareholder's thoughts and concerns about the way in which the business is running. This is an extension of the Department's soft power and helps to ensure that the Asset understands the Shareholder's perspective and objectives.
31. While these opportunities for "hard" and "soft" interventions exist for Ministers, they must take care when exercising them. Principles of good corporate governance hold that shareholders should not involve themselves in the operational running of the business and should leave matters of corporate governance and oversight to the Board; the Framework Document (**POL00362299**) also provides (section 1.2) that, as a Public Corporation, the

POL Board retains responsibility for the operations of the Post Office, and neither the Department nor UKGI have direct involvement in the day-to-day operations of POL or in the management of its network of Post Offices and staff. Further, if Ministers intervene too often, the POL Board and SEG will feel undermined, making recruitment and retention difficult. That said, in my view the principles that apply to running purely commercial companies need to be tailored to take account of the policy considerations that underlie publicly owned assets.

### Risk Registers

32. I am aware that the Inquiry has reviewed several risk registers already and that they will be aware that the UKGI risk register process has evolved significantly since the process was established in ShEx (“Shareholder Executive”). I set out below my understanding of how UKGI’s risk register currently operates.
  
33. UKGI’s internal risk reporting process provides a mechanism to identify, escalate and manage risks faced by UKGI in exercising its mandate. These risks predominantly relate to UKGI’s ability to provide sound advice to client departments and for UKGI’s Shareholder NEDs and Shareholder Teams to perform their roles effectively. These are not the same as the risks being faced by the Assets directly.
  
34. The risks captured within UKGI’s risk register fall into two distinct categories: delivery and reputational. Delivery risks are those risks which directly impact the Shareholder Team’s ability to deliver the objectives agreed with the

Department, whereas reputational risks are those which relate to the wider context in which UKGI operates on behalf of the Shareholder. The distinction between delivery and reputational risk exists to ensure there is a delineation between the risks that UKGI and its Board are accountable for (i.e. the mandate which UKGI has agreed with the relevant Department), and those which pertain to the wider context in which UKGI operates on behalf of the relevant Department. UKGI is not concerned with reputational risk as a vanity, or as an end in and of itself. As an organisation providing professional services to HMG, a positive reputation is essential in order for us to be trusted to perform our role and therefore enable us to deliver value on behalf of the taxpayer.

35. The POL Shareholder Team's internal risk register is reviewed every two months (as are those for other Assets within UKGI's portfolio, which together make up the UKGI risk register). The register is subsequently reviewed by UKGI's central risk team, which scrutinises returns to ensure consistency across the UKGI portfolio, as well as by UKGI's legal team to identify any potential legal or compliance risks which should be explored further. The central risk team compiles an overview paper for UKGI's Executive Committee ("ExCo") which highlights the top risks to UKGI across its portfolio of Assets and projects and the mitigation efforts being taken by each team. Following review by the UKGI ExCo, this paper is subsequently shared with the UKGI Board for discussion. As POL currently holds one of the highest risk ratings within UKGI's portfolio, the POL Shareholder Team also provides a more detailed supporting paper outlining the primary mitigations in place. This is



intended to provide the UKGI Board with sufficient oversight of the activities and performance of both the Shareholder Team and the Asset.

36. As explained above, UKGI's risk register is primarily an internal reporting document and not intended to be the forum by which UKGI captures and determines which Asset risks to escalate to the relevant Department, albeit that they inform this process.
37. There are several routes for the POL Shareholder Team and Shareholder NED to raise any issues or concerns with the Department. The principal forum for POL and the UKGI Shareholder Team to escalate risks to the Department is the Quarterly Shareholder Meeting ("QSM"). These meetings include representatives from the Department, Shareholder Team and POL Executive and are intended to discuss matters such as POL's progress against its agreed deliverables and priorities as set out in the annual Chair's letter. As part of this meeting, POL updates the Department directly on its key risks and UKGI provides its own overlay to these risks, and any further information of which the Department should be aware. This is informed by both my understanding of the Board's discussions around a particular issue, as well as any wider information that my team may have identified. This means that the Department will receive different perspectives on risk from POL and UKGI; for example, the risks arising from Henry Staunton's conduct as POL Chair (discussed in more detail below) did not feature in POL's own risk reporting to the Department, whereas this was a key risk highlighted by UKGI to the Department at the time.

38. In addition to QSMs, my team and I provide monthly reporting directly to the Department sponsor team. These monthly reports summarise progress made against key objectives since the last report, upcoming activities of relevance to the Shareholder, and a risk update. Under BEIS, this information was provided as part of a centralised online reporting tool, however DBT has not implemented a replacement centralised reporting system. A further written update is also provided to the Permanent Secretary, which summarises performance in the last quarter. This quarterly update also includes key financial information on POL's performance for the period.
39. Outside of these regular meetings and reports, I meet regularly with both the Department Director, Mr Creswell, and Director General, Mr Bickerton, responsible for POL related matters. I consider my relationship with both of these individuals to be open and collaborative and these meetings are a useful forum to discuss current POL progress, provide an update on the recent issues considered by the Board, and highlight any aspects that my team or I consider may be of relevance to the Department. I exchange messages with them outside these meetings as and when relevant issues arise (on both day-to-day business and more significant topics such as whistleblowing).
40. Ultimately, should my team or I become aware of an issue that we do not consider the Department has been fully sighted on, or has not fully considered, it may be appropriate to provide a submission directly to the departmental Minister or Permanent Secretary.

41. It should be noted that the UKGI risk control framework does not impact the Asset's Accounting Officer responsibilities. It is the responsibility of the POL CEO, as the designated Accountable Person, to identify and manage the risks faced by the organisation and to report on those risks to the sponsor Department. However, my team and I provide the Department with additional commentary, context or visibility on material risks being faced by the asset. In particular, through my position on the POL Board, I am able to provide the Department with a more direct line of sight into the issues and risks being raised to the Board, over and above the reporting that they receive directly from the Asset.
  
42. The recent GIAA review, which I refer to above, identified some gaps in the Department's risk reporting and analysis (as opposed to that of UKGI), following the restructuring that led to the creation of DBT. One recommendation was that the standing agenda for QSMs should be varied, as risk had previously been the final item meaning that it was the most likely to be omitted from discussion if time ran short (thought this was mitigated by the provision of a report on risk in the written pack for the meeting). UKGI and the Department are working to implement this and other recommendations that touch upon UKGI's work, including suggestions to ensure that the Department's risk appetite is aligned with that of POL and that the sources of risk assurance available within POL are shared with the Department.

### Conclusions

43. The structures that are in place within UKGI, and between UKGI and the Departmental owners of the Assets and projects with which UKGI are involved, have evolved and will continue to evolve. There is no perfect system and UKGI continues to learn from experience, reflection and review on how to improve the mechanisms it uses to perform its functions. The most recent example of this is the GIAA review and recommendations that are currently being considered and implemented. The evidence heard by this Inquiry and the Report that the Chair produces will further inform this process.

### **Role of the Shareholder NED**

44. I was appointed Shareholder NED at POL on 12 May 2023 and my formal responsibilities are set out in my Letter of Appointment (Letter to Lorna Gratton re: Letter of appointment) (**POL00363050**, section 3). I attended my first Board meeting as Shareholder NED on 6 June, having previously attended two Board meetings and multiple committee meetings as an observer. I receive no remuneration for my role as Shareholder NED beyond my salary as a public servant.

45. I sit on all the POL Board's committees: the Remuneration Committee ("RemCo"), the Audit and Risk Committee ("ARC"), the Nominations Committee ("NomCo"), the Remediation Committee, and the Investment Committee. I am the only Board member to do so, although the current Chair is entitled to attend each one. The POPs encourage the Shareholder NED to

sit, as a minimum, on an Asset's Audit, Remuneration and Nomination committees (**UKGI00049040**, p.53).

46. The role of the Shareholder NED is summarised in the POPs (**UKGI00049040**, p.9):

“Unless stated otherwise by Constitutional Documentation, the duties of the UKGI NED on an Asset's Board must be the same as those of all the other Directors, including any other Directors appointed by Ministers. Those include to act in a way they consider, in good faith, most likely to promote the success of the Asset for the benefit of its shareholders. These responsibilities have different parameters to those of UKGI as an organisation, performing the shareholder role. The personal responsibilities of Directors of companies incorporated under the Companies Act 2006 (or predecessor legislation) are set out in section 171 to 177 of the Companies Act 2006. The responsibilities of the Board cannot be delegated, and include (but are not restricted to) the following:

- Duty to promote the success of the company
- Duty to exercise reasonable care, skill and diligence
- Duty to exercise independent judgment
- Duty to act within powers
- Duty to avoid conflicts of interest
- Duty to declare interests in proposed transactions
- Duty to declare interests in existing transactions

- Duty not to accept benefits from third parties.

UKGI understands that the UKGI NED will seek support in carrying out their responsibilities from their shareholder teams, and UKGI encourages this insofar as UKGI team members can provide expertise and insight. However, responsibility for Director duties cannot be borne by anybody other than those on the Board of the Asset, including the UKGI NED.

Despite the need for UKGI NEDs to have the same responsibilities as all other Directors, UKGI accepts that their functional relationship will differ from Independent NEDs. UKGI NEDs by virtue of their HMG-facing roles, have a special ability to facilitate relationships and understanding between Departments and their Assets. UKGI NEDs will act as interlocutor between Departments and Assets as necessary, to give HMG better insight as to the quality of the Board in the performance of its governance function, as well as to promote HMG perspectives and information flow at the Asset Board. This role is critical in helping to deliver all the objectives of UKGI and HMG.”

47. The guidance above was written for all Shareholder NEDs, and it applies to my role on the POL Board. I can confirm that, in law, my duties and responsibilities are the same as all other NEDs on the POL Board, including in respect of the matters set out above. This is a term of my Letter of Appointment (**POL00363050**, section 3). They include a duty to promote the best interests of the company. However, and as the POPs make clear, I am not an independent NED. My position on the Board is a consequence of my role in UKGI exercising the shareholder function on behalf of DBT. There is, therefore,

a clear distinction between my position as a Shareholder NED and that of the other NEDs.

48. This distinction is not as stark as it may first appear. POL, in its current form, remains a going concern only because it receives very substantial financial support from the Shareholder. That support is provided to ensure that POL continues to perform its social function and is contingent on POL operating in a manner that is consistent with wider DBT and Government policy. In those circumstances, the best interests of the company include, as a necessity, maintaining a good relationship with the Shareholder. One of my primary functions as a Shareholder NED is to act as a conduit between POL and DBT, to help the company understand, first, how its requests, decisions and actions will land with the Department and, second, the processes and reasoning that will inform the Department's response to the Company. I am, at present, the only person on the Board with significant public sector experience (including experience within HMT), which adds to the importance of this role.

49. To give an example, I describe below the establishment of the Board's Investment Committee, which was intended to oversee (among other matters) the replacement of Horizon by a new IT system. I sit on this Committee, having lobbied (together with my predecessor on the Board, Tom Cooper) for its formation. During some of its early meetings I was aware of a sense of frustration from some members of the Committee about the degree of assurance that the Shareholder required in respect of the new system, which inevitably added cost and delay. Part of my role was to explain the DBT's

position as to why this was necessary given the appalling history of the Horizon system and the degree of public subsidy required to replace it. In bringing the Shareholder's perspective, and communicating it to my fellow Directors, I was aiming to help the long-term interests of POL in maintaining the relationship with DBT and HMT that was required to develop and fund the replacement IT system.

50. In general, my experience has been that my Board colleagues understand and respect the role that I play as Shareholder NED. This is helped by the fact that a number of them have had experience on the Boards of companies that have been wholly owned by a private investor, a position similar in some ways to the position of a publicly owned ALB. I did have more difficulty in ensuring that Mr Staunton understood my role, and it may be relevant that his experience was more on Boards of listed companies and hence he had less experience of shareholder intervention. He, and possibly some members of the Executive Team at the start of their tenures, struggled with the fact that I was a conduit to the Shareholder, not someone with delegated authority from the Shareholder to make decisions on its behalf at Board meetings. This could lead to frustrations that I could not give approval to matters that were reserved for the Shareholder, in particular regarding remuneration, in respect of which I directed the company to seek formally the views of the Department.

51. I am aware that there may be past or current members of the Board or the Executive that feel that I, as Shareholder NED, have been too forceful in intervening in Board meetings to share the Shareholder's perspective or



requirements on particular topics, or indeed may have been frustrated in the level of oversight or intervention from the Department on certain issues. Some of those views may have informed the Grant Thornton Governance Review dated 25 June 2024 (**POL00446477**) that I discuss further below. There will always be a balance to be struck and Board members might disagree reasonably and in good faith as to where that balance should lie. The length of the arm in an arm's length relationship will vary with circumstances, in particular with the degree of trust between the shareholding Department and the Asset. Given the appalling injustice suffered by the Postmasters<sup>3</sup> as a consequence of the events considered by the Inquiry, the immense and justified public concern about that injustice, the worrying questions over whether full and accurate information was provided in the past by members of the POL Executive to the POL Board, UKGI and Ministers, and the large amounts of public money required to rectify the position and replace the Horizon IT system, it is not surprising that the arm is shorter than it might otherwise have been. Had those events not happened, and were POL financially solvent without subsidy, the position would no doubt be different.

### Information Sharing

52. There are no general restrictions imposed by POL on how I share information that I obtain as Shareholder NED with the UKGI Shareholder Team. The only restrictions that are in place are those resulting from the confidentiality undertaking that I and other Board members have given to the Inquiry. Subject

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<sup>3</sup> In this statement, I use the term "Postmaster" rather than "Sub-postmaster" because, in my experience, that term is more widely used within POL. I do not believe there is now a material distinction between the two terms.

to that undertaking, I can and do share Board papers with the Shareholder Team. The only occasions when I have felt that I should not do so is where those papers have contained sensitive personal information about other Board members (for example, details of health conditions). In those instances, I provide oral updates to the Shareholder Team on the relevant information that I consider should be shared with them.

53. My Letter of Appointment provides that I am permitted to disclose confidential material obtained as Shareholder NED to Ministers, officials and their professional advisers (among others) to the extent that the disclosure occurs in the course of my employment at UKGI or is otherwise reasonably necessary (**POL00363050**, paragraph 7.3). This means that I can provide information to DBT without seeking prior permission of the Chair or anyone else in POL. As a matter of practice, DBT does not require or expect me or the Shareholder Team to share Board packs with the DBT POL policy team on a regular basis. Rather, specific Board papers on issues of particular concern to DBT are shared on an ad hoc basis when the Shareholder Team and I determine, in dialogue with DBT, that it would be helpful for them to have such information.

54. I have never experienced a situation in which I have been prevented from or have felt the need to refrain from sharing a relevant document or relevant information with the Shareholder Team, the DBT Policy Team, or with other relevant officials or Ministers within DBT or UKGI, other than material covered by the Inquiry's confidentiality undertaking or the sensitive personal data to which I have referred above.

55. There was one incident in which I delayed providing a paper to the Shareholder Team and DBT until I had reassured myself that it was not covered by the Inquiry's confidentiality undertaking. This was a report on why the payment of bonuses relating to co-operation with the Inquiry were erroneously said to have been endorsed by the Inquiry Chair, an incident that occurred before I was appointed to the POL Board, but which was under investigation when I took up my post. Once I had taken advice and it had been resolved that this matter was not covered by the undertaking, the document was shared with those that I considered needed to see it.

#### Litigation protocols

56. As set out in Charles Donald's Second Witness Statement (**WITN10770200**, paragraphs 27 to 29), following the CIJ and HIJ, changes were made to POL's governance arrangements to provide greater visibility for UKGI and the Department on material litigation involving POL. These changes included the provision in the Framework Document for quarterly reporting from POL on any active, threatened or reasonably anticipated litigation, and the requirement for POL to enter into information sharing protocols for substantial litigation to facilitate the sharing of legally privileged information.

57. In my view, these measures provide for sufficient information flow in respect of material litigation from POL to UKGI and the Department. I understand the importance of maintaining the status of legally privileged documents but have not encountered any issues in obtaining privileged information from POL's

legal team, or from passing such information to the Shareholder Team or Department as appropriate. There is an expectation of transparency between POL's legal team and the Board, and the Board is conscious of the need for access to legal advice that may be relevant to its decision-making ability.

58. In addition, as referred to in Charles Donald's Second Witness Statement (**WITN10770200**, paragraph 29), POL appointed Ben Tidswell, a NED with legal expertise, to the Board in July 2021 with UKGI's encouragement. Although Mr Tidswell has stepped down from the Board following the end of his term in July 2024,<sup>4</sup> Amanda Burton (NED and Chair of the Remuneration Committee) is also a lawyer by background and I believe this is an important skill set to have on the Board.

### **Experiences on the POL Board: Joining the Board**

#### Training and induction as a NED

59. POL is not the first Board on which I have sat. Before joining UKGI I was a Trustee on the Board of Teach First, the education charity, for six years. Following my recruitment to UKGI I was appointed as Shareholder Representative NED for Sheffield Forgemasters, a precision manufacturer wholly owned by the Ministry of Defence. I sat on that Board for around eighteen months before my appointment to the Board of POL. Within UKGI there is now a recognition that some Assets will require the appointment of a

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<sup>4</sup> Mr Tidswell has, however, continued to provide support to the Remediation Committee since stepping down from the POL Board.

Shareholder Representative NED with some prior experience in that role. POL is regarded as one of these.

60. I have received, and continue to receive, training within UKGI on my role as a NED. I attended the Institute of Directors course on the role of the Director and the Board. I also undertook internal training on the POPs and the role and responsibilities of a Shareholder NED. I participate in ongoing UKGI training directed at enhancing the knowledge and capability of a Shareholder NED, which includes:

- a. Regular meetings and training sessions for UKGI Shareholder NEDs: these sessions explore different topics (for example, participation in Remuneration Committees) and provide a forum for the Shareholder NEDs to share their experiences and discuss issues that have arisen in different Assets as well as hear from external speakers on a range of issues.
- b. A monthly Corporate Governance group meeting: this involves a slightly broader group of individuals who are performing roles in Shareholder Teams within UKGI's portfolio of Assets.
- c. A small group meeting of around five Shareholder NEDs once every two months that is intended to allow for an open discussion of any matters that we wish to raise. These sessions combine discussion, advice and peer support.

61. In addition to these training sessions, UKGI produces guidance notes and documents for their Shareholder NEDs and other employees. The most prominent of these is the POPs, which contains a section on Shareholder NEDS (**UKGI00049040**, pp.52-54), among other relevant material. UKGI has also produced specific guidance on issues including whistleblowing, litigation, and culture within Assets.
  
62. These processes of training and continuing professional development are constantly evolving.
  
63. On joining the POL Board I received additional training as a NED (as opposed to training specific to being a Shareholder NED). I find it difficult now to distinguish between the training I had from POL and the support I received from UKGI colleagues, and it may be that other NEDs are better placed to speak to the extent and effect of the POL training. I recall having the equivalent of around two days training in total, spread over a period of time. This included site visits to three branches that were intended to show a range of branch formats and settings. During this training I was shown the Horizon IT system and spoke to Postmasters about their experience of using it. I have also attended the POL Operations Centre in Chesterfield and one of POL's cash centres as part of my continuing professional development.
  
64. POL also provides ongoing training to its NEDs, including on matters specific to Board committees. For example, ARC members receive training on changes to corporate governance codes and on topics such as cyber security. The

Remediation Committee has had ad hoc sessions on POL's remediation schemes with barristers.

65. In addition to this organised training, I received an extensive handover from my predecessor as Shareholder NED, Tom Cooper. I spent approximately three months working part-time on POL issues before my formal appointment in May 2023. As part of this process, I attended two full Board meetings as an observer and multiple committee meetings. I also had a series of introductory meetings with all of the other NEDs then in post and with the following members of the POL Executive: the CEO (Nick Read), the CFO (Alasdair Cameron), the Head of Legal (Sarah Gray), General Counsel (Ben Foat), the Head of Assurance and Complex Investigations (John Bartlett), the Head of Internal Audit (Johann Appeal), the Head of Risk (Rebecca Barker), the Communications Director (Richard Taylor), the Chief People Officer ("CPO") (Jane Davies), the Financial Directors (Tom Lee and Katherine Sheratt), and senior members of the Remediation Team, the New Branch IT ("NBIT") Team, the Mails Team, the Data Management Team, and the Improvement Delivery Group Team.
66. I am asked to comment on the quality and completeness of the training and induction that I received. I feel that the UKGI training was very thorough, and I cannot think of any additional topics that I would have liked to have seen covered. The UKGI training, including the ongoing training, is reflective and iterative and I feel able to ask for things that I would find helpful.

67. On the POL training, others would be better placed to comment on its effectiveness given that there was considerable overlap between that and the training I had received from UKGI. I can say that I found that members of the Executive Team were always willing to speak to the Board or to me individually on matters that were raised with them.

Training and induction on Horizon issues

68. Before joining the Board, I was advised by Tom Cooper to read Nick Wallis' book *The Great Post Office Scandal* and the CIJ. I took this advice and also listened to Mr Wallis' Radio 4 series and podcast on the Horizon scandal. Through my discussions with Tom and my period of observing POL Board business, I developed a further understanding of matters relating to Horizon and the treatment of the Postmasters. I read the UKGI preliminary "lessons learned" review document about Horizon compiled by UKGI Legal for the UKGI Board; I am aware that this document has been through several drafts and I cannot now recall which one I read, but I exhibit a version that has already been provided to the Inquiry (UKGI Preliminary Internal Review into the Post Office and the Horizon IT System) (**UKGI00048174**). I am aware that there has been ongoing work to incorporate some of these preliminary lessons into internal training and guidance on matters such as whistleblowing and corporate culture. I was also provided with training on the lessons learned by UKGI from the Magnox litigation and inquiry, which included emphasis on the handling of litigation involving Assets within the UKGI portfolio.



69. POL provided training on both the CIJ and HIJ, though this focussed on compliance. I am aware that there is a POL training module for employees on Horizon. I do not know if this is offered to NEDs; it was not provided to me, though this might have been a consequence of my having joined the Board with foreknowledge of Horizon issues.
70. I am asked to reflect on the quality of the training I was provided with in respect of Horizon. That which I received from UKGI was, in my view, very good and was effective in providing me with an understanding of the Horizon scandal. Again, I find it difficult to distinguish between the knowledge that I obtained through the UKGI training and that which I received from POL. If the induction that I received from POL on Horizon represents the totality of the training on Horizon that is provided to all NEDs then I would suggest that it would be helpful to have more information about the actual events concerned, in addition to the material about the ongoing response to them. However, it may be that other NEDs did receive this kind of training. I would also say that the induction that I received from POL was good in respect of the topics that it did cover.
71. While the training and my pre-reading was extremely helpful, the evidence to this Inquiry has furthered my knowledge and understanding of what went wrong. In particular, I do not think that I realised, on joining the Board, the extent to which information flows within POL and between POL and Government were such an important feature.

**Experiences on the POL Board: Relationship between the Board and the SEG**

72. It may be helpful to distinguish between the terms that have been and are used to describe different groups of senior executives within POL. When I was first appointed as Shareholder NED, the senior executive team was called the Group Executive (“GE”), which comprised around thirteen people, almost all of whom reported to the CEO. Below this tier was the Senior Leadership Population (“SLP”), a larger group of around 25 to 30 people with various responsibilities for aspects of POL’s work. For the reasons that I give below, this system was reformed in early 2024 to disband the GE and create a smaller senior team known as the Strategic Executive Group (“SEG”). This is made up of the CEO, Deputy CEO, CFO, CTO and CPO, though others – such as the General Counsel – may also attend meetings. The SLP remains in place, and individuals from the SLP will regularly present at Board meetings and attend meetings with Board members.
73. I have a lot of interaction with members of the SEG, primarily because I sit on the Board and all its committees but also through my position as Director responsible for POL within UKGI. Generally, I am scheduled to meet with the CEO twice per fortnight and will be present when he meets with the Minister (these meetings usually took place on a monthly basis when Kevin Hollinrake was in post). I also have regular meetings with others within the SEG and SLP, including pre-Board meetings when executives are due to present a difficult or complex issue to the Board. I typically attend POL’s headquarters in person once a week and make myself available for meetings in person during those days and virtually on other days.

74. I understand that I spend more time with members of the SEG and SLP than other NEDs. In part this is because I sit on all the Board committees; in part it is a consequence of the nature of my role at UKGI, which means that I spend more time on matters relating to POL than other NEDs. I understand that members of the SEG and SLP do meet with the other NEDs outside of the Board and its committees, with the amount of contact and range of people they see varying between NEDs.
75. In general, the relationship between the Board and the SEG is now a positive one. The Board is engaged and inquisitive and the SEG is receptive to the Board's oversight and requests.
76. POL has faced, and continues to face, very significant challenges. In corporate terms, the company has undergone a period of extreme distress, though this must of course be seen in the context of the still greater human distress caused to so many Postmasters. It has also seen a rapid turnover of senior executives and non-executives, including the dismissal of the Chair by the Secretary of State, the departure of the CFO and several CPOs, and several senior executives taking leave of absence due to ill health. An unusually large number of the SEG are, at the time of writing, interim appointments. It has been, to put it mildly, a very destabilising period in POL's history that has led to a very stressed operating environment.

77. POL has been, and remains, under intense scrutiny, including from the Inquiry and the media. This is not a cause for complaint as it is an inevitable consequence of its past failures and the harm that POL caused. The combination of this scrutiny, the knowledge of the past failures and their consequences, and the destabilisation described above, means that a risk-averse culture has developed in POL where decisions are escalated upwards and legal advice and other assurance is sought on relatively minor matters. A similar culture exists in HMG's decision-making on Post Office. This has created bottlenecks, has made decision-making very slow and has disrupted the usual lines of accountability. This culture has been identified in the Grant Thornton Governance Review, in my view correctly (**POL00446477**).
78. The Board and the SEG are in the process of taking steps to improve the way in which POL is operating. The number of direct reporting lines to the CEO has been reduced, the SEG has replaced the GE, committees have been made smaller and more dynamic, and a programme of work has been undertaken by the CEO's Chief of Staff to try to rationalise the way in which the Executive operates. This work is ongoing. While improving these processes will assist in improving the performance of the company, structural change is not on its own enough. POL needs effective leadership in the most senior executive positions, and it is the responsibility of the Board to ensure that this is achieved.

## Experiences on the POL Board: Cultural Change

### The Importance of cultural change to the Shareholder

79. DBT and UKGI have identified cultural change within POL as a priority for the Shareholder. This is reflected in the emphasis given to this and related issues in the annual Chair's letters:

- a. 2022/2023: The then Permanent Secretary of BEIS, Sarah Munby, welcomed the appointment of Postmaster NEDs (discussed further below), a new Legal NED and a new Director to provide leadership to the Historical Matters Business Unit. She asked the Chair, Tim Parker, to prioritise engagement with the Inquiry and reflection on its findings, and to "drive forward the Company's cultural change programme, embedding any lessons and changes." (Letter from Sarah Munby to Tim Parker: POL Strategic Priorities for 2022/2023) (**UKGI00044315**).
- b. 2023/2024: The then Minister with responsibility for POL, Mr Hollinrake, asked the then Chair, Henry Staunton, to "address POL's historic failures and set the business up for success in the future." Among the activities Mr Hollinrake identified were positive engagement with the Inquiry, the provision of fair and timely compensation, and ensuring lessons were learned from past failures including in respect of the development and roll-out of the replacement IT system. The Minister also asked the Chair to "demonstrate, with the support of external assurance where appropriate, the company's conformance" to the rulings of Fraser J in the CIJ and HIJ. (Letter from Kevin Hollinrake to Henry Staunton: Strategic Priorities for 2023/2024) (**UKGI00044317**).

- c. 2024/2025: The current Secretary of State, Jonathan Reynolds MP, set out the Shareholder's objectives and the topics on which the Department would like to see progress over the financial year. The first of these was "Intensifying existing workstreams to address POL's historic failures and setting the business up for future success." He identified redress for Postmasters, engagement with the Inquiry, conformance with Fraser J's judgments, and ensuring that lessons were learned including in respect of the replacement IT system. The second objective was "Supporting the cultural transformation of the Company and focusing on improving POL's capacity, capability and resilience at all levels." Here, the Secretary of State emphasised the need to engage and communicate with Postmasters and other stakeholders, and the requirement to update the Shareholder on how cultural transformation is being established. (Letter from Jonathan Reynolds to Nigel Railton: Strategic Priorities for 2024/2025) (**UKGI00049046**).
80. The Shareholder Team has followed up these letters by seeking clarity from POL on how they would seek to monitor and report on cultural change within the organisation. In response to this, and similar encouragement from the Board, work was undertaken by POL in consultation with Institute of Business Ethics to develop a cultural indicators dashboard, which is now produced and presented to the Board.
81. Cultural change, and engagement with the Inquiry, have also formed part of the metric used to calculate the remuneration of senior executives within POL.

This is an example of the Shareholder and Board using standard levers of corporate governance to incentivise the actions that they consider to be a priority.

82. I have further emphasised the importance that the Shareholder attaches to cultural change in my role as Shareholder NED, raising it when necessary at the Board and committee meetings and with members of the SEG. I address below some of the measures that have been taken.

#### Postmaster NEDs

83. The most visible example of cultural change is the appointment of two Postmaster NEDs, selected through an election by Postmasters. The first two NEDs to hold this post are Elliot Jacobs and Saf Ismail. A third Postmaster NED will shortly be joining the Board to ensure a degree of continuity when Mr Jacobs' and Mr Ismail's terms come to an end. The Postmaster NEDs share the same legal duties and responsibilities as the other NEDs but are intended to bring the voice and perspective of Postmasters to the Board.
84. In my opinion, Mr Jacobs and Mr Ismail have added a huge amount of value to the Board. They have changed the nature of discussions at Board level and ensure that the actual experiences of Postmasters are heard. In my experience they have been listened to, particularly when discussing issues relating to how policies and practices contained in Board papers will affect Postmasters on the ground. To give one example, Mr Jacobs and Mr Ismail brought the issue of how stamps were sold within branches to the Board. Although this sounds like

a niche operational issue, the different methods of selling stamps (through booklets, physical stamps on sheets, or labels printed in branch) impact on auditing, stock losses, and productivity within Post Offices. This issue, which is of practical and financial importance to the Postmasters on whom POL's future depends, would not have reached the Board had it not been for the presence of the Postmaster NEDs. Their perspective on this and other important issues – particularly those that affect POL's cost base, and therefore ultimately have a significant effect on Postmaster livelihoods – has been invaluable.

85. There have plainly been some issues with the way in which the Postmasters NEDs have been inducted and integrated onto the Board. There were also occasions when the Postmaster NEDs, in my view, did not fully distinguish between their role as Directors (with the fiduciary duties that this entails) and their position as both active Postmasters and representatives of the wider Postmaster community. I think that such teething problems were unsurprising given that this is a new feature of POL's governance and that Mr Jacobs and Mr Ismail are the first Postmaster NEDs to have to strike what can no doubt sometimes be a difficult balance. I understand that work is being undertaken to provide more training for future Postmaster NEDs, which is appropriate. I hope and expect that improvements will continue to be made to ensure that the Postmaster NEDs get the information and support that they need to fulfil their duties effectively.



86. The Inquiry has asked me to comment upon an article in the *Times* dated 9 February 2024, which refers to criticisms made by Mr Ismail and Mr Jacobs in a “leaked memo” (News article from The Times titled 'Postmasters on Post Office board 'ignored and unwanted') (**RLIT0000201**). In particular, the Inquiry suggests that the article quotes Mr Jacobs as saying that he and Mr Ismail were ignored and seen as an annoyance by other members of the POL Board.
87. Having read the article, and the memorandum on which it was based (Email from Elliot Jacobs to Saf Ismail, Henry Staunton Re: Project Pineapple) (**POL00448300**) (discussed below), I do not think that this is an accurate characterisation of what Mr Jacobs was recorded to have said. While he did complain of being “ignored and seen by many as an annoyance” he is not recorded as directing this criticism to the NEDs or other members of the Board. The memorandum as a whole suggests that his and Mr Ismail’s criticisms were directed more towards elements within the Executive, and in particular the Retail and Investigations teams. I have not formed the impression that Mr Ismail and Mr Jacobs are “ignored and seen ... as an annoyance” by the NEDs on the Board, or by the past and current Chairs. I value their contribution, and I believe that other NEDs and the Chair do as well. There are, of course, some points of contention and tension when issues are discussed at Board level, but this is an inevitable and welcome consequence of inviting two Board members to bring a different perspective to those discussions.
88. I understand that the memorandum on which the *Times* article (**RLIT0000201**) was based was written by Mr Staunton following a meeting with Mr Ismail and

Mr Jacobs. It was subsequently disclosed in error to members of the Group Executive, including those who were directly criticised in strong terms by Mr Ismail and Mr Jacobs. This, understandably, caused friction between the Postmaster NEDs and some members of the Executive. Mr Jacobs and Mr Ismail gave their views in what they believed to be a confidential meeting with Mr Staunton, and it is regrettable that their reasonable expectation of privacy was not respected. Some of the language used by Mr Jacobs and Mr Ismail in this confidential meeting was, in my view, unnecessarily forceful and personal given the role of Board members in scrutinising the work of the Executive.

89. I cannot comment on many of the specific complaints raised by Mr Jacobs and Mr Ismail in the memorandum as I do not know on what evidence these are based, and certain allegations are the subject of ongoing investigations. However, I agree with their points that the Board needs to “grip” the issue of cultural change within POL and the POL Executive, and that the company needs to be “more PM [Postmaster] centric.” Considerable work has been done to achieve this, but it remains work in progress with the new Chair giving particular focus to this issue.
90. In addition to the role of Shareholder NEDs, I am also in favour of exploring the possibility of expanding the involvement of Postmasters in other aspects of POL’s decision-making. One way of doing this would be through a Postmaster Council, at which Postmaster representatives would have an input into operational decisions on matters such as marketing, which products will be sold, how rewards for operational excellence should operate, and other

issues that directly impact upon how they operate and grow their businesses. Such councils are common in franchise businesses and there are active discussions on how POL could adopt appropriate models.

91. I am aware that the National Federation of Sub-Postmasters (“NFSP”) has proposed the creation of an Advisory Board, which would comprise stakeholders including Postmasters to act in effect as a shadow to the fiduciary Board. I do not support this as I think the broad interests of the stakeholders proposed can be captured in other, less onerous ways, and there are multiple issues that the fiduciary board of a large organisation considers (such as cyber security, or contract approvals) that require specific skill sets that one would not expect to find on an Advisory Board. In my view, the inclusion of Postmaster NEDs on the fiduciary Board, as well as the further involvement of Postmasters in operational decisions (for instance through the use of councils), is a far more effective way of ensuring that the Postmaster’s voice is heard in decision-making.

#### Other measures taken to change the culture within POL

92. In addition to the Postmaster NEDs, a Postmaster Director has been appointed to fulfil an equivalent function of placing a Postmaster perspective at the heart of the POL Executive. Hithendra Cheetirala was the first appointment to this role in 2021. Following the end of his term in December 2023, he was succeeded by Mark Eldridge. Mr Eldridge works in POL Head Office for two days per week and liaises with relevant Executive teams to provide the operational experiences, and concerns, of Postmasters. I understand that the

Postmaster Director has played a significant role in the Operational Excellence Programme, which is intended to provide a financial incentive to Postmasters to meet operational best practice (such as cash declarations) at close of business each day. He has also presented to the Board on its most recent away day. As with the Postmaster NEDs, improvements can and will be made to the support provided to future Postmaster Directors on taking up the role and to ensure that they are properly embedded within the Executive Team.

93. A number of workstreams have been undertaken by the POL Executive to encourage and embed cultural change following Fraser J's judgments and the commencement of the Inquiry. Many of these pre-date my appointment to the Board and so others will be better placed to speak to them. Two of the more recent projects have been the Ethos programme and the Strategic People Plan. The former was a cultural change programme that drew upon external advisors and consultants, including the Institute of Business Ethics, Businessfourzero, and Grant Thornton to address the following core areas: assurance, ethics, governance, people, Postmasters and the Group Executive. The Ethos programme was initially led by Tim Perkins, the Programme Director, and Owen Woodley (Deputy CEO), but has recently transferred to Karen McEwan (the CPO).
94. The Strategic People Plan grew from the Ethos programme and is an ongoing three-year project with the intention of making POL "a great place to work for all." It is led by Mr Perkins and Ms McEwan. Importantly, and related to this Plan, the People Team within POL has been restructured under Ms McEwan.

This follows a period of instability within the Team arising from the departure of Ms McEwan's predecessors as CPO.

95. There have also been efforts to change the working culture at the Operations Centre and to make it more focussed on the needs of the Postmasters. Policies relating to engagement with Postmasters were brought in following the CIJ and these are agreed with the NFSP and regularly reviewed by ARC. The Branch Support Centre has changed how it recruits and trains colleagues to help them better meet the needs of Postmasters. I understand that the Inquiry will be hearing from others who will be better placed to discuss the detail of this work.
  
96. My reflections on these efforts to instigate and embed cultural change are that the work described above is well-intentioned and has made considerable progress, though much still needs to be done. While the listening exercises, workshops, forums and feedback surveys are all necessary and helpful, I am not convinced that all Postmasters yet feel they are being heard. It is also unclear how many Postmasters are reached by these initiatives; despite the best intentions of those involved, it is difficult to measure the extent to which the very large number of Postmasters across the country have been engaged. My concern on these points arises in part from listening to the views of the Postmaster NEDs about these workstreams, and in part from a review of the surveys undertaken to measure Postmasters' feedback to POL. Those surveys have shown some improvement, but this is both modest and from a low base. It is difficult to tell how much the work on cultural change affects these surveys as Postmaster satisfaction levels are affected by numerous factors, the most

significant of which is the financial well-being of individual businesses. The challenging trading environment for Postmasters over the past decade, the increased cost of HQ as a proportion of total POL revenue, the wider economic environment in the country, the Horizon scandal, and the turnover of senior figures at Executive and Board level have, inevitably and understandably, caused considerable concern among Postmasters. Cultural change programmes can only do so much to improve that situation. I have shared my views on these matters with the Department through discussions with the Minister. Culture is a regular topic of discussion at QSMs and the Department has acknowledged the difficulties in instigating cultural change.

97. There are, however, grounds for optimism. The Board is closely engaged with the efforts to affect and embed cultural change and provide both challenge and support for those on the Executive working on these matters. The restructuring of the People Team, and in particular the appointment of Ms McEwan as CPO, has helped to provide greater leadership, energy and “grip” to these workstreams. In my view, Ms McEwan is doing an excellent job in difficult circumstances, though there is plainly still much to be done.
98. One matter that causes tension, both within POL and in the coverage and scrutiny of it, is the retention of employees whose actions in relation to the Horizon scandal have been subjected to criticism, including from individuals who have given evidence at the Inquiry as well as from other observers. This is an issue raised by the Postmaster NEDs with Mr Staunton in the memorandum that was leaked to the *Times*. I can understand why

Postmasters and others are concerned about this matter. The Board is aware of and has discussed those concerns and the underlying matters giving rise to them on numerous occasions. The individual employees concerned have employment rights, and these must be respected and a fair process must be followed, based on the totality of available evidence. In those circumstances, I do not think I can say anything more in this statement about individual cases, though I acknowledge that this remains a source of tension within POL's working environment. Work continues in this area.

#### The Investment Committee and the Replacement for the Horizon IT System

99. As the Inquiry has heard, one aspect of the culture at POL that has been said to have contributed to the Horizon disaster is the perceived lack of curiosity shown by the Board in the past about the IT system that POL was using and the problems that had been reported about it. Horizon is now in the process of being replaced and in my view it is essential that the current Board, supported by the Shareholder, exercises proper oversight of this large and complex project.

100. The project to replace Horizon with a new IT system pre-dated my appointment as Shareholder NED. It was and remains a matter of considerable importance to the Shareholder, as reflected in the Chair's letters cited above, because of the history of the Horizon scandal, the considerable amount of public money required to fund its replacement and the need to provide Postmasters and customers with a modern, fit-for-purpose IT system. Within POL, the project is led by the NBIT team.

101. During 2023, the Shareholder Team, the Board and I developed increasing concerns about the NBIT programme and the leadership of the NBIT team. Some of these related to the inherent expense and complexity of the project, some to the concerns about the risk of delay and the consequent need to continue the Horizon system beyond its contractual end date, and some to complaints about the culture within the NBIT team (a matter I discuss below). In response to these concerns a number of steps were taken at the suggestion or request of the Shareholder, the Shareholder Team and myself acting as Shareholder NED.

102. First, an Investment Committee was established to ensure strategic leadership and monitoring of the project at Board level. I sit on this committee, which also comprises Andrew Darfoor, Mr Jacobs (one of the Postmaster NEDs) and now the new Chair, Mr Railton. The committee's remit extends beyond NBIT to other capital projects, but NBIT is the single biggest project with which it is concerned. Changes were also made to the leadership of the NBIT team, including the removal of the former head of the team .

103. Second, external assurance was sought on NBIT, in the first instance from Accenture (as commissioned by the Group Executive with input from the Board). Public Digital were then commissioned by the Department to provide, on UKGI's recommendation, an additional layer of assurance. Public Digital remains engaged on the project, acting as agent for the Shareholder. Public Digital's role is to provide the technical expertise required to challenge and



support the project from the Shareholder's perspective, including by assessing the viability of NBIT in meeting POL's future needs with a focus on POL's capability to deliver the programme, the technical approach being taken and value for money.

104. Third, NBIT was enrolled on the Government Major Projects Programme, a register of large and contentious projects involving Government that is administered through the Cabinet Office. This imposes gateways for funding and allows for assurance reviews by the Infrastructure Projects Authority ("IPA"), the Government's centre of expertise for infrastructure and major projects. The IPA gave a "red" rating in respect of NBIT in Spring 2024, which means that funding for the project cannot be considered and approved until POL has made sufficient progress against the IPA's action plan.

105. Fourth, an extensive programme of engagement with Postmasters has been commenced, including forums to test the functionality of the new system with Postmasters and to listen to their requirements for and concerns about it. It is recognised by all involved that the roll-out of the new system, and the support and training provided to Postmasters using it, will be of fundamental importance.

106. Providing a replacement for Horizon that is effective and reliable, and which meets the Government's requirements for the level of public funding that it requires, remains a highly challenging task. Due to the structures that I have described above, the POL Board, the Shareholder NED, the UKGI Shareholder

Team and DBT are all closely engaged in the project and are able to provide informed scrutiny and challenge. They do so with the knowledge of the disastrous consequences of the procurement and roll-out of the Horizon system.

#### The Board's relations with other stakeholders

107. As a NED I do not typically engage directly with any of the NFSP, the Communications and Workers Union or Fujitsu. The CEO, as an Executive director, engages with all these groups, as well as the Postmaster-run organisation "Voice of the Postmaster", and reports back to the Board on those engagements.

108. Very recently I attended a workshop, facilitated by the POL communications and strategy teams, designed to understand how Postmaster voices can be better engaged and influence decision-making in POL. At this workshop there were representatives from the NFSP and Voice of the Postmaster.

#### **Experiences on the Board: Whistleblowing**

##### Whistleblowing policies and structures

109. In his Third Witness Statement, Charles Donald has provided evidence about the development of whistleblowing policies in POL since 2012 (**WITN10770300**, paragraphs 40-42). I do not repeat that evidence and can confirm that the description of the current policy – Speak Up – and the role of the Board in providing oversight is accurate to the best of my knowledge. Mr Donald referred to the May 2023 iteration of Speak Up (Post Office Group

policy - Speak up Policy - Version 8) (**UKGI00044337**), which is still in operation (save for minor amendments).

110. As Mr Donald says, the Board oversees the Speak Up policy in various ways.

First, a NED is appointed as Speak Up Champion. This is currently Amanda Burton. The role of the Speak Up Champion is to ensure and protect the integrity of the policy, including by ensuring that anonymity and confidentiality is respected in any complaint and that a complainant faces no retaliation. The Board also has an Investigations Champion, currently Andrew Darfoor, whose role is to be a point of assurance for the integrity, objectivity, independence and effectiveness of investigations undertaken by and on behalf of POL. This will include investigations that are instigated in response to complaints raised through Speak Up.

111. Second, the ARC receives regular reports from the Speak Up Analyst and the Head of Assurance and Complex Investigations. These are subjected to scrutiny and challenge at ARC and specific issues may be escalated to the full Board. I sit on ARC and hence have sight of these reports. I also ask for updates on specific investigations and cases when I consider that to be necessary. This results in papers or oral reports being provided to me, to ARC and (where appropriate) to the Board. I inform the Department of significant whistleblowing allegations.

112. Third, the Speak Up policy is subject to annual review and approval by ARC.

The question of whether POL can do anything more to encourage people to raise complaints is also frequently discussed at ARC and at the Board.

113. Fourth, the Chair of ARC (currently Simon Jeffreys) provides updates on Speak Up to the Board as part of his report on ARC's work.

114. Charles Donald has also explained the UKGI support provided to Shareholder NEDs and Shareholder Teams in respect of whistleblowing, including the guidance note "Whistleblowing and Serious Allegations: Key Corporate Governance Issues (updated November 2023)" (**UKGI00044274**, paragraphs 58 and 59). I will not repeat Mr Donald's summary of some of the questions contained within this Guidance, but I can confirm that I have read the Guidance and received UKGI training on this important topic while sitting on the POL Board. I am also able to take advantage of the peer support and ongoing training available to Shareholder NEDs that I have described above.

115. In my view, the structures put in place in POL on whistleblowing are consistent with good corporate governance. There is an appropriate policy in place, which is subject to Board oversight and regular review (including, as Mr Donald has described, external assurance from a suitably qualified independent body (**WITN10770300**, paragraph 41(b))).

116. Such structures are a necessary part of a whistleblowing policy, but their effectiveness will depend on the approach taken by those charged with

implementing and monitoring Speak Up and the investigations that arise from it. In my experience, my fellow Board members have, in general, taken whistleblowing complaints very seriously and have respected the processes that have been put in place.

117. An exception to this has been the approach of the former POL Chair, Henry Staunton, who I felt saw some whistleblowing and other complaints as being an unwelcome intrusion into company business. In an email dated 5 July 2023, which I discuss in more detail below, I expressed concerns to David Bickerton, the DBT Director General, about Mr Staunton's reaction to complaints made about the NBIT programme, which included complaints about the CEO and other senior figures within the Executive (Email from Lorna Gratton to David Bickerton and Carl Cresswell dated 5 July 2023) (**UKGI00049035**). A few months later, during a regular monthly meeting on 30 November 2023, I raised further concerns with Mr Bickerton about the approach Mr Staunton was taking to an investigation into allegations against him and the CEO. As I discuss below, similar concerns were subsequently raised with me by NEDs Amanda Burton and Ben Tidswell and are echoed in the findings of the independent barrister who was asked to investigate allegations of misconduct by the CEO, Nick Read. Mr Staunton's approach to whistleblowing and complaints was worrying, which is why I escalated the matter to the Shareholder and discussed it with Ms Burton and Mr Tidswell. These concerns contributed to the growing consensus in DBT, UKGI and among some of the Board that Mr Staunton's position as Chair was untenable. I discuss Mr Staunton's departure in more detail below.

Specific examples of whistleblowing

118. I am asked whether I am aware of any whistleblowing complaints made that are relevant to issues being explored by the Inquiry and, if I am, to summarise the nature of the complaint and the response of the Board and any individuals named in the complaint, insofar as I can do so while protecting the identity of the whistleblower.

119. In answering this question, I am conscious of the need to avoid undermining POL's Speak Up policy. As the Inquiry has recognised, there is a need to maintain the confidentiality of the person making the complaint. This requires care to be taken to avoid giving information that may allow others to work out either who the whistleblowers were, or the positions and teams in which they worked. There is also a wider need to respect the fact that Speak Up is intended to create a safe space where colleagues can make disclosures and complaints in confidence. There is an obvious risk that providing detailed evidence about those complaints in a witness statement that will be published on the Inquiry website might undermine the trust and confidence that POL employees have in the Speak Up process.

120. For these reasons, and as I have been asked only to summarise the relevant complaints, I have provided a broad outline of the information of which I am aware, focussing on the most significant matters that seem to me to be most relevant to the Inquiry's Terms of Reference. I have done this in the knowledge that this statement will be provided to the Inquiry in draft form, in line with the

Inquiry's usual procedures. This process allows the Inquiry's legal team to ask me for further details, should they think that this is appropriate. However, other individuals from within POL who are more closely involved in the investigation of the complaints set out below (and any other complaints) may be better placed than me to provide such further details.

121. Not all the information that I describe below necessarily came from , or was treated in line with, the Speak Up policy. Some of the complaints were assessed to be grievances and were investigated according to the relevant processes. I cannot now recall precisely which information I understood to arise from Speak Up and which was treated as a grievance.

122. Project Rose: The CEO received a letter from a named individual in mid-2023. The letter contained several complaints about senior individuals, including the CEO (Nick Read). Later the same complainant made allegations against the Chair, Mr Staunton, and these were ultimately added to the investigation underway. I recall POL considering carefully at the outset which of the complaints amounted to protected disclosures for the purposes of the Speak Up policy, and which should be seen as grievances. An external law firm that considered the complaints summarised them as relating to behavioural issues, poor management of public money and spending, feedback on NBIT, poor RemCo governance, and policy and conduct breaches and failure by senior management to engage with actions.

123. The Board was informed of the complaint and legal advice was sought. I shared information about the complaint with the Shareholder, including by providing updates when further detail was provided by the complainant. An independent barrister was asked to investigate. At my request, the proposed Terms of Reference were shared with a NED, Ms Burton, and me, as we were charged with overseeing the investigation. Given the serious nature of the complaint I thought it important that the investigation had proper oversight from Board members and I asked to participate as I considered it important that I could update the Shareholder, at a high-level, on whether the governance and conduct of the investigation was robust and thorough. In addition, I recall discussing the governance arrangements and Terms of Reference with UKGI's GC in order to consider whether POL's approach was in line with what UKGI considered to be best practice. The report was provided in Spring 2024. The report did not uphold the complaints against the CEO, though it did suggest a degree of self-reflection on certain issues. The complaint against the (by then former) Chair, Mr Staunton, was upheld. As I have noted, the barrister also indicated that she was concerned by what she described as Mr Staunton's "outdated view" of the Speak Up process and investigations; she reported that he had said that investigations were a "cancer" in the organisation. Further, the barrister found that POL failed to follow some procedures in respect of a bonus payment and the recruitment and employment arrangements of some employees.

124. Some of the elements of this complaint, and in particular those regarding Mr Read, were put into the public domain. Following the conclusion of the report,



POL produced a public statement noting that Mr Read had been exonerated following an investigation (Post Office Comment on Investigation Into Speak Up Allegations) (**UKGI00049045**). The statement recorded that the barrister who had conducted the investigation had made some recommendations on where improvements could be made to POL processes. POL committed to ensuring that those were properly and promptly addressed. I am satisfied that it is doing so and POL's performance in this respect is monitored through its internal audit team.

125. Complaints against a senior member of the Executive team: I am aware that shortly before I was appointed to the Board complaints were made about the behaviour of a member of the Group Executive. These complaints were investigated by an external law firm. Some were upheld, including findings of behaviour that could constitute bullying. My understanding is that this investigation was managed by the Executive rather than the Board, though the outcome was shared with the Board and the Shareholder. A decision was taken that the subject of the complaints should not continue in post or in the employment of POL and the individual has left the company.

126. Project Willow: A series of complaints were made in mid-2023 concerning the behaviours and leadership of some of those involved with the NBIT programme. These included anonymous complaints that were sent to the then Chair, Mr Staunton. John Bartlett, the Head of Assurance and Complex Investigations, devised a proposed approach for dealing with the complaints, which was shared with and discussed by the Board in mid-2023. This involved

establishing three investigations into different aspects of the complaints and engaging external firms to conduct some of that work. An oversight group was formed comprising the then Senior Independent Director (“SID”) Mr Tidswell, Ms Burton, Mr Bartlett and his line manager, Sarah Gray.

127. I informed the Shareholder about these allegations, via an email on 5 July 2023 to Mr Bickerton (Director General in DBT) and Mr Creswell (Director of the DBT POL Team) (**UKGI00049035**). Mr Bickerton and Mr Creswell were the two most senior officials at DBT dealing with POL matters below the Permanent Secretary. The email also set out the changes the CEO intended to make to the NBIT programme, including external assurance, the hiring of a new transformation director to oversee the project with the existing management stepping back, the formation of a new Board committee (what would be the Investment Committee), and a pause on the programme while those actions were taken. In my mind, and as I said to Mr Bickerton and Mr Creswell, the changes were sensible and long overdue. After this email, I provided Mr Bickerton and Mr Creswell with oral updates on the progress of the investigations.

128. I have discussed earlier in this statement the further steps that were taken by the Board/Executive and the Shareholder in respect of NBIT, including the commissioning of external assurance from Accenture and then Public Digital, the replacement of the leadership of NBIT, and the enrolment of NBIT in the Government Major Projects Programme. These changes addressed the core concerns about the way in which NBIT was being managed.

129. While some of the investigatory work has completed, part of it remains ongoing. I asked for updates on 7 December 2023, 6 February 2024 and 4 March 2024. It is regrettable that this investigation has not yet concluded. I understand that this is in part because of delays caused by contractual issues between POL and the external firm engaged to conduct the investigation. I also understand that some parts of the investigation have been deprioritised as the senior staff involved are no longer employed by POL. The investigation is currently due to conclude by the end of September.

130. Project Acer: I am aware that a serious allegation was made that a POL employee instructed his/her team to destroy or conceal material of possible interest to the Inquiry. POL informed the Inquiry of this matter and there is an ongoing Metropolitan Police investigation. POL continues to engage with the police through an external law firm. Given that there is an ongoing criminal investigation I make no further comment on the allegation or the investigation.

131. Project Alder: The principal allegation in Project Alder is that figures involved in the handling of compensation claims had been working at a deliberately slow pace to extend their tenure on this matter. An external law firm has been engaged to conduct an independent investigation. A recent update provided to the Board suggests that no evidence to date has been found to support the central allegation, but the investigation continues.

132. Letter from group of POL employees (Letter from POL Whistle-blowers to Nigel Railton, Jonathan Reynolds MP, Rt. Hon. Liam Byrne and others re: POL employees seeking support in addressing the ongoing intolerable leadership and cover up within POL) (POL00448519): POL received a letter in May 2024 which claimed to be from a group of disenfranchised POL employees. A number of allegations are made in the letter, including with respect to alleged failures of leadership and culture within POL. The letter was passed on to POL's Head of Investigations (Mr Bartlett), who conducted an investigation into some of the factual allegations that were made. He found that there was no evidence to support those factual allegations.

Whistleblowing: reflections

133. My experience is that whistleblowing is and has been treated seriously and professionally by the Board, with the exception of the concerns I have raised about Mr Staunton. I have confidence in the approach that has been taken in respect of the specific incidents of whistleblowing set out above. The policies and structures in place are appropriate and have been subject to regular review and external assurance, in line with UKGI guidance and best practice. POL has tended to use external firms for the most serious of these investigations. While this is appropriate and understandable, it inevitably adds to the length of time that these investigations take, and this can be upsetting for the complainant and is potentially destabilising for the business.

134. Importantly, the whistleblowing measures described above mean that the Board has good visibility of whistleblowing issues, and I have been able to

share progress updates on significant issues with the Department and UKGI Legal, with the latter providing guidance on best practice and reviewing terms of reference and other relevant documents where appropriate.

135. I am asked whether I think the culture within POL actively encourages whistleblowers to speak openly and honestly about their concerns. The POL Board/Executive has made significant efforts to try to ensure that this is the case. They have actively promoted the Speak Up policy, including at Postmaster-facing events. There have been discussions at the Board on what more can be done to encourage people to report concerns, including how we can understand what it feels like to raise a concern within POL. The number of complaints that have recently been raised on high profile and sensitive issues suggests to me that colleagues feel comfortable reporting issues through the processes currently in place at POL.

### **The Departures of Henry Staunton and Alisdair Cameron**

#### Henry Staunton

136. Included among the Project Rose complaints were allegations that a senior figure within POL had used racist and misogynistic language in a work setting. The senior figure involved was not originally identified, but in late November 2023 further information was provided that named Henry Staunton as the person in question. Mr Staunton was informed of the allegations in December by the SID, Ben Tidswell.

137. I informed Mr Bickerton of the allegations concerning Mr Staunton during a monthly meeting on 30 November 2023. By then, the allegations had been added to those being considered as part of Project Rose by the independent barrister. As I have discussed above, I had by that time already raised with Mr Bickerton my concerns about the way in which Mr Staunton had approached other complaints that did not concern him.

138. Coincidentally, at the same time as the allegations against Mr Staunton emerged, a process was underway to appoint a new SID to replace Ben Tidswell who was standing down from the role. On 7 December 2023 Mr Staunton wrote to the Minister responsible for POL, Kevin Hollinrake, to request approval for the recruitment process. He emphasised that a rigorous, transparent and objective procedure would be used. (Letter from Henry Staunton to Kevin Hollinrake MP dated 7 December 2023 regarding 'Senior Independent Director Recruitment – Post Office Limited) (**UKGI00049047**).

139. Over the course of December and early January, Mr Staunton's behaviour became increasingly erratic and concerning. On 20 December 2023, he told me that he wanted to end the whistleblowing investigations concerning the CEO as they were putting extreme pressure on Mr Read and the business. Over the following weeks I learned that Mr Staunton had similar conversations with Ms McEwan (CPO), Mr Foat (GC), Mr Tidswell (NED) and Ms Burton (NED).

140. On 15 January 2023 I sent a short email to Charles Donald, UKGI's Chief Executive, ahead of a scheduled meeting he was due to attend with Mr Staunton (Email from Lorna Gratton to Charles Donald dated 15 January 2024) (**UKGI00049036**). Among the lines I suggested that Mr Donald might wish to emphasise in the meeting was: "Where there are investigations, these need to be thorough. POL's approach needs to be beyond reproach." This reflected the concerns that I had, and that I had heard others had, about Mr Staunton's conduct in respect of the ongoing investigations.

141. The same email also referred to the need to re-emphasise with Mr Staunton that the "public sector environment is unique, but ultimately not that dissimilar to a privately held company – there is a framework and we operate within it." This reflected a long-held concern I had that Mr Staunton was not sufficiently receptive to the need to listen and respond to the Shareholder's perspective, including over matters of remuneration. I had several experiences in which Mr Staunton acted in a way towards me that was dismissive and aggressive. These included a hostile response to my views on Ms Burton's report about the mistakes that led to POL's Annual Report erroneously recording that an element of the bonus paid to senior executives had been endorsed by the Chair of the Inquiry. I understood that Mr Donald shared my concerns in this regard.

142. At around this time, Mr Staunton held his meeting with the Postmasters NEDs that led to the production of the memorandum that I have discussed above. That memorandum was erroneously shared with members of the Group

Executive, including those of whom Mr Ismail and Mr Jacobs were critical, such as Mr Foat, the General Counsel. In an email to the CEO (to which the SID and Ms Burton were copied), Mr Staunton complained that the circulation of the note would cause certain members of the executive named within the memo to take issue with him. Mr Staunton also claimed that he was being given insufficient time to prepare his case and alleged that, "There seems to be a determination to trash reputations despite being completely innocent." Ms Burton forwarded this email to me on 19 January 2024 (Email from Amanda Burton to Lorna Gratton dated 19 January 2024 with subject "Fwd: Investigation") (**UKGI00049037**).

143. On the previous day, 18 January 2024, Mr Staunton abandoned the process that had been in place to recruit the new SID in favour of an internal appointment. He called a meeting of "independent" NEDs, to which I was not invited, and announced the appointment of an existing NED, Andrew Darfoor, as SID.

144. I was informed of this meeting in a call from Ms Burton on the morning of 19 January 2024. At around lunchtime that day I spoke to Mr Tidswell. Both were deeply concerned about Mr Staunton's conduct. At that time, Ms Burton, Mr Tidswell and I were the only members of the Board that were aware of the whistleblowing allegations against Mr Staunton. Ms Burton and I knew of them as we had been asked to oversee the investigation. Mr Tidswell became involved as we had asked him, as the SID, to inform Mr Staunton of the allegations. We had not shared the allegations with the other members of the



Board out of fairness to Mr Staunton (given that they were serious allegations that were still under investigation), and in order to protect the integrity of the investigation and the identity of the whistleblower. This was in keeping with POL's policies and wider corporate practice. It meant, however, that we were the only three Board members sighted on the wider context in which Mr Staunton was acting. In our view, this gave rise to still more serious concerns about his behaviour and the motives for it. Ms Burton and Mr Tidswell both expressed the view that Mr Staunton's position as Chair was no longer tenable. Either in that conversation or in another at around this time, Ms Burton indicated that she would not be able to continue to serve on the Board if Mr Staunton remained as Chair.

145. Mr Staunton phoned me later in the day on 19 January 2024 to inform me of the "appointment" of Mr Darfoor, presenting it as a collective decision. My note of that call recorded this about that part of the conversation:

"'Independent' NED meeting earlier in the week. To 'get others up to speed'. Decided to scrap SID process, and appoint someone from the inside. Want a postmaster centric strategy. Want a board committee on culture. 'Before when I spoke to them, support for Amanda was the leader, that has evaporated, but that has now gone to Andrew [Darfoor]. He's 'won the race'. (Simon Jeffery's on the fence)."

146. The following day, Saturday 20 January 2024, Mr Staunton sent an email to the Board congratulating Mr Darfoor and referring to a "vote" that had taken

place, while noting that the “appointment” still required approval by the Nominations Committee, the Board and others (he erroneously refers to it requiring the approval of UKGI, rather than the Shareholder, a characteristic mistake). In response, Ms Burton sent me an email stating: “Wow! Just to be clear I haven’t been involved in any vote to appoint Andrew. This is a mess!” (Email from Amanda Burton to Lorna Gratton dated 20 January 2024 with subject ‘Fwd: SID’) (**UKGI00049038**). Mr Tidswell sent an email to the Board around half an hour later, stating that this was a decision that “required a proper board discussion and the agreement of the shareholder, neither of which have occurred.” He also noted that the external recruitment process was both live and in the public domain (Email from Ben Tidswell to the POL Board dated 20 January 2024 with the subject ‘Re: SID’) (**POL00458053**).

147. Following the exchange of emails set out above, I wrote to Mr Bickerton and Mr Donald to alert them to the fact that Mr Tidswell wished to speak to them as Mr Staunton “has done something this morning that he led [Mr Tidswell] to think he needs to go asap” (Email from Lorna Gratton to David Bickerton dated 20 January 2024 with subject ‘Contact details so Ben Tidswell can call you?’) (**UKGI00049039**). Mr Tidswell spoke to Mr Creswell on the following Monday, 22 January, to set out his numerous concerns about Mr Staunton. These are recorded in Mr Creswell’s note of the call (Note of call between Ben Tidswell and Carl Creswell dated 22 January 2024) (**UKGI00049030**). Mr Tidswell said that many members of the Board had low levels of trust in Mr Staunton, and he urged DBT to act quickly as Mr Staunton’s behaviours were problematic

and causing disruption in the business. These were extremely serious and extensive criticisms, made by a respected SID.

148. On 23 January 2024 a submission was sent under my name and that of Mr Creswell to the Secretary of State, Kemi Badenoch MP, and Mr Hollinrake concerning Mr Staunton (Submission from Lorna Gratton and Carl Creswell to Minister Hollinrake and Secretary of State dated 23 January 2024) (**UKGI00049033**). This referred to the concerns set out above and commented that: “His repeated attempts to stop the investigation into whistleblowing allegations would be unacceptable in any environment, but is particularly egregious in the context of Post Office and the historic failings of the business.” It also noted that Mr Staunton had not, over a year into his post, offered the leadership or cultural change that POL needed, and there was no evidence that he was making progress towards offering this leadership. The recommendation contained in the submission from UKGI and the Department, supported by Mr Tidswell and Ms Burton, was that Mr Staunton should be removed as Chair.

149. The submission provided two options to the Secretary of State for Mr Staunton’s dismissal: (i) to inform him of the decision and offer him the opportunity to resign, which was recommended on the basis that this would be the least disruptive option for the business; or (ii) to remove him from his post directly, which is the option that was ultimately followed by the Secretary of State.

150. Following the submission, there were some exchanges between UKGI and senior officials within DBT regarding the practicalities of dismissing Mr Staunton. The Secretary of State decided that she wanted to inform him of the decision herself, rather than delegate this to Minister Hollinrake.

151. Mr Staunton was informed in a call from the Secretary of State on 27 January 2024 that the Shareholder was exercising its right under the Articles of Association to dismiss him as Chair of POL. A read out of the call was prepared by the Secretary of State's Private Office. A briefing had been prepared for the Secretary of State suggesting a form of words that she might use (Briefing titled 'Call with Henry Staunton Post Office Chair') (UKGI00049031), but I understand from her Private Office that she departed from this in the call (Email from BDT for Lorna Gratton dated 27 January 2024 with subject 'Re: Read out: [to action today] – Letter to Post Office Chair') (UKGI00049032). The briefing contained the following explanation for Mr Staunton's dismissal, which I understand to be an accurate summary of the reasons why he was dismissed:

"Now more than ever the Post Office is rightfully under a heightened level of scrutiny. Culture in an organisation is set right at the top, and we, as Shareholder, have a duty to make sure the culture in today's Post Office is nothing like the Post Office of the past. This includes full investigation of whistleblowing allegations and fostering an environment of respect and openness, so colleagues feel able to speak up.

We understand that your behaviour regarding open whistleblowing investigations in Post Office has not met that standard. We understand that

you have repeatedly put pressure on Executive team members and other board members to stop whistleblowing investigations. We have heard this from multiple different parties who have expressed their concerns to us.

This unacceptable in any circumstance, but particularly egregious in a Post Office context, of historic failings in respect of whistleblowing.

In addition, we understand your behaviour in the workplace has been disruptive to the Executive and not in keeping with standards expected of your position.

Finally, we understand that you have displayed a disrespect for due process on governance matters such as the appointment process for the SID and other matters requiring approval by the Shareholder or HMT. Again, a matter than is of particular concern in the sensitive operating environment of the Post Office, and its public subsidy.

When you were appointed as Chair of the Post Office your Letter of Appointment set out the expectations of your role, and frankly the behaviour above does not meet those expectations.”

#### Alisdair Cameron

152. As I mentioned earlier in this statement, I met Mr Cameron, who was then CFO, prior to my formal appointment as Shareholder NED as part of the handover process from Mr Cooper. By the time of my formal appointment, Mr Cameron was absent from work, initially on leave and subsequently on grounds of ill health. I do not think that I met him again.

153. My understanding of the background to the Mr Cameron's exit from POL is set out in a submission that was sent to the Minister, Mr Hollinrake, on 17 December 2023. This submission was sent under my name and that of Mr Creswell. It was prepared by members of my UKGI team who had been in post at the time of at least some of the matters referred to in the submission and who had consulted contemporaneous documents. I read some of those documents when finalising the submission but had no first-hand knowledge of the events prior to my appointment that they describe. The submission reflects my understanding, then and now, about the position reached in December 2023 and I have no additional information that I can add to it. (Submission from Lorna Gratton and Carl Creswell to Minister Hollinrake dated 17 December 2023) (**UKGI00049034**).

154. By that time, three options had emerged as possible resolutions to the situation: a negotiated settlement by which Mr Cameron would leave POL, a staged return to work in some capacity with the intention that Mr Cameron would (by agreement) resign shortly thereafter, or dismissal. The view of the POL Executive and Board was that Mr Cameron's return to work would destabilise the management team and would not be compatible with the cultural changes required at POL. UKGI were sympathetic to that assessment, insofar as it referred to Mr Cameron returning as CFO. The Executive and Board also wished to appoint a permanent CFO. Ministers were kept informed of the position and were provided with relevant legal advice.

155. Mr Cameron was subsequently invited to participate in an assessment by POL's occupational health provider to establish whether he was fit to return to work. The result of that assessment was that Mr Cameron was assessed to be unfit to work and so he did not return to POL.

156. Mr Cameron took ill-health retirement and exited POL on 25 June 2024.

## **Reflections on Corporate Governance**

### Composition of the Board

157. I am asked for my view on the current composition and effectiveness of the Board with regards to experience, expertise and abilities.

158. The Board is currently seeking to recruit three new NEDs: one with organisational design experience, one with digital transformation experience, and another with public sector experience. All three are intended to provide greater expertise at Board level on matters of ongoing importance to the company. POL is undergoing a strategic review and is expected to undertake a significant restructuring as a result, hence the intention to recruit a Board member with experience in organisational design. As I have discussed, the NBIT programme is the largest and most complex investment and infrastructure project POL is currently undertaking and the Board will benefit from the addition of a NED with expertise in digital transformation. The decision to recruit from this field was made as a consequence of Board effectiveness reviews and a recommendation from the Shareholder Team. In respect of the third proposed appointment, at present I am the only member of the Board with

a background in the public sector and the shared view of the Board and Shareholder is that a second NED with such experience will assist in helping the Board better understand and navigate the realities of working with a Government sole shareholder. More generally, the proposed additions to the Board are part of a rebalancing exercise to add members with experience of managing and operating projects to the professional advisory expertise that the Board already has.

159. I strongly support Postmaster representation on the Board through the Postmaster NEDs, for the reasons that I have given earlier in this statement. Recruitment for those positions is underway and will be managed to ensure a degree of continuity as and when the first Postmaster NEDs are replaced.

160. I have been asked about the desirability of having Board members with legal experience. Mr Tidswell is a lawyer and the Board has undoubtedly benefited from his tenure for the last three years. He has been invaluable to POL's work on remediation. Whilst the Board is not replacing Mr Tidswell's skill set like for like, Ms Burton is also a lawyer by background and I agree this is an important skill set to keep on the Board.

161. In considering the effectiveness of the Board, it is helpful to reflect on the strengths and weaknesses in the Board committees:

- a. The Remuneration committee has made a lot of progress over the last year in addressing the recommendations of the various reviews of POL's



remuneration governance. The metrics in the bonus scheme are now purposefully simpler and more easily understood, so they can genuinely incentivise outcomes. The administration and governance of the schemes have also seen material improvement, with the quality of papers coming to the Committee having improved (though there is still work to be done) and decisions and approvals being sought in a more timely manner. I think that RemCo is a more effective committee now that it has simplified remuneration schemes and re-set expectations about when bonuses will (and will not) be paid. Under Ms Burton it has a good understanding of what the Shareholder thinks, which, given the sole-shareholder structure of POL's ownership, is imperative. Given the visibility that the Shareholder expects on RemCo matters and the approval rights that the Shareholder has on certain matters, ensuring that the Department has sight of these matters via the Shareholder NED's presence on the Board is key. The improvement in RemCo has also been greatly assisted by the input of the new CPO, Ms McEwan.

- b. The Remediation Committee has proved effective in offering challenge to and engagement with the Executive. Arguably, too many decisions were escalated to the Committee, but there was an emphasis on encouraging the Executive to find ways to speed up payments to Postmasters. Mr Tidswell proved an effective Chair. The number of issues considered by the Committee has decreased since DBT has started carrying out more remediation work directly (as explained in more detail below).
- c. The Nominations Committee has, in my view, been a little less effective than the other Committees, with a sense that the Committee meetings

were short and too quick to approve decisions that had been reached before the meeting. This situation is changing, with greater emphasis on succession planning and more strategic thinking about how arrivals and departures from the Board and SEG can be better managed. Some of these improvements have come from the Board effectiveness reviews. The Grant Thornton Governance Review (**POL00446477**) also identified succession planning as a weakness.

- d. ARC is a relatively effective committee but is hampered by the risk averse culture at POL that I have discussed above. This has resulted in too many issues and papers being brought to ARC, which must then work through these rather than focus on strategic management and resolution of risks. This is a consequence of the culture within POL as a whole and is not a reflection on ARC or its members. Efforts are being made to address the situation, notably by the Chair, Simon Jeffreys, and through structural changes in the Executive, such as the appointment of a Group Assurance director who will act as a filter in terms of the material that is going to ARC.
- e. The Investment Committee is relatively new and is still evolving its processes. The greater involvement of DBT in the NBIT programme means that an increasing amount of work on that is being done directly between the Executive and the Shareholder, rather than through the Committee.

162. Grant Thornton has recently produced a Board Effectiveness Review dated 19 June 2024 (the "BER") (**POL00446476**). The BER's key findings were that there was a lack of clarity on the purpose of the Board, low levels of trust and

team identity, no unifying purpose or strategy, a lack of succession planning, shortcomings in team process and meeting discipline, and a need for more proactive involvement from the Board in cultural and “people” issues. Overall, it found the Board to be of limited effectiveness. It did, however, highlight some positive aspects to the Board’s work, including “the diversity of debate, the engagement of Board members and the tactical work being undertaken within ARC and RemCo alongside a general willingness to enhance governance and decision-making.”

163. The BER took place at a time of high tension. Extremely sensitive comments from a private meeting between the Postmaster NEDs and the Chair had been leaked to the press. The Chair had been dismissed in the circumstances that I described above. As the authors of the BER acknowledge, POL was operating under “constant pressure” and intense public scrutiny, resulting in a “complex and demanding environment, impacting on its ability to engage proactively with stakeholders, focus on strategic governance, and address fundamental questions about POL’s purpose and function.” There had also been a considerable turnover of senior executives that had contributed to “a significant strain in terms of capacity”. In those circumstances, it is perhaps unsurprising that the BER identified a number of issues of concern, particularly regarding Board’s sense of identity, strategy and mutual trust.

164. The findings of the BER reflect the fact that the Board, and POL more generally, has been operating in “crisis mode”, which has made it difficult to act strategically rather than reactively. This tendency has been made more

pronounced by the scale of the challenge facing the Board (and the company), the breadth of material that has been placed before the Board as a consequence of those challenges and the risk averse culture in POL, and the strained resources which has led to the Board often receiving material at a relatively late stage, thereby limiting the opportunity for strategic interventions (as opposed to making decisions on the only remaining options).

165. A new Chair is now in place and a recruitment exercise is underway for additional Board members. In my view, the Board is more cohesive and united, in part because Board members have spent more time with one another outside formal meetings. As I have set out above, steps have been taken to improve the operation of the SEG and to address risk-averse culture within POL that has seen too many operational issues escalated to the Board, the CEO and the GE/SEG. Board packs have been rationalised and improved to make them more digestible and there is a conscious effort, led by the Chair, to refocus the Board on strategic issues. Work has been done to improve the work of the Nominations Committee, particularly in respect of succession planning. The CPO has provided greater grip and leadership to what the BER refers to as cultural and “people issue” and that will help the Board to engage more effectively on these matters. This reflects a wider point that there is a close relationship between the effectiveness of the Executive and the effectiveness of the Board, which in turn reinforces the need for strong and effective leadership in all senior roles.

166. I encouraged POL to send the BER (together with the Grant Thornton Governance Review) to DBT, noting the Cabinet Office's guidance on board effectiveness reviews for ALBs. I understand that Deputy Chief Executive Owen Woodley wrote to Mr Bickerton and Mr Creswell on 18 July 2024 to note the Grant Thornton reports and POL's action plans in respect of the same. Those action plans are shared with the Shareholder Team and the Department to monitor how POL is considering the issues and implementing changes.

#### Relationship between POL and the Shareholder

167. There remain tensions in the relationship between POL and the Shareholder, as is reflected in the Grant Thornton Governance Review. POL is a highly commercial ALB operating in extremely competitive markets, notably banking and retail. Historically, there has been a culture of baulking at perceived Government "interference".

168. There are areas in which I think there is some justification to the concerns raised in the Grant Thornton report with respect to the clarity of the existing governance arrangements. The existing Framework Document agreed in 2020 does require refreshing and there is a process underway between POL, UKGI and DBT to review and enter into a new agreement. The revisions to the Framework Document (**POL00362299**) will seek to further clarify the arrangements between the parties on certain topics which are not working as effectively as they should. This has inevitably created tension when interpretations between the parties have varied, particularly in relation to how in practice the Government-wide guidance (as set out in Appendix 2 of the

Framework Document) should be applied. For example, the main body of the existing Framework Document does not set out the circumstances in which Shareholder approval is required for legal settlements and if this can be delegated to POL. It also does not currently contain delegation limits for POL, which we now consider it to be best practice to include. A review process is underway and it is proposed that a delegation letter is added to the suite of governance documentation. The proposed changes are intended to provide both clarity and practicability through the inclusion of clear delegations and limits that define the relevant framework for required approvals. The UKGI Shareholder Team is open to discussing with POL any further clarifications to the Framework Document that are considered necessary following the Grant Thornton review. I do not, however, agree with Grant Thornton's observation that there is "obscurity around the practical application of the foundational documents"; the foundational documents are generally clear and mutually understood, but there are some areas where it has been identified that further clarification could be helpful.

169. Another area for improvement is the way in which POL are asked to comply with Government policy documents. At present, the Framework Document appends several policies which POL are either expected to follow or consider in its operations. As part of the revision of the Framework Document, a review is being undertaken to provide further clarity on which Government policies apply to POL as a Public Corporation and to provide POL with an opportunity to discuss with its Shareholder how certain of these policies are intended to operate in practice.

170. Other areas will always be a cause of friction between ALBs and Government.

One example is the pace of recruitment: ALBs, particularly the more commercial ALBs, are frustrated by the processes required by Government when senior appointments are made and the subsequent slow pace of recruitment. A second is the length of funding cycles, which ALBs see as too short to allow for long-term strategic planning. These are areas where a degree of tension is inevitable between a Government shareholder and the company it owns. Greater understanding at Board and Executive level of the modes of working within the public sector, and the reasons for them, may help lessen tensions and improve the processes employed. This is one of the reasons why a NED with public sector experience is currently being sought for POL.

171. I do not, however, accept the wider critique contained in the Grant Thornton Governance Review, to the effect that the Shareholder is too interventionist in POL to the long-term detriment of the company. I have touched upon this earlier in my statement. POL is a company that continues as a going concern only because it is in receipt of a large subsidy from public funds. Through the use of Horizon, POL has contributed to grave miscarriages of justice that have had disastrous effects for hundreds of innocent Postmasters and their families. There are very serious questions about whether full, accurate and honest information was provided to the Shareholder and Parliament by POL. The remediation and compensation schemes require further extensive funds from the public purse. POL has also seen a significant churn of senior figures, including the dismissal of its Chair in the circumstances described above.

There is continued public concern and anger at these events and intense scrutiny from the Inquiry and the media. In my view it is unsurprising that the Shareholder is closely engaged with the company given these factors.

172. The NBIT programme is a case in point. The scheme is to be funded by a large amount of public money and is intended to replace a system that gave rise to the tragic events considered by this Inquiry. Significant concerns were raised at Board level about the way in which the programme was being managed by the Executive, which were properly escalated to the Shareholder. The Shareholder then sought greater Board oversight, external assurance, and the enrolment of the programme in the Government Major Projects Programme. This degree of Shareholder involvement might not have been needed in a standard IT procurement process in a private sector company, but it is understandable and justifiable in the circumstances in which POL finds itself.

173. I also do not accept that the role of the Shareholder NED is unclear. I have the same legal and fiduciary duties as other POL NEDs but approach them from the point of view of the Shareholder, rather than being independent. For the reasons I have given, I do not think that this gives rise to a fundamental conflict of interest – it is in the interests of POL to retain a good relationship with the Shareholder that provides it with the subsidy that allows it to operate in its current form.

174. Any analysis of the corporate governance structures of POL needs to give appropriate weight to the recent history of the company and the public sector



environment in which it operates. If POL demonstrates a period of success and stability, and effectively builds a greater level of trust with the Shareholder, then the length of the arm in the ALB relationship will increase. That remains a work in progress.

### **Redress and Compensation**

175. In my capacity as a NED, I sit on the Remediation Committee, which oversees the administration of POL's redress and compensation schemes. I am involved in decision-making at the Remediation Committee and also at the POL Board to the extent that matters concerning redress and compensation are raised there. Much of the decision-making at the Remediation Committee is now administrative in nature – for example, concerning the levels of offers to claimants, remediation principles, and exception criteria (i.e. decisions that cannot be taken by POL without approval from the Remediation Committee).

176. However, as explained in Charles Donald's Second Witness Statement (**WITN10770200**), the wider UKGI team's involvement in matters concerning redress and compensation has been reduced to a strategic role focussing on monitoring progress and POL's performance against objectives and budget. This arrangement was agreed with DBT, and UKGI began stepping back from its previously more involved role in September 2023. Since then, DBT has taken on greater involvement in compensation matters, as set out in more detail in Charles Donald's letter to David Bickerton dated 19 September 2023 (**UKGI00049042**). The arrangement reflected an expansion in personnel and in knowledge of the DBT team on compensation matters, and the progress that

had been made on the schemes. By this time, for example, over 99 per cent of the original Horizon Shortfall Scheme (“HSS”) cohort had received compensation offers, and a new approach to remediation was being implemented for the Overturned Convictions Scheme (“OCS”).

177. There was a short period of time between my appointment as Shareholder NED in May 2023 and this change in UKGI’s role, though I knew at the time of my appointment that UKGI would be stepping back from its involvement in individual cases and DBT would be taking on an enhanced role, so my focus was already on strategic issues and supporting and challenging POL on the different compensation workstreams as a NED. I summarise below the involvement that the Shareholder Team and I have had in compensation workstreams since my appointment as Shareholder NED. Given my own limited personal involvement, I have obtained input from members of the Shareholder Team regarding workstreams in which they were involved. However, I cannot comment on some of the questions that have been put to me on matters of compensation and redress where the substantive issues predate my tenure.

178. When I started in my role, the compensation schemes were at different stages of delivery. The HSS was relatively well established but working through some difficult cases and issues. The OCS had been set up and POL was developing its remediation approach to help speed up progress. The Postmaster Detriment Scheme (“PMD”) for suspension pay (i.e. where Postmasters were not paid for periods of time during which they were suspended by POL) was

well established, and there was a business case in the process of being approved by Government to provide funding for compensation covering wider detriment to Postmasters (i.e. detriment not directly caused by Horizon, such as ATM and foreign currency losses), now known as the Post Office Process Review. I was not involved in the establishment or operation of the GLO Scheme, though members of my team attended meetings with the Department to support consistency and fairness across the compensation schemes .

179. The principal forums in which compensation matters have been discussed since my appointment as Shareholder NED are:

- a. The POL Board, which receives regular updates on Remediation Committee matters. Since my appointment, the Board has not extensively discussed or taken decisions on many matters relating to compensation and redress, as this is for the most part delegated to the Remediation Committee. However, three Board members sit on the Remediation Committee (Nigel Railton and Brian Gaunt, in addition to me) and can escalate matters to the Board if appropriate to do so.
- b. The Remediation Committee, the Board sub-committee overseeing the administration of the compensation schemes (further details on its mandate are set out in the Remediation Committee Terms of Reference (**UKGI00049044**)). I am a member of Remediation Committee, which has been chaired on an interim basis by Brian Gaunt since Ben Tidswell stepped down from the POL Board in July 2024.
- c. The Department's Steering Committee for the HSS ("HSS SteerCo"), which is responsible for providing approval on behalf of HMG to POL on

key decisions being made by POL in respect of the HSS. I have attended as an observer and my team provides support to the Department, but it is the Department, not UKGI, which has responsibility for making decisions on matters referred to HSS SteerCo. My observer status means that I can provide relevant insight and information obtained through the Remediation Committee and the POL Board, ensuring that the Department has sight of the key issues.

- d. The Department's POL Overturned Criminal Convictions Board ("POC Board"), which is similar to HSS SteerCo but for the OCS, and which I have also attended as an observer.
- e. The Horizon Compensation Programme Board ("HCPB"), a Department-led board. I attended some of the early meetings of this board as an observer. It considers cross-cutting issues between the compensation schemes and how to achieve consistency between them.

180. When I started in my role in May 2023, I was supported on compensation issues by the UKGI Shareholder Team. My team worked across the different schemes and met POL and Departmental colleagues on a weekly basis. In addition to weekly internal meetings, my team and I attended monthly monitoring meetings with POL and the Department to review progress and risks to delivery.

181. Since the start of 2024, following the change in UKGI's role as described above, my team has had less involvement in compensation issues, but continues to monitor and support progress at a strategic level, for example

assisting with financial monitoring on compensation scheme spend (a member of the Shareholder Team has monthly meetings with POL on this). The Department has much greater involvement in and resource dedicated to compensation and redress. Updates on compensation and redress have been a regular feature of QSMs (and, during Mr Hollinrake's tenure, monthly meetings with the Minister). My role as Shareholder NED means that I also act as a conduit between POL and DBT where either party is having difficulty understanding the other's position on issues relating to compensation and redress.

182. I set out below my involvement in and reflections on key compensation and redress matters since my appointment as Shareholder NED.

### HSS

183. By the time of my appointment as Shareholder NED, POL had made offers to around 97 per cent of the original cohort of HSS applicants (the remainder tended to be more complex cases, such as those involving dissolved companies), and there was a well-established process in place to assess claims, issue offers and deal with disputes.

184. My understanding of how the HSS operates is that cases are assessed against a set of principles (developed by POL's lawyers and approved by Remediation Committee and HSS SteerCo) which provide a range of values for each applicable head of loss. The HSS's Independent Advisory Panel of Experts (the "IAP") then makes an assessment of the claim and recommends a fair

outcome within the given range for each head of loss. I understand that in some cases this might be more than the amount claimed; the IAP has made it clear that it has adopted a practice of acting as advocates for claimants, rather than as disinterested arbiters (Minutes of the Horizon Compensation Advisory Board (“the HCAB”) of 14 June 2023) (**RLIT0000250**). The vast majority of offers have been accepted by the claimants, which indicates that they are content with the offer received.<sup>5</sup>

185. Where there have been delays to the resolution of HSS claims, these have been caused by various factors. There were a significant number of late applications to the scheme: as of 31 July 2024, POL had received 1,513 eligible claims after October 2022, and had made settlement offers in respect of 323 of these (Horizon Shortfall Scheme – latest data on progress) (**UKGI00049043**). A number of applications have been made after the ITV series was aired in January 2024. This has led to a welcome increase in the level of engagement with the scheme, and as a consequence, and in order to allow these claims to be considered, an end date for the HSS has not yet been agreed with the Department.

186. UKGI has not been directly involved in communications and negotiations with HSS applicants during my tenure, and the cases on which I have had visibility have for the most part been those going through the Dispute Resolution Procedure (“DRP”). POL’s use of individual case handlers for those claims,

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<sup>5</sup> POL regularly publishes the latest data on HSS progress: (**UKGI00049043**)

alongside more formal lines of communication where a claimant had legal representation, appeared to work well.

187. Funding for legal fees (as well as other fees such as accountant and medical expert fees) was made available, with POL approving fees up to £10,000 and any amount above that requiring approval from HMG (this policy was in place before my appointment as Shareholder NED). There have been instances where an individual claimant did not have legal representation after an offer was made. Where this has come to my attention, I have suggested that POL encourages the claimant to take up legal representation (others, including for example Ben Tidswell, have also made this suggestion). Analysis presented to the Remediation Committee in July 2023 showed that average offers were higher for claimants who had legal representation than for those who did not, and this analysis prompted the Remediation Committee to recommend offering legal representation to potential applicants up front, rather than after an offer had been made, to ensure that all claimants had the best opportunity to maximise their claim value.

188. I am asked what has gone well and what could be improved in relation to the HSS. One of my concerns has been that POL's external lawyers have sometimes taken a conventional legalistic approach to negotiations with claimants (i.e. their approach appears to have been geared towards achieving an outcome that is least financially detrimental to POL within the range of a fair settlement). My view is that, given the history of the matters in respect of which settlements are made, a different approach is needed and POL should be

giving the benefit of the doubt to claimants – even if that means a greater payout than one that might result from a hard-fought negotiation in line with a conventional legalistic approach. Similarly, I have felt that at times the external lawyers have spent too much time and resource negotiating relatively small amounts before a settlement is agreed. In my view, this risks compromising the overall purpose of the scheme, which is to provide just recompense to claimants as quickly as possible: the value of the scheme to the Shareholder is not just about the cost. I think this is perhaps a cultural clash between the approach taken by commercial litigators and the requirements of the circumstances. I have raised these concerns at various points at the Remediation Committee, and have also spoken to Mr Hollinrake about them, who broadly shared my concerns.

189. In addition, the process and timing for dealing with those cases where offers have not been accepted, and which have therefore had to go through DRP, has, in my view, not been particularly effective. The number of cases going through the DRP has remained steady for some time. The Remediation Committee has regularly reviewed the DRP and challenged POL to find ways of speeding up the process, some of which have now been implemented (for example, the removal of the requirement to hold a Good Faith Meeting as the first step in the DRP). POL has also recently settled a number of cases through mediation following the Remediation Committee's approval of an increase in the negotiation mandate at mediations. A significant number of cases remain unresolved, but the forthcoming implementation of an appeals process should enable these to be resolved in the near future.



190. I have been reassured by the involvement of the IAP in the HSS process, which has, as I have said, adopted a practice of acting as advocates for claimants and is given a wide margin of discretion in its terms of reference (Horizon Shortfall Scheme Terms of Reference of the Horizon Shortfall Scheme Independent Advisory Panel) (**POL00448026**) to formulate a recommended offer guided by broad considerations of fairness. On the basis of this and the proportion of offers accepted by claimants (as of 31 July 2024, 2,262 settlement payments had been made while 390 claims were going through the DRP), the IAP appears to be having a positive effect on the resolution of HSS claims. It also has an appropriate level of expertise on the panel to deal with complex or higher value claims, including legal and forensic accounting specialists as well as retail experts, with particularly complex cases also being discussed at the Remediation Committee and HSS SteerCo.

191. A number of reflections and recommendations in respect of the HSS were made in the minutes of the Horizon Compensation Advisory Board (“the HCAB”) of 14 June 2023 (**RLIT0000250**), including the introduction of an appeals process. I have sympathy with many of the reflections raised by the HCAB, which were discussed at length at the Remediation Committee. I understand that POL is planning to write to potential HSS applicants in the coming months with details of the £75,000 offer and the forthcoming appeals process once this has been finalised and agreed by the Department.

OCS

192. When I started in my role, POL was piloting its remediation principles in the assessment of pecuniary claims, and had shared a first tranche of draft principles with claimant representatives. My team supported DBT in its review of the draft principles and POL's proposed future ways of working.

193. Under the new approach, POL case assessors would review claims received from claimants and prepare offers consistent with case principles agreed with claimant representatives. The aim was to reach settlement faster than had been possible under the previous "negotiated" approach, where case principles had not been agreed with claimant representatives. The principles established an agreed evidential basis for heads of loss that could reasonably be provided by claimants and were proportionate to the value of claim, enabling POL case assessors to resolve cases quickly by making offers by reference to the agreed principles and available evidence.

194. My team continued to work with POL and the Department over the summer of 2023 to develop and finalise the remediation process, compensation principles and terms of reference for an independent panel to review disputed heads of loss and give recommendations. Support from the Shareholder Team included financial analysis and modelling for the compensation principles, for example assessing benchmarks for the level of interest payable on a claimant's loss of earnings where it was difficult to identify a counterfactual.

195. By the end of 2023, when UKGI's role was pared back, the significant components of the new remediation approach had been established. Principles for pecuniary remediation had been shared with claimant representatives and substantially agreed, with some final points remaining to be agreed through the independent assessor and the assessment of cases. At that point, POL was also in the process of finalising the agreement with claimant representatives on the appointment of the Chair of the independent panel, Sir Gary Hickinbottom. I understand that there was some delay to his appointment but do not know the reason for this.

196. The independent panel was established after the implementation of UKGI's revised arrangement with DBT, so I have not had significant involvement with it. I understand that no potential claimants have yet issued civil proceedings.

197. The policy of making a final settlement offer of £600,000 to applicants under the OCS was developed between March and July 2023 in response to the slow pace of the compensation scheme up to that point. POL had been developing its new remediation approach (as described above), which was planned to increase speed, however, it had become clear that this would take time to agree with stakeholders and implement. The fixed sum offer was intended to speed up full and final compensation payments and also attract more applicants.

198. The Department led on the development of the policy and drafted the advice to Ministers on available options. DBT also led the modelling necessary to

establish the value of the fixed sum offer. My team used its understanding of the compensation schemes and expertise in financial analysis to provide DBT with advice on policy development and financial modelling with the available data.

199. The policy was agreed by the DBT Minister in July 2023 and by HMT in September 2023. There was then a period of negotiation with claimant representatives over the terms and conditions of the offer before the first payments were made in December 2023. By August 2024, 110 claims had been received by POL and of the 56 claims that received full and final settlements, 52 were through the upfront offer of £600,000, representing around £30 million of the approximately £54 million paid in compensation to date through the OCS. Claimants who had previously been assessed as having claims worth under £600,000 also had their settlements topped up to this amount.

200. The intention of this policy has been to provide an option to claimants to achieve settlement quickly without the need to go through the long and sometimes difficult process of making a detailed claim. The policy includes provision for claimants to receive legal advice and help ensure that it is a fair settlement of their claim, while the increased speed and streamlined process have resulted in lower spend on legal fees than has been the case for detailed assessments. The policy will also help keep pace with the expected volume of claimants following the implementation of the blanket exoneration policy through the Post Office (Horizon System) Offences Act, enacted in May 2024 .

A significant number of claimants have chosen to take this route which suggests it is having its intended effect.

### GLO

201. As noted above, I was not involved in the establishment or operation of the GLO Scheme. A member of the Shareholder Team attended the GLO working group as an observer and a UKGI manager has been on secondment at DBT, using their experience on the HSS and OCS schemes to assist with the operation of the GLO scheme and ensure consistency of approach where appropriate between the different schemes.

### General reflections

202. In my view, POL has made considerable efforts to identify and engage with Postmasters that may be eligible to apply for the compensation schemes.

- a. On the OCS, as described in the July 2023 HCAB minutes (Horizon Compensation Advisory Board – Report of sixth meeting held on 31 July 2023) (UKGI00049041), POL conducted a tracing exercise to contact the 700 Postmasters who had been convicted in cases which might have relied on Horizon. It sent three sets of letters offering disclosure and inviting them to appeal. It also asked the Criminal Cases Review Commission to send a further round of letters, in acknowledgement of concerns around the way in which approaches from POL might be received by convicted Postmasters. This work has largely been superseded by the implementation of the blanket exoneration policy, and

engagement is almost always through an applicant's legal representative (the reasonable costs of which are fully covered by POL). POL has also contracted with Citizens Advice to provide support and information for potential applicants, and has encouraged the few applicants who do not have legal representatives to seek legal advice to help expedite their claims.

- b. On the HSS, much of the work to identify potential applicants had been done before my appointment as Shareholder NED, including through writing to current and former Postmasters who met the eligibility criteria and by publishing information on POL's website. The HSS saw huge increases in the number of applicants following the 2022 Panorama programme and then again following the 2024 ITV series, and POL is now planning to write again to potential applicants setting out details of the £75,000 offer, the forthcoming appeals process and the end date for the scheme.

203. The question of how to further increase engagement with potential applicants has been discussed at the Remediation Committee. Significant efforts have been made, but events have shown that external factors – notably the ITV series – have in some respects been more effective than POL's efforts to increase applicant numbers.

204. I am asked about the way in which POL has communicated with applicants. I am aware of concerns raised over the wording of POL's offer letters and that a complaint has been made to the SRA. I understand POL has now changed the

wording in its letters and am not aware of any other major issues concerning POL's communications with claimants. My broad understanding is that communications with legal representatives have been effective and that those directly with applicants have been more difficult, however I have not seen enough POL communications with applicants to comment substantively. I note that POL has internal timing KPIs in place in this respect which are seen by the Remediation Committee. Similarly, the timing of offers and compensation payments is not something I am closely involved with but my understanding is that this is being done relatively quickly and in line with POL's internal KPIs.

205. POL has generally been open to suggestions from, among others, claimant representatives, the Department and UKGI to improve the effectiveness of the schemes in fully and fairly compensating Postmasters. For example, it has reconsidered heads of loss where not originally covered by the schemes and has paid compensation when advised that such head of loss would have been available to the claimant through another legal route (a recent example being a claim for gratuitous care). POL has also taken an expansive approach to considering other forms of detriment that might have been suffered by Postmasters resulting from non-Horizon related practices, and a compensation scheme for such detriments is currently being piloted with a wider scheme to be launched in due course.

206. The impetus to achieve fairness between the schemes has driven a number of changes to the schemes throughout my tenure. Tax is a good example of this. Different schemes took different approaches to the treatment of tax because it

was considered at different stages of scheme delivery, and the schemes involved different levels of payments and evidence. While the OCS and PMD schemes included exemptions for all taxes (including capital gains and inheritance tax), meaning that compensation awards were calculated net of tax, HSS did not. To ensure parity between schemes, HSS claimants were awarded an additional amount to cover the amount of tax (as it was not possible to retrospectively apply a tax exemption). The UKGI Shareholder Team was involved in considering with the Department the various options available to effectively top up the HSS awards (though I was not directly involved).

207. Another example is the £75,000 Fixed Sum Payment offer to HSS applicants. The Shareholder Team and I saw this as a necessary consequence of the decision to make a minimum payment of £75,000 to GLO scheme claimants, as it would be required to ensure parity between the schemes. We made it clear to the Department that this figure should be built in to cost projections for the HSS rather than viewed as a risk that may not materialise. In January 2024, the Remediation Committee was told that DBT was awaiting a request from POL to standardise the minimum HSS payment at the same level as that for the GLO scheme, and the following month a paper was circulated on increasing the HSS minimum payment to £75,000. The Remediation Committee discussed this from a value for money perspective, in line with POL's obligations under MPM, and decided to sanction the proposal. The offer may be regarded as generous to some Postmasters who have only declared small losses from Horizon. However, I agree with the rationale for introducing



minimum payments to the GLO scheme (namely to enable payments to be made quickly and increase the proportion of spend going to claimants rather than representatives), and I support parity between schemes, so I view it as a necessary step in the HSS process.

208. I have sought to answer the questions on compensation and redress that have been put to me by the Inquiry to the best of my knowledge and understanding, but repeat that I have done so, where necessary given my limited personal involvement, by obtaining information through colleagues in the Shareholder Team.

### **Conclusions and Reflections**

209. POL's current operating environment is unprecedented, extraordinary and extremely stressed. The scale of the challenges facing those in the company is immense and the range of those challenges is broad. From what I have seen, the overwhelming majority of those working at POL feel the weight of what happened in the past very heavily and are doing their best to address the wrongs that occurred. They are also working hard to make the company better, to secure its future, and to deliver for the Postmasters on which it relies and the communities that it serves.

210. All working at, and closely with, POL are operating under intense scrutiny. As I have said, this is entirely understandable given the Horizon scandal and the tragedies that it caused, but it does, nonetheless, have an impact. It has

contributed to a high turn-over of staff and, in my view, has impacted on the behaviours of many of those involved in high profile decisions and events. It has also contributed to a risk-averse culture which has led to cumbersome processes, slow decision-making and delayed actions. This has affected all levels of POL, up to and including the Board.

211. The problem is much easier to diagnose than to resolve and the observations in my statement should be read with that in mind. I have tried to provide the Inquiry with open and candid reflections on what I have seen during my tenure as Shareholder NED, and on where the company currently is. I do not suggest that there were, or are, easy and obvious solutions to the issues that I have discussed.

212. Part of my role as Shareholder NED, and the wider role of UKGI, has been to facilitate, support and – where necessary – challenge the company in the changes that it needs to make. I am sure that others will have different perspectives on how we have performed those functions and whether the correct balance has been struck in terms of Shareholder oversight and intervention. It will be important for UKGI and the Department to reflect carefully on what others say and, as I have stressed throughout this statement, relevant models, structures and practices will continue to evolve. However, it remains my clear and unequivocal view that the overarching architecture for managing the relationship between the Shareholder and the company, including the appointment of a Shareholder NED from UKGI, is appropriate and fit-for-purpose. I know of no suggestion for a better alternative.

213. Cultural change at POL remains a huge challenge. While I am clear that significant progress has been made in policies, processes and fair treatment of Postmasters, there is undoubtedly still significant work to be done before the organisation reaches a place with which all concerned can be happy.

**Statement of Truth**

I believe the content of this statement to be true.

Signature

**GRO** .....

Date ... 13 Sept 2024 .....

**Index to First Witness Statement of LORNA GRATTON**

<b>No.</b>	<b>Inquiry URN</b>	<b>Document Description</b>	<b>Inquiry Control Number</b>
1.	UKGI00013078	Memorandum of Understanding between BEIS and UKGI with annexes	UKGI023872-001
2.	UKGI00049040	UKGI Portfolio Operating Principles with Guidance March 2024 v4.4	UKGI057792-001
3.	POL00362299	Post Office Limited: Shareholder Relationship Framework Document	POL-BSFF-0190809
4.	WITN10770200	Second Witness Statement of Charles Donald	WITN10770200
5.	WITN10770100	First Witness Statement of Charles Donald	WITN10770100
6.	UKGI00044318	Articles of Association of Post Office Limited	UKGI052980-001
7.	POL00363050	Letter to Lorna Gratton re: Letter of appointment	POL-BSFF-0191079
8.	POL00446477	Grant Thornton Governance Review dated 25 June 2024	POL-BSFF-099-0000003
9.	UKGI00048174	UKGI Preliminary Internal Review into the Post Office and the Horizon IT System	UKGI056931-001
10.	UKGI00044315	Letter from Sarah Munby to Tim Parker: POL Strategic Priorities for 2022/2023	UKGI052977-001
11.	UKGI00044317	Letter from Kevin Hollinrake to Henry Staunton: Strategic Priorities for 2023/2024	UKGI052979-001
12.	UKGI00049046	Letter from Jonathan Reynolds to Nigel Railton: Strategic Priorities for 2024/2025	UKGI057799-001
13.	RLIT0000201	News article from The Times titled 'Postmasters on Post Office board 'ignored and unwanted'	RLIT0000201
14.	POL00448300	Email from Elliot Jacobs to Saf Ismail, Henry	POL-BSFF-WITN-005-0010720

		Staunton Re: Project Pineapple	
15.	WITN10770300	Third Witness Statement of Charles Donald	WITN10770300
16.	UKGI00044337	Post Office Group policy - Speak up Policy - Version 8	UKGI054544-001
17.	UKGI00044274	UKGI - Guidance note 21 Whistleblowing and Serious allegations - Nov 23 (updated)	UKGI052998-001
18.	UKGI00049035	Email from Lorna Gratton to David Bickerton and Carl Creswell dated 5 July 2023	UKGI057783-001
19.	UKGI00049045	Post Office Comment on Investigation Into Speak Up Allegations	UKGI057798-001
20.	POL00448519	Letter from POL Whistleblowers to Nigel Railton, Jonathan Reynolds MP, Rt. Hon. Liam Byrne and others re: POL employees seeking support in addressing the ongoing intolerable leadership and cover up within POL	POL-BSFF-WITN-027-0000008
21.	UKGI00049047	Letter from Henry Staunton to Kevin Hollinrake MP dated 7 December 2023 regarding 'Senior Independent Director Recruitment - Post Office Limited	UKGI057801-001
22.	UKGI00049036	Email from Lorna Gratton to Charles Donald dated 15 January 2024	UKGI057784-001
23.	UKGI00049037	Email from Amanda Burton to Lorna Gratton dated 19 January 2024 with subject "Fwd: Investigation"	UKGI057785-001
24.	UKGI00049038	Email from Amanda Burton to Lorna Gratton dated 20 January 2024 with subject 'Fwd: SID'	UKGI057786-001
25.	POL00458053	Email from Ben Tidswell to the POL Board dated	POL-BSFF-WITN-004-0055745

		20 January 2024 with the subject 'Re: SID'	
26.	UKGI00049039	Email from Lorna Gratton to David Bickerton dated 20 January 2024 with subject 'Contact details so Ben Tidswell can call you?'	UKGI057791-001
27.	UKGI00049030	Note of call between Ben Tidswell and Carl Creswell dated 22 January 2024	UKGI057788-001
28.	UKGI00049033	Submission from Lorna Gratton and Carl Creswell to Minister Hollinrake and Secretary of State dated 23 January 2024	UKGI057793-001
29.	UKGI00049031	Briefing titled 'Call with Henry Staunton Post Office Chair'	UKGI057789-001
30.	UKGI00049032	Email from BDT for Lorna Gratton dated 27 January 2024 with subject 'Re: Read out: [to action today] – Letter to Post Office Chair'	UKGI057790-001
31.	UKGI00049034	Submission from Lorna Gratton and Carl Creswell to Minister Hollinrake dated 17 December 2023	UKGI057800-001
32.	POL00446476	Grant Thornton Board Effectiveness Review dated 19 June 2024	POL-BSFF-099-0000002
33.	UKGI00049042	Letter from Charles Donald's to David Bickerton dated 19 September 2023	UKGI057795-001
34.	UKGI00049044	Terms of Reference for the Remediation Committee	UKGI057797-001
35.	RLIT0000250	Minutes of the Horizon Compensation Advisory Board ("the HCAB") of 14 June 2023	RLIT0000250
36.	UKGI00049043	Horizon Shortfall Scheme – latest data on progress	UKGI057796-001

37.	POL00448026	Horizon Shortfall Scheme Terms of Reference of the Horizon Shortfall Scheme Independent Advisory Panel	POL00448026
38.	UKGI00049041	Horizon Compensation Advisory Board – Report of sixth meeting held on 31 July 2023	UKGI057794-001