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Overview of HMG Governance

POL, as a public corporation, is exempt from a number of rules applicable to the public sector generally, for example Cabinet Office spend controls. However, HM Treasury looks to control and influence pay across the entire public sector to safeguard public money and ensure that senior pay is proportionate and justifiable. The degree of control varies across organisations and as a commercially oriented public corporation, POL has stronger arguments that most public sector bodies to argue that certain rules are not appropriate and should not apply. However, as a 100% government-owned entity, POL should not expect complete freedom over pay decisions.

Therefore, HMG can require POL to comply with certain public sector wide directives such as the public sector pay freeze last year which unusually applied to public corporations like POL. Moreover, even where Shareholder approval is not formally required under the Articles of Association and the Shareholder Framework Document, Remco should use its judgement and consult BEIS, particularly on matters that are likely to be sensitive for HMG

Managing Public Money: application to POL

1. As a public corporation, the PAO has designated the POL CEO as POL's Accounting Officer (AO) and expects the AO to observe the principles set out by HM Treasury in Managing Public Money ("MPM"). POL's AO is personally responsible for safeguarding all funds for which he or she has charge; for ensuring propriety, regularity, value for money and feasibility in the handling of those funds; and for the day-to-day operations and management of POL. The AO should ensure that POL is run on the basis of the standards of governance, decision-making and financial management set out in MPM, as well as ensuring that POL uses internal and external audit to improve its internal controls and performance.

2. In addition to the responsibilities of the AO, the responsibilities of POL's Board will include ensuring that any statutory or administrative requirements for the use of public funds are complied with, and have regard to the relevant principles set out in the Government Code of Good Practice for Corporate Governance and in MPM, as well as the requirements under the Articles to seek consent for certain matters.

Ministerial appointments

3. The Post Office Shareholder is the Secretary of State for BEIS. The Articles of Association require the Shareholder to approve the remuneration, terms and conditions of ministerial appointments. This covers the CEO, CFO, Chair and Non-Executive Directors. All aspects of pay and terms and conditions are subject to approval including contractual terms, salary and salary increases, benefits, pension arrangements, performance related pay (STIP and LTIP) and termination payments need to be approved. This includes Shareholder *"approval of or agreement to or any* *<u>material variation</u>* *or amendment to the remuneration (including, without limitation, salary, share options, bonuses, benefits in kind and pension rights) paid or granted to any director of the company."*

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4. Moreover, the Chief Secretary to the Treasury (CST) must approve the remuneration arrangements for appointments to Public Corporations where performance related pay arrangements exceed the threshold of £17,500 and the appointment is a Ministerial appointment. The POL CEO and CFO are Ministerial Appointments.

5. These approvals are also reflected in the Remco Terms of Reference which states that Executive Director LTIP and STIP arrangements must be approved by the Shareholder and POL's Shareholder Framework document which states that *"The Remuneration Committee shall recommend to the POL Board the remuneration policy and any changes to individual elements of the remuneration packages for members of POL's Board. As per the Articles, the remuneration of all Board members will require approval by the Shareholder. Remuneration of Board members that exceeds the threshold set in HM Treasury's Guidance for Approval of Senior Pay requires additional approval by the Chief Secretary to the Treasury."*

6. The process within BEIS for Shareholder approval is for proposals to go through a Senior Civil Servant (SCS) Panel, then Permanent Secretary approval, Minister of State approval, and if necessary, SoS approval. In some instances, the SoS may delegate approvals to Junior Ministers.

7. As per HMT Senior Pay Guidance for Public Corporations, approval by the Chief Secretary to the Treasury (CST) is also required where Board member pay (pro rated as necessary) exceeds £150k or bonuses exceed £17,500. In some instances, the CST may delegate approvals to HMT Officials.

8. The need for approval applies to all material changes in pay arrangements including any changes which would increase pay above the agreed limits or even where pay stays within agreed limits, where the structure and metrics of the award differs materially from previously approved schemes. Where judgments of materiality are unclear, UKGI Officials should be consulted who will in turn consult with colleagues at BEIS and HMT for a definite judgment.

9. Proposals should set out the maximum potential award, the structure of the award and the metrics for Ministerial approval.

10. The proposal should highlight where metrics are not yet final, outline the scope for change, and seek approval to delegate further approval of the metrics for RemCo to agree with UKGI.

11. Where possible, metrics should be agreed at the start of the relevant period, and metrics should not be changed at the end of the period because this does not support effective performance management.

12. RemCo should be given sufficient advance notice of proposals to conduct effective scrutiny and come to a reasoned decision.

Other staff

13. Historically, POL has had pay freedom in relation to other staff. However, any remuneration package in excess of the CEO's will require CST approval irrespective of

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whether the position is a ministerial appointment. Additionally, HM Treasury has now made it clear that they expect all public sector bodies to comply with Public Sector Pay guidance. This is now also reflected in Appendix 5 of POL's Shareholder Framework document which stipulates that POL has agreed to comply with public sector pay and terms guidance. The Public Sector Pay guidance should be read in full.

14. The practical consequences of the guidance are as follows:

- The government expects every part of the public sector to demonstrate that it is using public money efficiently and responsibly and to ensure that pay and terms are always proportionate, justifiable and deliver value for money for taxpayers
- **Payment in lieu of pension (PILOP):** Strictly not to be offered to employees at any level of the organisation.
- **Private medical insurance (PMI):** Strictly not to be offered to employees at any level of the organisation. HMT understand that it is problematic to unwind this for current employees, and that a pragmatic solution is not to offer PMI for new joiners.
- **Health screening:** We have clarified that this should not be paid to the individual as a cash allowance and we confirmed that the provision of free health screening is undertaken by other government departments and paid for out of a centralised budget by the organisation. Although it forms part of the individuals total reward package, it isn't payable directly to them.
- **Car allowance:** Under the public sector pay and terms guidance, there is no explicit prohibition of the use of car allowances, however historic cases have demonstrated that the car allowances should only be used where it is in integral part of the individual's role to have the use of a vehicle and that any allowance paid in respect of this needs to be limited to the payment towards that vehicle. The main point to note here is that the individual is not given a car allowance as cash with freedom as to how it is used and that the individual would receive financial gain from that allowance outside the use of a vehicle.
- **Life Insurance:** This is equivalent to the Death in Service Benefit that Civil Servants receive through the Civil Service Compensation Scheme and we would not consider this to be novel, contentious or repercussive in its own right. We would not consider an amount offered of 6x salary as out of step with other public sector organisations. Again however, this should not be payable as a cash allowance to the individual as is usually administered by the organisation but part of the total reward package.
- **Group Income Protection Insurance:** Same rules apply as above re not paying as a cash allowance. We see this as the equivalent of Ill Health Retirement under the CSCS where an individual will be compensated if they become too ill to continue working. It is not novel, contentious or repercussive in this respect. It does depend however on how generous the offer is on whether this view may be swayed.

15. Further to this, the CST will reject remuneration for ministerial appointments that includes cash allowances and pay in lieu of pension.

Civil Service Pay Guidance

16. The Public Sector Pay guidance is distinct from the Civil Service Pay Guidance, which applies to a more limited set of public sector bodies, and not the Post Office. It

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continues to be the case that the Civil Service Pay guidance (which applies Cabinet Office spend controls and caps pay growth for the whole organisation) does not apply to POL. This is confirmed in Appendix 5 of the Framework Document which states that *'POL and UKGI have agreed that the Civil Service Pay guidance (which caps pay growth for the whole organisation) does not apply to POL.'*