

Opening gambit

- As you know ShEx and the Board *are clear* the current CFO is not the right person to take the company forward given the challenges it faces.
- Government has made its investment, £2bn of taxpayers money is at stake, POL may never get such a good chance to transform again so we want to get it right. But POL's challenges are increasing (competition in mails, Govt business, digital etc)
- You know all that and on reflection we should have approached you earlier. However, we want to explain to you why we need to come and see you on this, and why Alice and the chair of the RemCo want to meet you and Vince.
- The difficulties on the CFO front have brought forward the concerns that the Board (and ShEx) has about the CEO, which you need to be aware of, and which puts the appointment of a new CFO in a wider context.
- The Board's concern over the performance of the CEO has been growing for some time, and has only recently got to the point where it feels it needs to act in due course.
- But this leaves the Board in a difficult place – removing a CEO without a confident CFO capable of holding the fort is a big risk. This makes replacing the CFO all the more important, which explains the Board's heightened concern and why Alice wants to talk to you and Vince in person.
- We need to obtain a strong CFO and give them time to get their feet under the table before acting on the CEO. Without replacing both of them, the plan is at significant risk.
- It goes without saying that this is extremely sensitive and highly confidential.

Why haven't you told me about the CEO before? Why didn't it form part of the CFO advice?

- Removing the CEO is a very dangerous and destabilising thing to do – its not something the Board takes lightly so it needed to be certain before coming to you.
- We are also conscious that the moment we tell you about Paula, your relationship with her is irrevocably changed.
- The Board has been monitoring the situation for some time but until recently have felt that the balance of risk pointed towards keeping Paula in place, given the uncertainty and difficulty of appointing a successor (e.g. most likely requires higher remuneration, politically sensitive, many stakeholders and colleagues like her)
- There are number of reasons why this balance has now changed:
 - Efforts to improve her performance have failed
 - The Board is increasingly frustrated with the lack of progress on various areas, primarily the lack of "grip and pace" applied revenue growth, cost cutting, specific business areas like Horizon, and the strategy in general
 - This crystallised for the Board at the June away day, where Paula very much sat back and let her team lead – she acts more like a NED than someone who leads from the front
- Originally our view was that before coming to you on the CEO, we should see what the options are for her replacement. We appreciate that replacing her would be politically difficult, that it would take some time, and that it changes your relationship with her in the meantime.

What is wrong with the CEO?

- Its about “grip” and “pace”.
- Paula has many strengths, but given POL’s increasingly competitive environment and the strategy it must implement, we need stronger leadership and vision. We need a better grip on the detail, we need more traction on the ground to deliver cost savings and revenue growth at pace.
- A number of examples include:
 - The November strategy that HMG and POL signed up to wasn’t really Paula’s – she allowed the team to develop it with no real strategic vision.
 - The June update presented significant risks to the plan when much of this should have been foreseen. But again there was minimal input from Paula.
 - Issues like the Horizon mediation scheme and financial services have required significantly more oversight by the board than one might expect as things haven’t been gripped (to the point where the Board have set up sub committees when it should be Paula or the CFO)
 - There is still “a lot of talk” at POL about network expansion, mails performance cost cutting, etc, but very little traction. The Board is getting increasingly frustrated.
 - As we have backfilled good people below her, her own inadequacies have become more apparent. They are driving the business, in spite of her.

Would a new CEO require higher remuneration?

- Yes, but we had wanted to come to you once we had a fuller picture.
- Paula was an internal candidate appointed before RM and POL split
- A decent external candidate would still be taking a pay cut to come, even though we would have to increase remuneration (like the proposed CFO)
- There are no suitable internal candidates who could step up to the plate. The Board has been keeping an eye on this, but the levels of pay POL can offer mean that incoming senior team members are not “fully fledged”
- The constraints we have on CEO pay makes having a strong CFO in place all the more important, as they can hold the fort should Paula choose to walk

What have you done to put measures in place to improve her performance?

- Alice has spent an enormous amount of time coaching, mentoring and monitoring Paula
- Important to note that Alice has significant NED experience, works closely coaching FTSE 100 CEOs, undertakes Board reviews, and has a huge amount of experience in knowing what can and can’t be done with both Paula and Chris.
- Paula responded to initial efforts to improve performance (from a lower base as POL Managing Director), but this has levelled off and is ultimately about character and aptitude.

Why are we paying her big bucks if she is not performing?

- Her base pay is in the bottom quartile of a cross section of CEO’s.
- Her overall pay fell by £154k last year, because of the lack of progress being made on cost cutting and revenue growth. At current levels her overall pay will fall again this year.

- But that is small comfort – it would be better that the business achieves its targets!

I remember Alice asking to increase Paula's pay?

- At that point she was doing well, responding to the coaching Alice and the Board were giving
- Whilst Alice did not say she would leave, she did think she was a flight risk and there was no one in the business to replace her, so she needed to be secured.
- Since that point:
 - Paula has proactively said to Alice she wants to stay to see transformation through
 - Board's strategy has been to fill positions underneath her to bolster POL's performance and find a potential successor
 - Internal candidates have made strong impacts in their areas, but are not CEO material
- Incidentally Paula is still marketable externally – high profile, comes across well

Don't see how this has anything to do with the CFO?

- Changing the CEO is destabilising, and could leave the business without effective leadership for a period.
- You would expect the only other Executive Director to step up to the plate, but the current CFO could not do that (and he is not expected to).
- We need to obtain a strong CFO and give them time to get their feet under the table before acting on the CEO

What is wrong with the CFO?

- He has not done anything wrong – he has fulfilled the role for which he was appointed, being the separation of POL from RM and the setting up of POL's own finance function.
- He has a strong command of the numbers, and is competent at his job.
- But the role has moved on – we need to now drive cost reductions, business transformation, and to get a grip of new areas of business such as financial services. Chris does not have the skills to do this as effectively as we would like.
- We would not have appointed him had that been the role at the time.

Why can't the CFO be upskilled?

- POL has tried. NED Alasdair Marnoch, who is himself a CFO, has been closely working with Chris.
- But ultimately you cannot upskill experience and aptitude, we don't have the time, nor should POL / taxpayer effectively bear the cost of doing so through a slower and less effective transformation.

Why can't the CFO just be fired to avoid the compensation payment?

- He has not done anything wrong – he has fulfilled the role for which he was appointed, but the role has evolved and moved on.
- Legal advice is that he could not be removed for lack of performance (as he has done what has been asked of him)

- He could work some of his notice period which would reduce any payoff, but that might not be practical.
- Whilst we could stretch his role further and “set him up to fail”, this would take time which POL doesn’t have, and will ultimately cost the business a lot more than the pay off
- (If needed: this will not come out until next summer in the accounts)

You should have come to me earlier on the CFO

- On reflection, yes.
- It’s difficult to time:
 - We weren’t confident we would find someone willing to come (and out of 70 candidates we only found one)
 - When you do find them, you suddenly have to act
 - In the meantime, we risk damaging your confidence in the business

Ministers have made their decision!

- This is of great concern to the Board, who are personally responsible to you and the Secretary of State for the successful running of the business, and it’s their view that a change is needed.
- You are effectively saying that you don’t have confidence in their judgement on these matters, which is a very difficult position for the non-executives and Chair to be in