

Witness name: Gareth Davies  
Statement No.: WITN11020200  
Dated: 18 March 2024

## POST OFFICE HORIZON IT INQUIRY

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### SECOND WITNESS STATEMENT OF GARETH DAVIES

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#### INTRODUCTION

1. I Gareth Davies, Permanent Secretary of the Department for Business and Trade, Old Admiralty Building, Admiralty Place, London SW1A 2DY, will state as follows.
2. I make this statement in response to the Inquiry's request for evidence dated 8 December 2023, in order to assist the Inquiry in relation to the role of the Department for Business and Trade ("**DBT**" or "**the department**") and its predecessor departments in the Post Office's corporate structure. It covers any relevant changes since 1 June 2021. It is intended to complement, and should be read alongside, my previous submission to the Inquiry dated 19 January 2024.
3. I make this statement on behalf of the department. I have been assisted in its preparation by officials within my department, as well as the Government Legal Department and counsel. The majority of the information set out in this statement is not known to me personally, and I have therefore drawn and relied

upon extensive input from colleagues. It is in that sense a 'corporate statement'.  
Its contents are true to the best of my knowledge and belief.

4. I am authorised by the Secretary of State for Business and Trade to make this Statement.

#### **CORPORATE STRUCTURE OF POL**

5. As outlined previously, Post Office Limited ("**POL**") separated from Royal Mail Group plc on 1 April 2012 and since 12 June 2017 has not had a parent company but has had the Secretary of State as its direct sole shareholder. The Secretary of State for Business, Energy and Industrial Strategy ("**BEIS**") remained the sole shareholder of POL from 1 June 2021, as outlined at paragraphs 9-12 and 18-20 of my previous statement, until 2 May 2023, when the Department for Business and Trade was legally formed.
6. There was one change to the POL Articles of Association in this period. On 14 December 2022 Article 50 was amended [BEIS0000594] to read as follows:

*"Subject to the Articles, including the requirement for Special Shareholder consent as set out in clause 8.1(E), each of the non-executive directors shall be paid a fee at such rate as may from time to time be determined by the Board, provided that the aggregate of all fees so paid to directors (excluding amounts payable under any other provision of these Articles) shall not exceed £470,000 per annum."*

7. As can readily be seen, this related to a maximum cap on the remuneration of non-executive directors on the POL Board and did not involve any changes to

the Secretary of State's rights or duties as Special Shareholder, nor any other relevant governance changes for the purposes of the Inquiry.

8. On 3 May 2023, as part of wider changes in the Machinery of Government, Government responsibility for the Post Office passed from BEIS to the Department for Business and Trade ("**DBT**").<sup>1</sup> The corporate and governance structure of POL as outlined in my previous statement remained the same throughout this change, save that the Secretary of State for Business and Trade became the sole shareholder of POL. The Post Office Policy Team within BEIS moved, unchanged, to DBT.

### **OVERSIGHT OF POL**

9. As outlined previously at paragraph 27 of my first statement, the DBT Director of Business Resilience oversees the Government's policy work related to POL and is delegated Budget Holder for Post Office Investment, Funding and Subsidy. The DBT Post Office Policy Team report to the Director. This remains the structure to date and was not affected by the Machinery of Government change.
10. DBT has continued to monitor POL's performance through UK Government Investments ("**UKGI**"), the Government's centre of excellence on corporate governance and finance. A UKGI official is the Shareholder Representative on

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<sup>1</sup> Article 12 the Secretaries of State for Energy Security and Net Zero, for Science, Innovation and Technology, for Business and Trade, and for Culture, Media and Sport and the Transfer of Functions (National Security and Investment Act 2021 etc) Order 2023.

the POL Board. Appendix 4 of the Framework Document<sup>2</sup> sets out that the Shareholder Representative provides advice to relevant ministers and the Principal Accounting Officer, in consultation with DBT officials. Section 6.3-6.5 of the Framework Document further explains corporate governance roles, including setting out that the relevant junior Minister provides ministerial oversight for key priorities and will typically account for Post Office-related business in Parliament.

11. The Department has a Memorandum of Understanding [BEIS0000578] in place with UKGI, brought into effect in 2019, which outlines the way in which the two bodies interact with each other. This has remained unchanged since its introduction. There have been no notable changes to the formal structure of the way in which DBT monitors POL through UKGI, outlined in my previous statement, since June 2021.

12. The Framework Document, also outlined in my first statement, was published in 2020. It has remained in place to date and is due to be reviewed and updated in the 2024/25 Financial Year. In accordance with the governance and oversight arrangements in place, this work will be led by UKGI.

13. POL is accountable to the shareholder for its performance and is required to seek written consent for certain matters (for example for any undertaking to incur any expenditure in excess of £50 million). These matters are set out in the

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<sup>2</sup> Post Office Limited: Shareholder Relationship Framework Document  
<https://assets.publishing.service.gov.uk/media/5e74fe04e90e073e313755cc/post-office-limited-shareholder-relationship-framework-part-1.pdf>

Articles of Association and the Shareholder Relationship Framework Document.

14. Government oversees POL's corporate governance, strategy and performance through the Shareholder's Representative on the Board and the formal Quarterly Shareholder Meetings. The detail on attendance at the Shareholder Meetings is set out in section 6.6 of the Framework Document. In addition, POL executives and Government meet regularly at ministerial and official level. Key arrangements include a monthly ministerial meeting with POL's CEO and various POL executives as needed depending on the agenda for each meeting. Monthly network monitoring meetings also take place with DBT and UKGI officials to monitor POL's performance against Government's network requirements and official level dialogue and meetings take place as and when is necessary to monitor Post Office's performance and finances. Government requires there to be over 11,500 Post Office branches across the UK to make up the Post Office network.

15. Since the need for compensation for postmasters arising out of the problems with Horizon was first established following the December 2019 'Horizon Issues' judgment of Mr Justice Fraser in *Bates and others v. Post Office Limited* [2019] EWHC 3408, UKGI has taken an important role in overseeing POL's delivery of compensation. In September 2023, UKGI's CEO wrote to DBT, setting out his intention that UKGI transitions away from being closely involved in the compensation schemes and moving into a more strategic role [BEIS0000595]. This was in recognition of the fact that DBT's Post Office Policy Team involved in the compensation schemes had expanded significantly over

time and there was overlap between the work being done by UKGI and DBT. The expansion of the DBT policy team is outlined further below in paragraph 18. David Bickerton, the Director General of the Business Group at DBT, replied to UKGI in October 2023 to agree to the change [BEIS0000596].

16. Since June 2021, there has been one Government Internal Audit Agency (“GIAA”) review of DBT’s sponsorship of the Post Office. GIAA reviews are designed to help Government departments improve their governance, risk management and internal control processes. Building upon a review on the same topic in 2019, a 2022 GIAA review considered “*Post Office Limited: Sponsorship and Ownership by BEIS*” and produced a ‘moderate’ opinion, finding that some improvements were required to enhance the adequacy and effectiveness of the framework of governance, risk management and control. Working with UKGI, the department has since made a number of changes to its ways of working, including implementing a Terms of Reference for Quarterly Shareholder Meetings with the company and improving minuting of these meetings. A copy of the 2022 GIAA report, and the BEIS/UKGI response is attached to this submission [BEIS0000597].

17. Action has also been taken to ensure that there is no repetition of the issue surrounding senior executive bonuses being linked to POL’s collaboration with the Inquiry, as came to light in mid-2023.<sup>3</sup> DBT commissioned a review to be undertaken by Simmons and Simmons, the results of which were published in

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<sup>3</sup> <https://www.postofficehorizoninquiry.org.uk/news/chairs-statement-regarding-post-office-limited-20212022-annual-report>

August 2023.<sup>4</sup> POL are now in the process of implementing the recommendations, which includes a review of its governance structures, processes and systems in relation to remuneration to ensure good corporate governance practice is followed consistently and is in alignment with the role of the Shareholder. Progress on this is being monitored by UKGI on behalf of DBT. Any improvements to DBT's role recommended by this further review will be considered carefully.

### **BEIS/DBT TEAM STRUCTURE**

18. As outlined previously, the DBT Post Office Policy Team was set up in the summer of 2018. This marked a change in the division of roles and responsibilities between POL, UKGI and the department, as the department took responsibility for overall high-level policy direction and accordingly became more actively involved in POL. This team was then expanded in April 2019, with the appointment of a new Director and supporting team.

19. The Post Office Policy Team is currently overseen by two Deputy Director posts, reporting to the Director of Business Resilience who reports to the Director General of the Business Group. The Director General reports to the department's Permanent Secretary.

20. Whilst the team originally evolved gradually based on resourcing requirements, since June 2021 there has been an increased rate of growth. This is due to various factors, including the need for team oversight of POL's postmaster

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<sup>4</sup> <https://assets.publishing.service.gov.uk/media/64db6d493fde6100134a5273/review-of-the-governance-relevant-to-post-office-limiteds-senior-executive-remuneration.pdf>

compensation schemes, delivery of the GLO scheme (which is undertaken directly by DBT) and the need for a team dedicated to responding the Inquiry.

21. Minister Hollinrake announced on 10 January 2024 the Government's intention to legislate to overturn postmasters' convictions arising from the scandal. The Post Office Policy Team is expected to scale up further to deliver this.

**Statement of Truth**

I believe the content of this statement to be true.

Signed: 

Dated: 18/03/2024



**Index to Second Witness Statement of Gareth Davies**

<b><u>No.</u></b>	<b><u>Document Description</u></b>	<b><u>URN</u></b>	<b><u>Control Number</u></b>
01	Post Office Limited's Articles of Association Amendment, 14 December 2022	BEIS0000594	BEIS0000594
02	Memorandum of Understanding between the Department for Business, Energy and Industrial Strategy and UK Government Investments Limited, 12 December 2019	BEIS0000578	BEIS0000578
03	Letter from Charles Donald to David Bickerton, 19 September 2023	BEIS0000595	BEIS0000595
04	Email from David Bickerton to Charles Donald, 4 October 2023	BEIS0000596	BEIS0000596
05	Government Internal Audit Agency - Final Internal Audit Report: Post Office Limited: Sponsorship and Ownership by BEIS, June 2022	BEIS0000597	BEIS0000597