



Post Office Limited

Interim report – Remuneration Committee
Final

1 Dec 2023





For the attention of Rachel Scarrabelotti / Amanda Burton
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1 December 2023

In accordance with the Statement of Work dated 12 October 2023 we present our interim report (Interim Report or Phase 1) on the effectiveness of the Remuneration Committee's 'As-Is' governance practices at Post Office Limited (POL).

This Phase 1 piece of work has been undertaken in the context of our overarching assignment (Phase 2) covering a review of governance design, procedures and practices at POL to identify any gaps and provide considerations as to how they may be bridged in the context of the wider change programmes which are being unified internally under Project Ethos. The purpose is also to confirm that practices are in alignment with the role of DBT and its duties and general comparable good governance practice in the market.

This overall review does not seek to investigate and comment on any perceived or actual past failings. It is concerned with establishing whether the current governance approach meets the appropriate standards and is fit for the future, based on the Company's unique position including, its ownership structure, fulfilment of social purpose and its strategy to ensure the interests of its stakeholders are properly served.

Appropriate standards considered for the purposes of this review are, the UK Corporate Governance Code 2018 (the Code) mapped against the Central Governance Code 2011 (the Government Code) and the governing shareholder documents, in addition to good practice as observed from other relevant organisations of similar size and complexity.

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For clarity, the observations and recommendations contained in this Interim Report will continue to be informed by our work on the overall governance construct and we will incorporate a final version of this report into our final Phase 2 report.

This Interim report is confidential and has been prepared exclusively for you. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than POL for our work, our report and other communications, or for any opinions we have formed. We do not accept any responsibility for any loss or damages arising out of the use of the report by the addressee for any purpose other than in connection with the scope set out in the Statement of Work.

We would like to thank you and the various employees and Non-Executive Directors involved in this initial piece of work for their commitment in giving their time to provide honest and insightful feedback which, has supported the review process.

If there are any matters upon which you require further clarification, please contact Jonathan Houston **GRO** or myself.

Yours sincerely

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Section 1

Context and background

Context and background

POL is wholly owned by the Secretary of State for Business and Trade ('the Shareholder' or 'DBT'), the ownership rights of which are preserved in the Company's Articles of Association.

The relationship between the Shareholder, its representative, UK Government Investments Ltd (UKGI or the Shareholder Representative) the Company, and the Shareholder's expectations of the Company, are governed by the Shareholder Relationship Framework Document (March 2020) and are further supplemented by an annual letter from the Minister setting out the Government's broad objectives for POL.

POL is a commercial retail company with a social purpose. Through its partnerships it provides to the public, via its nationwide network of c.11,500 branches, a variety of products including postage stamps, travel and banking offerings.

The POL 2025 strategy and vision is built around seven key pillars. These pillars have been further synthesised into three key themes which we understand inform the operational focus of the Company namely; rebuilding trust, transforming technology and improving branch profitability.

Government funding remains a key element which underpins the delivery of the strategy and the continuing viability of the organisation. Funding requirements are negotiated with the Shareholder on a 3-year cycle, with the current period due to end December 2024. One of the key aims of POL is to become financially sustainable however, this needs to be balanced against its social purpose being a critical infrastructure element to the UK community: 'We're here, in person, for the people who rely on us'.

Against this backdrop:

- POL works in a dynamic retail and banking environment which is changing at pace
- there is the continuing Horizon IT Inquiry into the past governance failings at POL
- there is a major IT transformation on-going

Context to the report

In May 2023, the newly appointed Chair to the POL Rem Co was asked by the POL Board to conduct a review of the circumstances which led to the Horizon IT Inquiry Support Target

wording in the POL Transformation Incentive Scheme (TIS) and Annual Report and Accounts; TIS was a one-off incentive and did not form part of the usual STIP/LTIP.

Following that report, in June 2023, DBT commissioned Simmons & Simmons to undertake an independent review into the governance practices and decisions made by POLs Rem Co in relation to this metric.

Both the Rem Co Chair and Simmons & Simmons reports (The Review Reports) recommended as part of their response that POL undertakes a review of governance structures, processes and systems at Rem Co to improve and record effective decision making and ensure alignment with the foundational shareholder governance documents.

Recommendations from the Review Reports largely align and are accepted by POL, which is seeking to address all nine recommendations at pace, with two on the project plan marked as complete and seven in progress (Refer to Section 2). In addition to these recommendations, the Rem Co Chair made two further suggestions namely,

- that POL re-engage with the Shareholder
- Rem Co should not award any element of bonus specifically relating to the Horizon IT Inquiry both now and going forward. Both recommendations have been actioned

Accordingly, it is within the context of the future ambitions, recent challenges and the Review Report recommendations in addition to a relatively newly formed Rem Co in terms of Committee membership and new Chief People Officer (CPO), that we focus our comments and recommendations.

Section 2

Executive summary

Context and background

[continued]

Limitations

Clearly there are a number of actions being undertaken by POL to address the gaps in governance at Rem Co (and within the wider organisation). Given the limited time provided to undertake this review and acknowledging that the Review Reports both cover wider governance aspects to Rem Co's ways of working, our intention is not to repeat previous analysis into root causes but to focus on the actions since the Review Reports were issued to assess whether;

- steps being undertaken to address recommendations are appropriate and will enhance future decision making in the context of POL's operating model
- any further potential gaps remain giving consideration to the Code, the Government Code and good market practice

With only three Rem Co meetings occurring since release of the Review Reports in addition to a relatively new Rem Co membership and CPO, it is difficult to conclude on the effectiveness of the practical application of many of the proposed changes. Much of the work to remedy the identified gaps in the Review Reports is still in the design or implementation phase and time is needed to allow changes to bed-in to avoid overengineering the governance.

During the period within which we have undertaken this interim review, we have been unable to observe a meeting of the Rem Co, and/or spoken to the Group Executive so we cannot comment on its overall effectiveness in this wider context and will consider this further in our Phase 2 work.

For completeness, this review does not constitute an audit and the observations and conclusions outlined in this initial report have been arrived at following document review, interviews and discussions with certain members of the Rem Co, Senior Leadership team and members of the People Function (refer to Appendix 4 and 5 for details).

Our report divides into the following sections:

- **Section 2** - Executive summary which provides an overview of recommendations

We have included our observations and findings from our document review, interviews and discussions as follows;

- **Appendix 1** - The effectiveness of the foundational governance documents and any recent mark-ups i.e. the Shareholder Agreement, Articles of Association, ToRs
- **Appendix 2** - The effectiveness of the practical governance elements such as; minutes, MI, roles, capability and capacity etc; and
- **Appendix 3** - Progress on Review Reports recommendations
- **Appendix 4** - Update of the Review Recommendations
- **Appendix 5** - Interviewees
- **Appendix 6** - Documentation
- **Appendix 7** - Glossary

Executive summary

The arrival of a new Rem Co Chair, Shareholder Representative, new CPO and Reward Director over the last 6 months provides the opportunity to reset expectations with stakeholders at Rem Co.

Equally, the Review Report recommendations also provide a roadmap to rebuilding an effective governance platform.

Nevertheless, for the reset at Rem Co to have sustainable impact it needs to be done in the context of a defined strategic ambition and culture of the Group, which currently is not clear.

Overview

The historical lack of clarity and concerns around the responsibilities and information accuracy has raised the cost of decision making at Rem Co. It has also diminished genuine accountability and effectiveness within the Committee and the governance hierarchy between the workforce, Rem Co and the Shareholder. This is further affected by the public profile of POL both within Government and the wider public context which continues to negatively impact trust and transparency within the Company.

In response POL is taking steps to remedy how the governance environment contributes, first to rebuilding trust among its stakeholders through addressing governance policy and procedures, and second through improving consistency of insights and ways of working.

Specific to the Rem Co, in the short term, the new Chair is focused on; getting to grips with the most urgent issues around the historic reward schemes and ways of working to reduce the noise and create capacity to focus on the effective and timely agreement and communication of future reward schemes to the organisation.

Our initial impression is that much of the work at Rem Co, both through the direction provided by new capability and support and the on-going work in response to the Review Report recommendations will, if embedded, address many of the governance gaps.

We note however, whilst many of the policies seem in line with good practice, the practical application against policies has historically been inconsistent. Equally it is clear that retaining a CPO and building capability and capacity in the People function, which is critical to support Rem Co's work, has been challenging over the last four years.

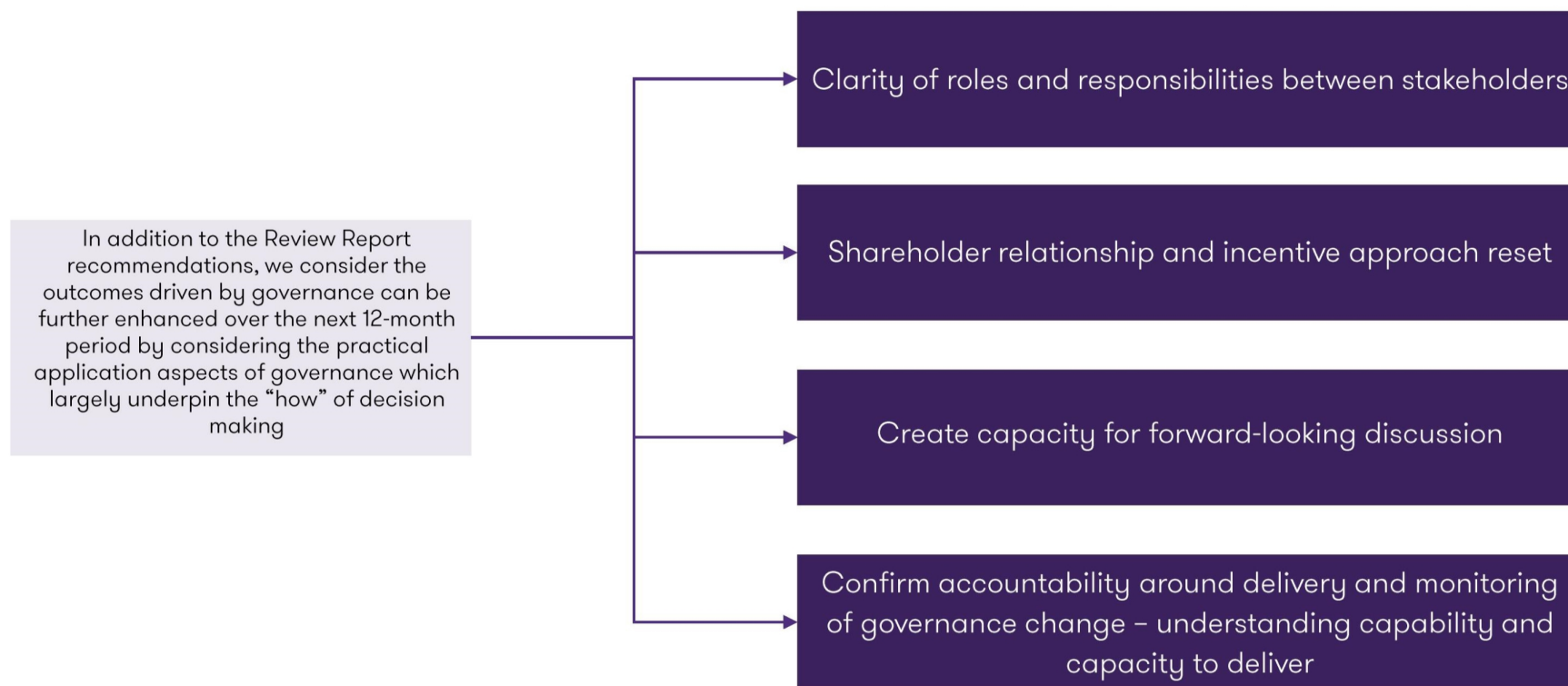
To address this, behaviours and culture, what living the strategy looks and feels like, are critical elements which require consideration. It is not apparent, at this stage of our review, that there is ownership, at the top, around the wider workforce agenda, culture framing and monitoring in addition to a metric definition of the ambition of the strategy at Group level. These frameworks provide a critical reference point for governance design work to support turning strategy into action through decisions, providing clarity, building trust and framing accountability.

This, in addition to frequent and robust communication, talent mapping and performance management need to be addressed to properly shift the impact of Rem Co.

Clearly there are a significant number of competing priorities at Group, particularly given the Horizon IT Inquiry and systems change, but capacity to consider a broader and more forward-looking agenda needs to be created and is critical to the future viability of the organisation. We have seen aspects of this with the introduction of new Board-level Committees, the skills and aptitude of new NEDs, the introduction of a deputy CEO role and improved attention to areas such as agendas and minutes, the impact of which we will explore further in Phase 2.

Key items to address

Rem Co and management are taking steps to address gaps in the foundational governance platform and time is needed to allow the new capability at Rem Co and within the People function to address and embed the Review Report recommendations. To enhance future effectiveness of governance at Rem Co, consideration is needed at Board regarding critical framing documents such as culture and strategy. Specific to Rem Co, further consideration is needed on the practical application of the governance primarily centred around clarity, accountability and creating the right capacity, which must be driven by the Chair.



Key items to address

Issue	Detail	Work in flight?	Timescale	Refer page
1. Clarify roles and responsibilities between Rem Co stakeholders	Clarify Rem Co's role and authority namely: - Agree with members, in the context of the governance documents and the Code, where Rem Co is seeking to shape and take a proactive role versus areas where it will take more of an assurance role - Address cultural issues around accountability through a RACI matrix aligned to the 12-month agenda/ToR items and update DoA if appropriate at Rem Co and within the People function		0-3 months	16-17
	Clarify (both practically and within documentation) the role and impact of the Shareholder Representative at Rem Co. As part of this review: - debate the application of the Code, which recommends all Rem Co members should be independent. In the event the role remains, consider challenges to independence and how these can be mitigated - assess whether description of the role, as set out in the Shareholder Agreement, requires further clarity.		0-3 months	16, 26
	The purpose of informal engagement outside of Rem Co to be agreed given optics around independence. Management to be encouraged to deliver more robust assessments, and design of reward schemes to allow for more effective discussions at Committee. In the event of informal input, Management to report back to Rem Co where input has been taken onboard and/or excluded to ensure optics of independence are maintained.		0-3 months	21
	Referring to the Code, agree how Rem Co approaches broader aspects of its role including alignment/engagement with the wider workforce and the narrative with broader stakeholders through channels such as the Annual Report disclosures.		0-6 months	24-30
	Agree ToR and understand next steps on the Shareholder Agreement which was due for review 2023.	Yes	0-3 months	15, 17
	Clarify the role and remit of Internal Audit in support of Rem Co's work.		0-6 months	17, 20-21
	Remuneration strategy (development and reporting) to be led by the CPO. RACI to reflect this aspect.	Yes	0-3 months	17

Key items to address

(continued)

Issue	Detail	Already in flight?	Timescale	Refer page
2. Shareholder reset	Establish the set of principles by which schemes are designed, taking account of latest best practice, the Ministers annual letter and appropriate ambition. Agree whether LTIPs remain an appropriate approach/measure in the absence of a metric-defined strategic ambition.	Yes	0-3 months	17, 24-25
	Engage with the Shareholder to establish the overall remuneration philosophy – the position and guiding principles of total remuneration relative to the requirements of the Shareholder, the operations and stakeholders, good governance guidance and the marketplace – wider key aspects which will deliver future value such as leadership capacity and culture should be considered as part of this exercise.	Yes	<12 months	15-17, 24-26
	Agree clear timelines for the delivery of schemes prior to the new financial year.	Yes	0-3 months	
	Stress test new schemes and consider involvement of internal audit to review process and potential outputs.		0-6 months	17
	WTW to provide information on historic schemes.	Yes	0-3 months	
	Possible need to interview ex staff members further where possible and practicable.		3-6 months	
3. Create capacity for forward looking discussions	Review the rolling 12-month agenda (with Committee members) to ensure it creates capacity and accountability to consider wider objectives beyond remuneration setting (and review quarterly). As part of this exercise agree what the Rem Co wants to achieve over the next 12 months with the Chair, to focus on driving the aspired direction of travel.		0-3 months	20
	Ensure actions in minutes include an indicative timeline for completion. Average time to resolution to be monitored and reviewed on a quarterly basis to understand root cause for any delays.		0-3 months	21
	Develop a skills matrix to inform both talent mapping, succession and the annual learning and development plan.		< 12 months	22
	Develop a clear communication plan to signal any material changes to approach, outcomes, expectations etc. across the organisation and with wider stakeholders.	Yes	0-3 months	19 , 20
	Explore the output from the benchmarking results; particularly the benefit in seeking to comply with the spirit of the Code and reflect whether it needs to drive a shift in terms of internal practices and/or reporting disclosures and/or that non-compliance is agreed and understood, with outputs included in any future induction pack.		0-3 months	24-32

Key items to address

(continued)

Issue	Detail	Already in flight?	Timescale	Refer page
3. Create capacity for forward looking discussions	MI to support strategic discussion and decisions. MI needs to evolve to provide a dashboard on people matters and wider workforce pay alongside a narrative to explain strategic importance and highlight priorities. Include SMART indicators which provide forward-looking projections and set expectations for the future around reward.		0-6 months	21
4. Governance change	Rem Co to champion a consistent framework to measure and monitor governance recommendations with progress, closure and on-going impact captured and measured – to be included as a rolling agenda item and captured as part of the RACI work under recommendation 1 to clarify accountabilities for the workstreams which will build off the Review Report recommendations.		0-6 months	
	Establish the capability and capacity of the People function to support the change: • undertake a skills audit/baselining exercise to establish the levels of capability, capacity, historic knowledge and talent • internal repositioning/role definition and external recruitment for key gaps • clearly define roles and accountabilities and review training and development • in the medium-term, revisit the principles of performance management and appraisal processes.		0-18 months	22

Appendices

Appendix 1

Foundational governance documents

Appendix 1

Foundational Governance documents

Key documents of reference

- Articles of Association
- The Shareholder Relationship Framework Document, dated March 2020 ['the Shareholder Agreement']
- The Rem Co Terms of Reference (ToR)
- Delegated Authorities (DoA)
- Remuneration strategy

Work in flight

The Shareholder Relationship and Agreement

The current Shareholder Agreement took effect from 1 April 2020, and the expectation, as set out, is for it to be reviewed on a three-year basis. POL's expectation, therefore, is for the review to be undertaken in 2023. As yet there remains no set date for a formal review.

The document sets out certain parameters within which POL is expected to operate; certain obligations with which POL is expected to comply; and certain aspects of the relationship between the Shareholder, the Shareholder's Representative and POL. The Shareholder Agreement references POL's Articles of Association and Rem Co's ToR and all three documents should align to ensure that roles and responsibilities are correctly documented, given recent mark-ups of the ToRs as an example.

In line with good corporate governance practice, the Shareholder sets out the Government's broad objectives for POL, through the annual letter from the responsible Minister. Within this context, specific proposals are then to be shaped, agreed and approved by Rem Co, and taken to the Board for approval.

Following Rem Co approval of remuneration or incentive schemes (and subsequent approval by the Board) there is a process of submission to UKGI for its approval and then to the DBT for final sign off before communication back to POL.

Whilst this process is broadly in line with what we would expect to see, the current relationship between POL and UKGI/DBT has been strained in recent years. This has negatively impacted Rem Co's work and driven additional and sometimes ineffective workloads, blurring of lines, confusion on responsibilities and unclear accountabilities.

We consider this to be a major impediment to Rem Co's effectiveness. Therefore, resetting the relationship, building trust and improving communication and clarity of roles and accountabilities between the parties should be a key aim over the next 12 months. The Rem Co Chair is taking steps to seek to address this issue and we would encourage this.

ToR

Rem Co's duties are set out in the ToR. This document requires Rem Co to undertake an annual review of its performance and the continued relevance of the terms in the context of the business model and strategy. The outcome of these reviews are recommended to the Board for approval.

Following the publication of the Review Reports (August 2023), a review of the ToR was undertaken, led by Rem Co Chair, who sought input from the Reward Director, WTW (external advisors to the Committee), and the Company Secretary. Feedback from all parties has been considered and where relevant incorporated into a proposed revised ToR.

The proposed revisions to the ToR largely seek to address the Review Report recommendations. As part of this review exercise the UKGI also provided sample Terms of Reference for other Government assets, and we understand these were also considered as part of this process.

The latest review of the ToR (version 4.0) was presented at the September 2023 Rem Co meeting. After discussion, the Committee agreed that references in the document to wider governance policies/procedures of relevance and the role of the Committee in approving exit packages should be further amended to provide greater clarity. We understand the revised wordings of the ToR will be drafted and distributed to the Rem Co for consideration at its next meeting.

Appendix 1

Foundational Governance documents – observation and findings

Area	Overview	Observations	Recommendations
Articles and Shareholder Agreement	- POL's Articles (Articles 50 to 52) set out the principles to be followed in relation to directors' remuneration, gratuities and pensions - These principles are amplified by the Shareholder Agreement which states that the Rem Co 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 - In accordance with the Articles, the remuneration of all Board members requires approval by the Shareholder.	- The Shareholder Representative (Lorna Gratton) sits on the POL Board in addition to all the Board level Committees - Historically, the Shareholder Representative has played a significant role at Rem Co in shaping and influencing the set-up and structure of the reward schemes. Whilst historically this has been done in the spirit of bolstering capability at POL, it has in fact blurred the lines of accountability and increased the level of noise at and around Rem Co. It has also created uncertainty in terms of Rem Co's overall role and accountability - It is envisaged in the Articles and Shareholder Agreement that the structure of the incentive schemes should initially be the preserve of Rem Co ahead of taking to Board for approval then onto the Shareholder - From the description in the Shareholder Agreement, we are not convinced that the Shareholder Representative role is clear. The Shareholder Agreement outlines the role of the Shareholder Representative, but this description is drafted from the viewpoint of UKGI's 'representative director' whose role 'supports and supplements' the role of UKGI. There is minimal acknowledgement the role is covered by the same legal fiduciary responsibilities as any other NEDs, and therefore is expected to promote the success of the company first and foremost - We do note however that the Shareholder Representative appointment letter and the UKGI's opening statement to the Horizon IT Inquiry provide this clarity. The role has the specific aim of bringing an enhanced line of sight into POLs activities, while bringing a government perspective to POL to aid its Board's decision-making. The same legal fiduciary responsibilities and ability to participate in collective decision-making, as apply to POL's other directors, also apply to the Shareholder Representative.	- Whilst we recognise that a Shareholder Representative sitting at Rem Co is a similar construct for other major government investments, it is worth, as part of any reset, reflecting/debating the Code provision which note all members should be independent [Provision 32, P]. Whilst there may be limited ability to change this construct, consideration should be given to the optics and ways of working with mitigating actions captured to address potential independence challenge from stakeholders - We note, in the event of any change, Rem Co also has the benefit of advice and guidance, should it need it, from the Shareholder Representative at Board, on the acceptability or not of principles in general - There have been various changes over the past three years, i.e. the Shareholder Agreement references POL's funding arrangements, previously described under a separate Funding Agreement, which are no longer applicable. In our view the Shareholder Agreement should be reviewed and updated, as soon as practical to provide clarity to stakeholders - A governance charter/library specific to Rem Co which captures in one place the foundational governance documents and maintains an audit trail around any future changes to key documents (and rationale of any change) should be developed. Completeness and accuracy of this library should be reviewed as part of the annual Committee effectiveness review.

Appendix 1

Foundational Governance documents – observation and findings (continued)

Area	Overview	Observations	Recommendations
Revised draft ToR	Rem Co's duties are set out in the ToR. The ToR requires Rem Co to undertake an annual review of its performance and the associated terms included within the ToR. The outcome of these reviews are to be recommended to the Board for approval.	We have reviewed the ToR against the foundational governance documents, the Code, and the Government Code, as well as those of other major corporations and consider it to be in accordance with these and with general good practice in all material respects.	- On conclusion of the latest review of the ToR, a RACI matrix should be prepared (guided by the agenda/ToR) to clarify roles and responsibilities for each area - Consideration to be given to either embedding the relevant Code provisions in the Committee's ToR (Principal P Provision 40) ; clarity, simplicity, risk predictability, proportionality, alignment to culture, and/or within the annual effectiveness check/internal audit review to ensure principles are appropriately considered on a comply or explain basis for internal purposes. Equally, in the presentation of any scheme to Rem Co, management should demonstrate how principles have been considered/applied.
Remuneration strategy	The POL remuneration strategy is based on the following: - attracting, motivating and retaining the right talent within an agreed policy to lead and deliver the strategic plan - using incentives appropriately to reward the achievement of strategic business goals and promote the long-term viability of the organisation - reinforcing a culture of sustainable performance, partnership and mutual ways of working - providing a transparent approach to the disclosure of pay.	We consider these objectives largely align with the Principles and Provisions of the Code around remuneration although we comment further on this within Appendix 3 below.	- CPO to lead development and reporting of the remuneration strategy (including incentive schemes) - as opposed to other senior executive members to ensure accountability, transparency, objectivity and consistency in process - Rem Co should consider the benefits of engaging with internal audit to assure the incentive plans are not inadvertently pushing the wrong outcomes and they are not having an adverse effect on the culture. Equally, it may be worth also considering its views on the effectiveness of the work associated with the Review Report recommendations. This approach will support the expansion of corporate memory around remuneration schemes and promote accountability. Key questions to consider: - what results are incentive plans intended to drive and are they properly aligned to the strategy and purpose? - by design what do they include and exclude? - what are the potential unintended consequences? - The current 2025 strategy does not appear to have Group metrics against its key pillars. Any future strategic development should consider this, as it would provide a useful guide to Rem Co on ambition when developing and agreeing particularly, LTIPs. The appropriateness of LTIPs given this, should be debated.

Appendix 2

Practical application

Appendix 2

Practical application

Overview

Given the complexity of the environment within which POL operates and the relatively small interview pool, unsurprisingly we have heard divergent views with regards to the work of Rem Co in the past. Whilst the ToR of the Rem Co outlines its formal role and responsibilities, we understand from discussions with Rem Co members that the practical operation is somewhat different. Our impression is that there is a lack of shared understanding as to the role and accountabilities of different stakeholders in Rem Co's workings and therefore Rem Co's role itself.

Equally personnel changes at Rem Co over the last few years have evidently not helped in the effectiveness of Rem Co's work and there has been a considerable loss of 'corporate memory' around the make-up of incentive schemes and the rationale for decisions taken. This has created significant noise and impacted on ways of working and driven an environment of ineffective decision-making.

The work of Rem Co has further been hindered by:

- inadequate record keeping, poor and/or inconsistent MI
- unclear accountabilities which has driven additional and perhaps sometimes ineffective workloads which have either delayed or paralysed decision-making
- the lack of capability and capacity within the People function with a number of CPO changes over the last four years

We understand that, with the time usually taken to agree scheme metrics, and with several schemes being considered at the same time, there tends to be limited clarity on where the Rem Co is with the approvals process. In response to this, a reference document has recently been developed by management which will hopefully assist the Committee with its work.

The new Chair seems to have the credibility to provide effective board leadership with the desire to monitor, challenge and provide much needed direction. Equally, the new CPO appointment is positive but will need time to get up to speed for the benefits to come through but there is a desire to drive accountability and review ways of working. Whilst both have significant expertise, they have not worked in organisations with the nuances of POL's. As such, leading the reset of the relationship with Shareholder and ensuring they have the right balance between commercial and public sector skills within their teams will be key.

Wider communications with the organisation and signalling any change will be a critical factor to consider. Culture is clearly a key aspect of governance. Understandably, with incentive schemes not agreed until well into the year in question, there is likely to be significant impact within the business in terms of clarity, security and behaviours. We will explore the potential impact and considerations of this further in our Phase 2 work.

A further key aspect to Rem Co's work going forward will be ensuring that not just the foundational aspects of governance are clear, but the application of governance which underpins the quality and diversity of generative dialogue and decision-making, such as capability, MI, minutes and agendas are fit for purpose. We cover this further overleaf.

Appendix 2

Practical application – Observations and findings

Area	Observations	Recommendations
Agenda	- We consider that the rolling agenda is limited and requires review - Agendas should be utilised to intentionally create capacity to consider broader aspects of Rem Co's scope and/or bring formality and accountability to certain critical topics - We note that during our interviews there was some confusion as to whether two of the nine Review Report recommendations were viewed as complete. Considering this, Rem Co may want to put in place a more formal reporting structure to ensure it has oversight and assurance as to the progress of implementation, the continuing measurement of impact and that stakeholders are clear when recommendations have been met.	- Prepare a rolling 12-month agenda, in consultation with Rem Co members, to ensure it creates capacity and accountability to consider wider objectives and supports the right balance of focus. To be reviewed quarterly in the agenda - The following subject areas should be considered (at different points and frequency) throughout the year when reviewing the annual agenda: - ways of working - status of Shareholder engagement - governance and impact – review the progress and impact of workstreams such as the Review Report recommendations and how they interconnect with wider programs under Project Ethos - update on historic scheme closures - future scheme design and communications (if necessary, with the wider organisation) - succession and learning and development - effectiveness reviews – either the annual ToR review, Committee effectiveness review and/or internal audit report - wider workforce overview - communication plan to the wide organisation to signal any material changes to approach as POL shifts from reset, to rebuild and renew - Thought to be given as to how the above can be captured in a dashboard by management and integrated in the MI packs - Consider the benefit of holding a deeper dive session(s) on areas such as; future ways of working, the appropriateness/risk of LTIPs as an incentive mechanism given the wider complexities around strategy setting and funding requirements and/or separately consider the impact of a new/different government in terms of Shareholder relationship and consider opportunities and mitigations to any risks - We understand over the last 12 months there have been significant ad-hoc or special meetings required. As things settle, meeting cadence to be reviewed as it allows stakeholders to address the broader objectives for Rem Co, bringing strategic and insightful information. Purpose of ad-hoc meetings to be understood.
Succession and induction	We are not aware that any specific attention has been given to succession planning	We recommend the Rem Co Chair keeps in mind the make-up of the Committee and the desirability of continuity of both members and key executive attendees, such that any future changes are better able to be anticipated and potential succession discussed and planned for with the POL Chair.

Appendix 2

Practical application – Observations and findings

Area	Observations	Recommendations
Remuneration Committee dynamics	- We attended the Remuneration Committee meeting held on 28 November 2023 - Meeting started at 9.38 am and finished at 11 am, which was broadly in line with scheduled time - The agenda felt relatively packed with a number of items to be approved and discussed. A couple of items were postponed for a following meeting due to time constraints - Overall, the discussion was dominated by a debate on the objectives for the CEO and the incentive plans. - We observed a very robust debate in relation to the objectives of the CEO, with the Chair of the Board and the Shareholder Representative expressing some very strong views - Similarly, the LTIPs and STIPs, and future plans in relation to their use, were subject to a comprehensive discussion - We could see that the new Chair of the Remuneration Committee is keen to implement more longer-term approach when it comes to the incentive plans. We consider this positive.	- Whilst we acknowledge the importance of the topics that were discussed at the meeting we observed, the Committee should also look to introduce some business-as-usual regular agenda items, such as regular updates on people matters, culture, talent management, diversity and inclusion, recruitment and retention, etc. - We would also encourage the Chair of the Committee to be more assertive in leading the discussion; at times it felt that certain individuals were dominating the debate - Consider extending the duration of the meeting so that sufficient time is dedicated to each agenda item.

Appendix 2

Practical application – Observations and findings (continued)

Area	Observations	Recommendations
MI	- Historically MI has been poor due partly to inadequate record keeping, perceived capability gaps, coupled with a loss of corporate memory due to churn in personnel - There has clearly been insufficient detailed design work undertaken within the People function including inconsistent MI to support Rem Co in proactively debating and agreeing the design of incentive schemes in an effective manner. This has precipitated the need for many informal discussions (mainly with the Shareholder Representative) - Rem Co has reviewed WTW's support and agreed to extend the contract for one year and thereafter will consider the benefits of a tender process to understand the value of a fresh perspective - Internal support has also been assessed and work is in progress to ensure that the business provides wider support to the work of the Committee. The recent appointment of the new CPO has helped this although, it needs time to bed-in to comment on practical impact (refer to further comments in capability and capacity).	- MI is key to setting up effective discussion at Rem Co - Accordingly, papers to evolve to provide a metric dashboard on people matters and wider workforce pay alongside a narrative to explain strategic importance and highlight priorities – there should be a linkage between strategy, risk, value creation and people - As part of this exercise, the role and risk of informal discussions to be considered, with management encouraged to deliver more robust assessments and plans to Rem Co, to reduce the need for informal discussion and benefit from diverse views and debate in the formal Committee setting - We acknowledge the approach is now shifting with the arrival of the new Shareholder Representative, Rem Co Chair and CPO. In the event of informal discussions, which do have a role, Management to report back to Rem Co where input has been taken on board and/or excluded to ensure optics of independence are maintained and members are clear on the drivers of the evolution of schemes, optimising clarity and corporate memory SMART indicators are needed to provide consistency and not only report on historic performance, but also provide forward looking projections and set expectations for the future around reward.
Minutes	- Improvements to the review process for the minutes have been put in place along with an SLA of 5 days for draft minutes to be produced, although it is too early to judge progress - From interviews we understand that, historically, actions may remain unclosed for an extensive period of time with some concerns raised that actions are removed due to age rather than completion.	- Minuting should triangulate with the agenda themes and MI to capture discussion and decisions taken and provide an audit trail around this and the open and closed actions. Internal audit could consider their effectiveness during the annual review - Ensure actions in minutes include an indicative timeline for completion. Average time to resolution to be monitored and reviewed on a quarterly basis to understand root cause for any delays.

Appendix 2

Practical application – Observations and findings (continued)

Area	Observations	Recommendations
Capability and capacity	- Given the historic issues with reporting and MI, the People function, in terms of capability and capacity, needs review in the context of the governance design and strategic priorities to ensure envisaged changes can be delivered in a timely and sustainable manner - There needs to emerge a clear understanding of individual roles in the achievement of strategy and accountability in that regard - Rem Co need to have a thorough understanding of POL and the forces that shape Directors' remuneration and need to reflect on this through learning and development plans.	- Consider undertaking - a skills audit/baselining exercise to establish the levels of, capability, capacity, historic knowledge and talent within the People function. Under the guide of stop/start/keep doing, develop a future talent strategy orientated around the change programme and strategic priorities - an internal repositioning and role definition within the team - Clearly defined roles and individual accountabilities to be embedded within role descriptions and performance management - Consequence management to be clear and applied consistently.
Skills matrix	- Rem Co members should ideally have the following skills and experience: - understanding of executive compensation: - knowledge of corporate governance - financial expertise - industry expertise - strategic thinking - communication skills - independence: remuneration - The Committee members are not specialists in all the areas outlined above with some not having previously sat on a Remuneration Committee before becoming a POL Rem Co member. We note, however, that in addition to their extensive experience of senior management roles which they bring to the discussions, Rem Co members can rely on the expertise and guidance of the independent advisors from WTW, who have been advising the Committee for some years.	- During discussions, it was highlighted a few times that Rem Co may benefit from increased public sector expertise - An assessment should be made of members' training needs and the appropriate action taken to enhance their knowledge and skills as necessary in line with the DBT's general expectations as set out in its annual letter on strategic priorities for POL, general market practice and strategic priorities/risks of the business.

Appendix 3

Benchmarking

Appendix 3

Benchmarking

Overview

To supplement the understanding of the current 'As-Is' operational governance structure for POL gained through our limited fieldwork, we have benchmarked the Rem Co disclosures made in the Annual Report year end 27 March 2022 (released March 2023), to establish how practices align with the Code and the general market of organisations of similar size and complexity. We will undertake a wider benchmark of other key governance pillars during the Phase 2 of our work.

In developing our methodology, we use the Code as a blueprint to developing the propriety questions and scoring. We believe the Code is a good proxy for measuring underlying corporate governance as it is widely seen as a distillation of best practices evolved by the UK's largest listed companies in trying to retain and create value for all stakeholders. Further details of the methodology is provided on page 32.

Ultimately the Annual Report provides a window into a company and is a key method of communication with wider stakeholders. Stakeholders will assume that the way in which an organisation portrays governance in its Annual Report is accurate. Furthermore, the way in which an organisation discloses its governance arrangements usually provides insight into the internal culture and values. The objective of this work is to provide guidance on potential areas of strength and weakness at POL for consideration.

Observations and findings

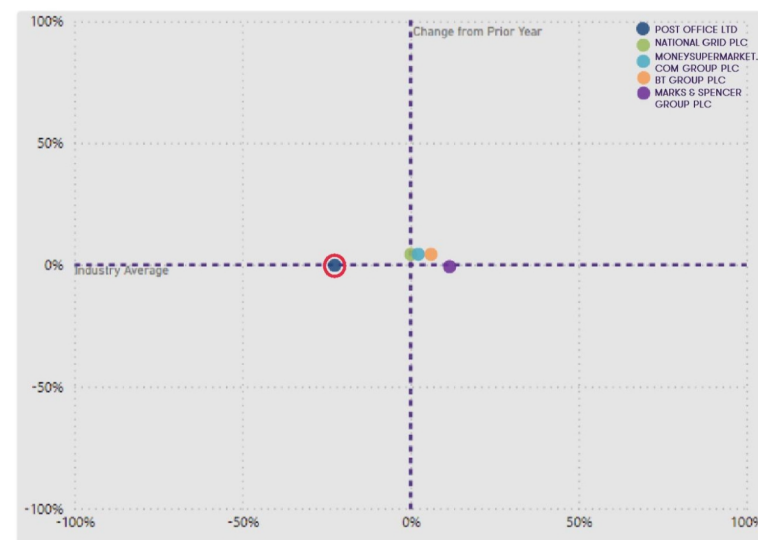
Overall, the Rem Co's role and responsibilities as outlined in the report largely align with market practice except for the review and oversight of the wider workforce remuneration and related policies (Provision 33). This responsibility and remit of the Rem Co is important for two reasons namely,

- it ensures that wider workforce pay, and related policies are aligned to the desired culture and that they are incentivising the delivery of this culture

- the different perspective it provides, when designing and setting the policy for Executive Director remuneration to ensure alignment from cultural and strategic lenses, transparency, and proportionality, which should also have the benefit of aiding and supporting engagement with the wider workforce around executive pay (Provisions 40, 41)

Benchmarking against selected retailers

This benchmarking assessment focuses specifically on the disclosures in the report supporting remuneration governance and the Remuneration Committee, resulting in a weighted average score of 66% for the remuneration disclosures of POL. The average weighted score within the Consumer Staples industry (refer to population details overleaf) for remuneration governance benchmarking is 91% and within a smaller, selected peer group of more closely comparable organisations, 90%.



Appendix 3

Benchmarking (continued)

This creates a delta of approx. 25% between the remuneration governance disclosures of POL and its two identified peer groups and therefore places these disclosures significantly below industry and peer averages.

Below is a graph provided demonstrating the position discussed above visually in relation to the select peer set described.

Areas of strength

- independence of the Board Chair as a Committee member (Provision 32)
- non-executive remuneration and remuneration decision-making process (Provision 34)
- some clarity as to processes to ensure predictability and manage risk (i.e. maximum bonus available to the CEO and the ability to engage malus/claw within the scheme) (Provision 37, Provision 40)
- the Committee reviews the alignment of executive remuneration and rewards with culture (Provision 40)
- engagement with Shareholder and impact (Provision 41)
- good practice - personal introduction from the incumbent Chair's predecessor
- ability to use discretion to override formulaic outcomes (Provision 37)

Areas potentially being addressed

Many of the recommendations made throughout this report will support and result in improvements to the remuneration governance and therefore should be considered in future disclosures:

- re-considering the role and responsibilities of the Committee
- Committee composition

- clarity, focus and timing of the design and implementation of separate Executive Director and Group Executive Leadership and Senior Management remuneration schemes including the metrics involved, alignment to strategy, means for measuring achievement, and alignment with long-term sustainable delivery through the use of (if any) appropriate LTIPs and pension alignment.
- additionally, where disclosures could be strengthened through the provision of best practice guidance and toolkits, such as in relation to the strategic rationale for Executive Directors' remuneration policies, structures and performance metrics, and engagement with stakeholders (i.e. shareholders, wider workforce), we have provided a remuneration focused best practice toolkit in the following pages.

Areas for consideration

In 2018, changes to the Code initiated reforms to broaden the remit of boards and remuneration Committees to require more attention, beyond executive pay, to people management issues such as culture, fair, aligned and proportionate workforce pay, and employee engagement. The COVID-19 pandemic and the spotlight that has put on social and economic inequalities has also shone a light on corporate pay and employment practices. This and the points below should be debated, considered and minuted as to whether it should be considered as part of Rem Co's remit:

- the explanation of the strategic rationale for executive directors' remuneration policies, structures and performance metrics (Principle P, Provisions 40, 41)
- the policy on Executive remuneration and determining Director and senior management remuneration, including a lack of in clarity around how performance targets are identified as achieved and how they will be calculated and implemented in the coming year (Principle Q)
- engagement with the workforce to explain how executive pay aligns with wider company pay policy (Provisions 40, 41)
- appropriate use of long-term schemes and post-employment requirements, as share awards may be inappropriate, to support sustainable delivery of strategy and the alignment of executive director and shareholder interests (Provision 36)

Appendix 3

Benchmarking (continued)

Areas for consideration (continued)

- Committee composition: good practice requires only independent NEDs to be Committee members (Provision 32). The inclusion of non-independent NEDs, i.e. the Shareholder Representative may impact the exercise of Director's independent judgement and discretion (Principle R)
- review of wider workforce remuneration and related policies (Provision 33)
- alignment of Executive pension contributions (or payments in lieu) with those available to the wider workforce (Provision 38).

Appendix 3

Remuneration best practice

Strategically linked executive pay commentary

As executive pay should be aligned to company purpose and values and be clearly linked to the successful delivery of the company's strategy, it is crucial to demonstrate this link through detailed explanations.

These best practice examples provide distinct 'integrated reporting' approaches. However, they share a commonality through explaining the link between their strategy, the measures/KPIs assessing delivery of strategy and executive remuneration.

Both cross-references this through strategic themes/business strategy linked to their KPIs in their remuneration reports. Both present effective strategically linked executive pay commentary and rationale through drawing clear lines from strategy to pay.

Network Rail AR 2022

National Dashboard for 2021/22

The dashboards align to four strategic themes. There are nine measures, carefully weighted to incentivise and reward success, whilst giving appropriate weighting to important areas such as train service delivery and safety (which is measured through Train Accident Risk Reduction for passengers and Fatalities and Weighted Injuries for Workforce Safety).

The dashboard is shown in the table on the next page.

Strategic themes	Measure	Weighting	Target
Train service delivery	On Time The percentage of Recorded Station Stops called at on time (early or <1min late).	12.5%	79.7%
	Passenger Satisfaction Reported as a mean score of passenger journey satisfaction on a scale of 1-10 (1 poor – 10 excellent).	20.0%	7.74%
	Freight Delivery Metric (FDM) The percentage of commercial freight trains that arrive at planned destination within 15 minutes of scheduled time. Freight trains are only considered to have failed FDM where a delay is caused by Network Rail.	7.5%	95.2%
	Composite Reliability Index (CRI) A measure of the short-term condition and performance of our assets including track, signalling, points, electrification, telecoms, buildings, structures and earthworks. The index shows the total percentage improvement in asset reliability compared to the end of the previous Control Period.	5.0%	13.6%
Efficiencies	Financial Performance Measure (FPM) An assessment of how Network Rail has performed compared to the financial targets set out in the CP6 Business Plan. The measure is an aggregation of the three individual FPM measures from prior years (P&L, Renewals and Enhancements).	20.0%	£0m
	Enhancement Milestones The number of milestones completed ahead of time or on time, as a percentage of all milestones planned for delivery in the year.	10.0%	90.0%
People	Employee Engagement An index representing the proportion of employees surveyed who responded favourably to key questions on engagement.	5.0%	61.0%
Safety	Workforce Fatalities and Weighted Injuries (FWI) An index representing workforce safety, using fatalities and non-fatal injuries per hour worked. A lower FWI represents better performance.	10.0%	0.056
	Passenger Safety (TARR) Measures achievement of the key milestones and metrics to reduce train accident risk. TARR is made up of milestone targets and volume targets, both of which have different achievement weightings.	10.0%	95.0%

Regional dashboards include measures which match each region's responsibilities along with universal measures such as safety and financial performance. Local scorecards are still used to manage business performance at a local level, but they are not linked to PRP.

In addition, no payment will be made in respect of any performance measure which fails to exceed the minimum level of performance (worse than target threshold) and evidence of under reporting against safety would result in the outcome of the safety measures being reviewed and reducing performance accordingly, including potentially to zero.

One quarter (25 per cent) of PRP will be determined by an individual's performance rating. This provides a direct line of sight between the achievement of individual objectives and PRP. For executive directors and employees aligned to the national dashboard, the figure below demonstrates how individual PRP is calculated:



National Grid Plc AR 2022

Link to remuneration

Remuneration of our Executive Directors, and our employees, is aligned to successful delivery of our strategy. We use a number of our KPIs/alternative performance measures as specific measures in determining the Annual Performance Plan (APP) and Long-Term Performance Plan (LTPP) outcomes for Executive Directors. While not explicitly linked to APP and LTPP performance outcomes, the remaining KPIs and wider business performance are considered. For further detail, please see our Directors' Remuneration Report, on pages 108 – 131.

Alignment of remuneration with our business strategy

We align our performance linked elements of remuneration (APP and LTPP) through our strategic priorities, our RBC commitments, and our vision of a clean, fair and affordable energy future.

Our vision and values

Our vision is to be at the heart of a clean, fair and affordable energy future.

Every day we do the right thing, find a better way, and make it happen.

Our strategic priorities

Enable the energy transition for all

Deliver for customers efficiently

Grow our organisational capability

Empower colleagues for great performance

Our RBC commitments

- The environment
- Our people
- Our communities
- The economy
- Our governance

Key principles of our remuneration strategy

- Reward delivery of the Group's strategy in a manner that is simple, transparent, and aligned to shareholders' interests
- Attract, motivate, and retain senior executives with market-competitive reward
- Align performance measures to the way National Grid earns its returns for shareholders, with targets set to incentivise stretching financial and operational performance in line with shareholder expectations
- Reflect and underpin the Company's vision, values, and contribution to society

How we achieve this in practice

- Alignment of APP and LTPP performance measures to core financial and non-financial KPIs
- Heavy weighting towards share-based long-term pay to reflect the nature and duration of National Grid's businesses and asset lives
- A mandatory two-year holding period for APP share awards and vested LTPP awards
- A very high minimum shareholding requirement for senior executives (500% for the CEO – equivalent to nine times the after-tax salary)
- A post-employment shareholding required for all senior executives

Our 2022 Remuneration Policies are aligned to our business strategy



Appendix 3

Remuneration best practice (continued)

Strategically linked executive pay commentary

This business-to consumer best practice example also demonstrates the importance of clear and thorough discussion in the remuneration report by the remuneration Committee chair.

This is a particularly good approach to support visual only cross-referencing and signposting. Explaining the link in this way can also still be a valuable addition to the approaches outlined in the previous example, as part of ‘integrated reporting.’

When considering the explanation, the more specific, i.e. referencing exact performance metrics/KPIs to the strategy and how it supports, the better.

Diageo Plc AR 2022

Alignment of incentives with strategy / global market competitiveness

Our ambition is to be one of the best performing, most trusted and respected consumer companies in the world. Our strategic priorities to drive the company forward are unchanged: sustain quality growth, embed everyday efficiency, invest smartly, promote positive drinking, champion inclusion and diversity and pioneer grain-to-glass sustainability.

The performance measures in the incentive plans align with the strategy and the key performance indicators on pages 32-34. The financial measures for the annual incentive focus on net sales growth, operating profit (both of which represent critical measures of growth for Diageo) and operating cash conversion (which recognises the criticality of strong cash performance and cash containment, particularly in the current challenging market conditions). The IBO component adds focus on key individual strategic and financial objectives.

The measures under the long-term incentive plans continue to reflect the company’s strategic priorities and key drivers of long-term growth by incorporating organic net sales, organic profit before exceptional items and tax, free cash flow, TSR and key Environmental, Social and Governance (ESG) measures (greenhouse gas reduction, water efficiency, positive drinking and gender and ethnic diversity).

Global pay competitiveness is another key remuneration principle for the company. Attracting and retaining key talent is critical for our business and remuneration is an important aspect of being able to meet our talent objectives. As we operate in a global talent market, the Committee takes into account global pay practices, including the US market, when reviewing executive pay. Global pay competitiveness has been considered by the Committee in the context of a number of changes in the Executive Committee during the year.

Appendix 3

Remuneration best practice (continued)

Engagement with and alignment of executive pay and wider workforce conditions and pay

SSE has expanded the remit of their Remuneration Committee to include pay monitoring across the wider workforce, not just executive pay, with the aim of understanding and aligning pay practices across the organisation.

This example explains how the core elements of executive pay align with the wider workforce as well as how they consider the wider workforce, i.e. through meeting annually with SSE's recognised Trade Unions to help inform collective bargaining agreements in setting the maximum percentage pay increases that are available to top staff, ensuring this is set with reference to pay across the workforce.

This has now ensured consistency from the top to the bottom of the organisation.

SSE Plc AR 2022

Remuneration engagement across the Company

The Committee appreciates the importance of an appropriate relationship between the remuneration levels of the Executive Directors, senior executives, managers and other employees within the Company although comparison metrics are not used to determine pay policy. Remuneration at all levels in SSE is designed to support its remuneration principles, long-term business strategy and core purpose of providing the energy people need in a reliable and sustainable way. It is also designed to be consistent with and support the Company's core values of Safety, Service, Efficiency, Sustainability, Excellence and Teamwork. The structure of reward necessarily differs based on scope and responsibility of role, level of seniority and location.

The table in the At a Glance Section (page 182) illustrates how the core elements of executive pay align with the wider workforce.

In summary:

- The senior management population also participate in annual and long-term incentive arrangements. In line with Executive Directors' arrangements, incentives for senior management have an emphasis on share awards and the performance metrics support those used at Board level.
- All employees have the opportunity to be share owners through the Share Incentive Plan and the Sharesave Plan and those participating are able to express their views in the same way as other shareholders.
- Pension planning is an important part of SSE's reward strategy for all employees because it is consistent with the long-term goals and horizons of the business, an approach it has been practising for a number of years. The terms of the funded final salary pension schemes apply equally to all members.
- As part of its Employee Engagement Survey SSE invites all employees to provide a view on the benefits and pay that it provides.

The Remuneration Committee is responsible for the remuneration of SSE's most senior Executives and the Chair of the Board and reviews the remuneration arrangements for all employees across the Group.

The Chair of the Remuneration Committee meets at least annually with SSE's recognised Trade Unions to discuss SSE's position on executive remuneration. They met in May and discussed aspects of policy explained in this report. Feedback from this meeting was shared with the Remuneration Committee.

How Pay Links to Wider SSE Workforce

	Base Salary	Benefits	Pension	Short-Term Incentive	Long-Term Incentive
Executive Directors	Base salary is typically set with reference to the market and wider workforce considerations.	A range of voluntary benefits in line with the wider workforce plus contractual car and private medical benefits.	All employees are a member of the SHEPS or SEPS defined benefit pension scheme, or the Pension+ defined contribution scheme unless they have opted or cashed out.	Annual Incentive Plan linked directly to business performance – 50% financial, 50% non-financial. 33% of the total award is deferred into shares for three years.	The Performance Share Plan is a share award with performance linked to strategic performance measures.
Group Executive Committee	Annual increases are typically in line with or less than the wider employee population.		The arrangements are diverse and the employer cost typically ranges from 3% to 38% of salary when both defined contribution and defined benefits schemes are taken into account.	Annual Incentive Plan considering performance of the Group (directly linked to the above), the business area and the individual. 25% of the total award is deferred as shares for three years.	The Leadership Share Plan is also linked to strategic performance measures over the longer-term and those with direct impact on strategic output are eligible.
Senior Management					
Wider Workforce	Base salary levels are subject to negotiation with recognised trade unions and/or are set in line with market requirements.	A range of voluntary benefits are available to all employees, such as a cycle to work scheme, a holiday purchase scheme, health benefits, and enhanced maternity, paternity and adoption leave.		Depending on role, a proportion of employees will participate in the Annual Incentive Plan (as above). 100% of the award is paid in cash.	All employees may participate in the Share Incentive Plan (SSE matches three shares for every three bought) and the Sharesave (SAVE) plan.

Appendix 3

Remuneration best practice (continued)

Engagement with and alignment of executive pay and wider workforce conditions and pay

Severn Trent explains clearly how it sets executive pay to be aligned with wider workforce pay, including with reference to the workforce's own annual bonus opportunities being aligned and rewarded in the same way as the CEO's. This also helps the workforce understand how the CEO is being paid.

Additionally, as is best practice and while not added here, the Committee Chair engages with the workforce through both an 'employee forum' and 'trade union forums' as well as the engaging their long-standing partnership with their unions in setting and aligning executive and wider workforce pay.

Severn Trent Plc AR 2023

COMPANY REMUNERATION AT SEVERN TRENT

This section sets out the steps we take to make sure that our pay and reward framework is transparent and fair, beyond Executives and senior management, in a way that is meaningful and useful.

The table to the right sets out details of how the cascade of the reward framework applies across different levels within the organisation combined with a summary of the information which the Committee has received as part of its annual review process.

Pay and alignment across the business
Alongside our thriving culture and inclusive working environment, our reward framework is designed to attract, motivate and retain people who are inspired by Severn Trent's Purpose, and who live our Values everyday.

Our reward package recognises the great performance of our employees as we deliver our essential service to customers across the region, and is designed to reward all colleagues fairly throughout the organisation. The terms and conditions from which our employees benefit evolve in line with external practice and new initiatives from within Severn Trent. We pride ourselves on keeping pace with the focus on the future of work, talent management and acquisition, to motivate, develop and retain a positive working environment and culture.

This section of the report covers:

Pay and alignment across the business

Pay comparisons:

- CEO pay ratios; and
- Gender and ethnicity and pay gap reporting

Category	Number of employees covered	Remuneration element	Details	Consider the focus areas	Implementation at Severn Trent
All employees	7,839 as at 31 March 2023	Salary	Salaries are set to reflect the market value of the role, and to aid recruitment and retention. Employees are not on a grading rate of pay (such as agreed civil service) or based on the statutory real Living Wage. We also monitor closely the rates of pay of people whose training with us to make sure they remain fair and competitive.	- Use of annual increase across all employee groups. - Wider workforce increases versus the senior Executive population. - Differences across employee groups.	- The average annual salary increase across the workforce in 2022/23 was 2.3%. - Annual pay reviews are effective in July for all. - The Company has real Living Wage employer accreditation and reviews salaries in this context. - Enhanced visibility on salary ranges within the organisation to enable fairness and transparency.
		Bonuses	All employees are eligible to participate in our flexible benefits scheme which we believe is one of the best in the industry and is designed to support physical, mental and financial wellbeing.	- Types of benefits. - Eligibility across levels.	A consistent approach is applied across the business for benefits.
		Pension	We offer a market-leading defined contribution pension scheme and enable any contributions that employees make up to a maximum of 15% of salary. When colleagues get closer to retirement, we provide education and support to help plan for the new stage of their lives.	- Employer pension contributions across the workforce. - Comparison of wider workforce pension to Executive pensions.	- The majority of employees are eligible to participate in the Severn Trent Group Personal Pension. - Employer pension contributions for Executive Directors are aligned with the maximum 15% contribution available to members of the Severn Trent Group Personal Pension (the majority of the workforce).
		Annual bonus	We are proud that 99% of our employees are members of the pension scheme and of those, 40% pay contributions above the minimum of 3%.	- All of our people share in our success by participating in our employee bonus plan, ensuring all employees are aligned with the same measures and rewarded for achieving our key objectives. - Bonus design across different populations. - Details of performance measures and targets. - Outturn during the year.	- A consistent design is operated throughout the business. - All 40 levels performance outcomes are measured against the same metrics (see page 143). - An individual performance multiplier is in place across management grades to reward and inspire Great Performance (GDP) outcomes. - Our frontline colleagues and team managers benefit from an all-company fixed bonus payment. - Bonus opportunities vary by grade. - We also operate a series of sub-schemes in Business Services, to reflect specific business needs. - Malus and clawback provisions are in place.
		Share save	Offering the opportunity to participate in our Sharewise Scheme encourages employee engagement and reinforces our strong performance culture, enabling all colleagues to share in the long-term success of the Company whilst also inspiring participants with shareholder interests.	Participation rates.	- All Severn Trent Plc employees can participate in the Save As You Earn scheme - Sharewise. - There is a significant take-up of this benefit with 72.4% of employees actively participating.
Management and senior management	421	LTP A proportion of this executive participate in the LTP by annual retention	The LTP reinforces delivery of long-term creation of value and sector performance and progress towards our net zero ambitions. The retention of shares by Executive Directors for the longer-term also supports a shared ownership culture in the Group.	- Eligibility. - Cost. - Duration. - Details of performance measures and targets.	- The LTP is reviewed annually. - The LTP is available to Executive Directors, the Executive Committee and senior members of senior management. - The performance period is three years, with 80% based on RAG performance and 20% on sustainability measures. The Executive Directors are subject to an additional two-year post-retiring holding period for awards granted from 2018 onwards. - LTP opportunities vary by role from 25% of salary to 200% of salary. - Executive Directors have a 100% stretch performance target. - Malus and clawback provisions are in place.
Executive Directors and Executive Committee	9	Shareholding requirement as a % of salary CEO - 200% CDO - 100% Executive Committee - 10%	Supports alignment of Executives' interests with shareholders.	- Eligibility. - Requirements versus actual shareholding.	- Shareholding requirements are in place for the Executive Directors and Executive Committee. - A post-employment shareholding requirement was introduced for Executive Directors as part of the 2021 Policy.
Our supply chain			All colleagues across Severn Trent are paid in line with the real Living Wage, for which we hold accreditation. We expect this of all new contracts within our supply chain and prioritise this within our Sustainable Supply Chain Charter.		

Appendix 3

Remuneration best practice (continued)

Engagement with and alignment of executive pay and wider workforce conditions and pay

This example, similarly to the previous two, outlines and explains how pay is aligned but also provides additional details on how input is received in making this assessment and ensuring that pay is aligned.

It notes that various data sources are used, i.e. CEO pay ratio, gender pay gap and engagement outputs, as well as the Chief People Officer attending Committee meetings and Reward & Employee Benefits Forum meetings. This two-way engagement enables the Committee and the CPO to explain alignment as well as receive feedback on this, to be considered at the Committee.

This serves a two-way purpose of ensuring the wider workforce is treated transparently, while various data points that they input into, i.e. surveys are supplemented by their views to shape a fuller picture for Committee discussions.

Keir Group Plc AR 2023

Consideration of employment conditions elsewhere in the Group

Employees are not formally consulted on the Executive Directors' remuneration and were not consulted during the preparation of the remuneration policy set out above. However, the Committee Chair attends the Group's Reward and Employee Benefits Forum where a range of employee reward and benefits issues including the Executive Directors' remuneration arrangements, the role of the Committee and the Policy, and how they link with wider workforce pay and benefits within Kier are discussed – see page 128 for further information.

The Committee takes into account the pay and employment conditions of employees within the Group when making decisions on the Executive Directors' remuneration; for example, the Committee reviews the Group's latest gender pay gap information and, prior to setting the Executive Directors' remuneration, reviews detailed information relating to the workforce's remuneration. Please see page 122 for further information. With respect to bonuses, the Committee set targets directly aligned to the delivery of the Group's medium-term value creation plan, its strategy and promotion of its long-term sustainable success. Bonus targets also include a target on workforce safety and, when setting Executive Directors' personal targets, the Committee will consider the inclusion of objectives related to employee engagement and diversity and inclusion.

Employee benefits

FY23 Workforce remuneration

	All Employees	Executive Directors
Salary	Pay review boundaries approved by Remuneration Committee	Increases typically in line with average awarded to the wider employee population
Bonus	800 employees eligible for a bonus Maximum opportunity: 80% of base salary FY23 Group targets: Profit, Cash Flow, Health & Safety	FY23 Maximum opportunity: 125% of base salary FY23 Group targets: Profit, Cash Flow, Health & Safety, Personal Objectives
Deferred Bonus shares	Executive Committee: 25% of net bonus deferred for 3 years	33% of net bonus deferred for 3 years
Long-Term Incentive Plan	Awarded to leadership and strategic managers Maximum award: 100% of base salary 3-year performance period Targets: Earnings Per Share, Shareholder Return, Cash Flow	Maximum award: 200% of base salary 3-year performance period, 2-year holding period Targets: Earnings Per Share, Shareholder Return, Cash Flow
Pension	7.5% matched employer pension contributions for majority of employees	7.5% employer pension contributions or cash allowance
Sharesave	Maximum contributions: £5,000 p.a. 3-year saving period	Maximum contributions: £5,000 p.a. 3-year saving period
Share Incentive Plan	Maximum contributions: £1,800 p.a. Group funded matching shares provided on 1:2 basis	Maximum contributions: £1,800 p.a. Group funded matching shares provided on 1:2 basis

Employee benefits

Providing employees with a range of employee benefits and support is critical to the Group attracting and retaining a diverse and motivated workforce. In addition, for FY23 there was a focus on providing new benefits to employees with an emphasis on assisting with cost of living pressures. The new benefits and enhanced policies introduced during the financial year included:

- All employees benefitted from an enhanced level of life assurance cover of 4x salary.
- c.2,500 employees received an increase in sick pay entitlement with statutory sick pay replaced with full pay for up to 20 days and half pay for a further 20 days.
- Over 1,000 employees received an enhancement to their annual leave entitlement and further phased uplifts are planned to ensure alignment across the Group.
- The Group is accredited as a Real Living Wage employer and c.650 employees received a pay increase in January 2023 when the RLW rate increased by 10.1%.

Real Living Wage was also applied to contingent workers with effect from 1 July 2022 and subcontractors from 1 April 2023.

New benefits were made available to employees to assist with wellbeing and the cost of living pressures:

- access to loans through a specialist provider with a higher acceptance rate and lower interest rates than that of traditional lenders.
- spreading the cost of purchasing tech and white goods, and car repairs and maintenance, through repayments taken from salary.

Reward & Employee Benefits Forum (the 'Forum')

The Reward & Employee Benefits Forum has representatives from across the Group's UK business areas and the Group's inclusivity networks. It provides a platform to discuss a range of employee reward and benefits topics in the context of attracting, developing and retaining our people. The Forum has considered some of the key benefits available to employees including those that provide valuable savings on everyday family spend, mental and physical health focused support and Kier's pension scheme.

The Committee Chair and the Chief People Officer attend the meetings and the Forum recently discussed how the Executive Directors' remuneration arrangements are determined, the context and alignment with the pay and benefits of the wider workforce, the role of the Non-Executive Directors and the Remuneration Committee, and the 2023 Policy. The Chair updated the Committee on the outcome of the meeting and the feedback received.

Appendix 3

Benchmarking methodology

The benchmarking referenced in this document is taken from the Grant Thornton governance database (“the CG database” or “database”). The CG database was founded in 2002 to capture the corporate governance practices of the FTSE 350 market and other large corporate organisations. The collected data is focused on measuring how companies apply the provisions of the Code in practice as determined from the front-end disclosure of Annual Reports.

Our analysis takes the view that the Annual Report provides a window into a company. It is the one consistent source of ‘assured’ information for all stakeholders on how decisions are made and the impact that they drive. Furthermore, the way in which an organisation articulates its governance arrangements usually provides insight into the leadership, internal culture and values. Specifically, the database captures:

- the application of the principles and provisions of the Code (as set out in the 2018 UK Corporate Governance Code and/or Listing Rules)
- quality, connectivity, accountability and detail of narrative reporting requirements (as set out in S414c of the Companies Act 2006).

The database is updated annually through a documentary review of companies’ Annual Reports. Where there is a requirement for more than a binary ‘yes’ or ‘no’ (for example, in relation to the approach to culture) we assess the quality of disclosure using five grades, ranging from ‘none’ to ‘detailed.’

The Code is made up of several provisions spanning five main categories of corporate governance: leadership and purpose, effectiveness, accountability, remuneration and shareholder relations. We capture all these elements and apply a weighted average, based on the emphasis of the Code, to derive an organisation’s overall corporate governance score. A higher corporate governance score implies better overall corporate governance practices.

In order to test the robustness of our methodology and approach to measuring strong (and weak governance) we released a White Paper in 2019 (Corporate governance and company performance, grantthornton.co.uk) which examined 10 years of data (2007-2017) to assess whether we could prove a link between good governance as measured in the CG database and subsequent financial performance and/or how improved governance practices could positively influence financial performance. Output from our research demonstrated that there is a strong link between strong governance the creation of value. Our methodology was validated with several internal and external stakeholders including being peer reviewed by Professor Mike Saks, Emeritus Professor at the University of Suffolk.

Industry Group – Consumer Staples

Unilever Plc
Diageo Plc
British American Tobacco Plc
Reckitt Benckiser Group Plc
Tesco Plc
Imperial Brands Plc
Associated British Foods Plc
Coca Cola Hbc Ag
Sainsbury J Plc
Ocado Group Plc
Tate & Lyle Plc
Greggs Plc
Britvic Plc
Cranswick Plc
Premier Foods Plc
Pz Cusson Plc
Hilton Food Group Plc
C&C Group Plc
Bakkavor Group Plc
A.G. Barr Plc

Peer Group – selected comparable peers

Marks & Spencer Plc
National Grid Plc
BT Group Plc
MoneySupermarket.com Group Plc

Appendix 4

Update on the Review Report recommendations

Appendix 4 – update on Review Report

The Rem Co Chair has taken pro-active steps to improve the work of the Committee, undertaking a detailed review and following through on the Rem Co Report recommendations. Steps include a review of incentive scheme rules to provide more clarity, proactive engagement with the Shareholder and taking the decision to de-couple the schemes of the Executive Directors, broader Group Executive and Senior Leadership groups

Area	Simmons and Simmons recommendations	Work in flight at POL
Framing governance documents [GT findings Appendix 1]	Rec 1 – review governance structures, processes and systems to ensure consistency and alignment with the role of the Shareholder	Call set up with the Shareholder for November 2023 to understand how they perceive shareholder value from the perspective of setting targets in the LTIPs going forward
Governance application [Observations and findings in Appendix 2]	- Rec 2 - review the organisational support provided to the Rem Co. - Rec 3 – ensure minuting is accurate and complete - Rec 4 – review incentive schemes process - Rec 5 – reduce time between agreement of a scheme framework and design of metrics - Rec 6 – clarity of scheme rules - Rec 7 – ensure scheme rules are applied appropriately - Rec 8 – ensure design and assessment of schemes is clear and simple - Rec 9 – application of separate schemes for various categories of leadership - Rec 10 – schemes are appropriately reviewed on an ongoing basis	- Rec 2 - Rem Co reviewed WTW's support and agreed to extend the contract for one year. Internal support has also been assessed and work is in progress to ensure that the business provides wider support to the work of Rem Co. The recent appointment of the new CPO has helped although needs time to bed-in to comment on effectiveness - Rec 3 - improvements to the review process for the minutes are in place along with an SLA of 5 days for draft minutes - Rec 4 - ongoing all 'live' and new schemes will have greater consideration although it is not clear exactly what will change - Rec 5 – this is a priority and ways to achieve this being considered. The Rem Co chair is meeting UKGI to see if communications can be restructured to assist with this aim - Rec 6 - the rules for both STIP and LTIP have been through legal review with amendments tabled at September's Rem Co for sign-off. Subject to incorporating suggested amendments raised at the meeting, it was resolved to approve the revised Annual STIP and LTIP Scheme Rules in the form tabled - Rec 7 – Rem Co considers rules are applied fairly and consistently for STIP and LTIP. The process is subject to peer checking for additional governance around accuracy - Rec 8 – necessary actions understood and in practice now, but schemes are yet to be finalised for the current year - Rec 9 - this is the intention from 2024/25 - Rec 10 - review steps will be built into regular Rem Co meeting cadence, with updates on YTD achievement and run-rates against metrics. This is work in progress.

Appendix 5

Interviewees

Appendix 5

Interviewees

Ref	Interviewee	Position	Date	GT Interviewers
1	Benjamin Tidswell	- Member, Remuneration Committee - Non-Executive Director	20 October 2023	- Irina Velkova - Jonathan Houston - Lande Adesanya
2	Amanda Burton	- Chair, Remuneration Committee - Non-Executive Director	23 October 2023	- Sarah Bell - Jonathan Houston - Lande Adesanya
3	Lorna Gratton	- Member, Remuneration Committee - Shareholder Representative	25 October 2023	- Sarah Bell - Irina Velkova - Lande Adesanya
4	Ian Rudkin	Director of Rewards	25 October 2023	- Sarah Bell - Irina Velkova - Lande Adesanya
5	Karen McEwan	Chief People Officer	31 October 2023	- Irina Velkova - Jonathan Houston - Lande Adesanya

Appendix 6

Documentation

Appendix 6

List of documents reviewed

- Legally privileged - draft - POL Corporate Governance Framework PART 1 - 181022 RS.docx
- Post-office-limited-shareholder-relationship-framework-part-1.pdf
- Funding Agreement - Signed.pdf
- GF Graphic_202305.pptx
- POGGroup_GoveranceStructureDiagram_WORKINGDOCUMENT_202309.pptx
- structurechart202305_updated.pdf
- 20221216_POL_ArticlesOfAssociation_Clean_FINAL.pdf
- 20230329_POL_RemunerationCommittee_GOV_TermsOfReference_APPROVED_FINAL.docx
- Remuneration Policy for the Executive Directors.msg
- POL Pay Directive 07 2023 Senior Managers.pdf
- POL Pay Directive 06 2023 Middle Managers_Final.pdf
- POL Pay Directive 04 2023 CWU Grades Final v2.pdf
- POL_Rem Co_Agenda & Papers_20220927_FINAL.pdf
- POL_Rem Co_Agenda & Papers_20221206_FINAL.pdf
- POL_Rem Co_Agenda & Papers_20230301_FINAL.pdf
- POL_Rem Co_Agenda & Papers_20230502_FINAL.pdf
- POL_Rem Co_Agenda & Papers_20230511_FINAL_Redacted.pdf
- POL_Rem Co_Agenda & Papers_20230703_FINAL_Redacted.pdf
- POL_Rem Co_Agenda & Papers_20230926_FINAL_Redacted.pdf
- 20220927_POL_Rem Co_MIN_Signed.pdf
- 20221110_POL_Rem Co_Additional_MIN_Signed.pdf
- 20221206_POL_Rem Co_MIN_Signed.pdf
- 20230124_POL_Rem Co_Additional_MIN_Signed.pdf
- 20230301_POL_Rem Co_MIN_Signed.pdf
- 20230502_POL_Rem Co_Additional_MIN_Signed.pdf
- 20230511_POL_Rem Co_Additional_MIN_Signed.pdf
- 20230522_POL_Rem Co_TIS-Written Resolution_SIGNED.pdf
- 20230703_POL_Rem Co_Additional_MIN_Signed_Redacted.pdf
- 20230302 - ToR Approval
- Board Effectiveness Report 2022-23
- Remuneration Committee Effectiveness Report
- 280923 - SS and A Burton Report Recommendations Plan September 2023.pdf
- Amanda Burton's Report on Remuneration
- 2022-23 Annual Governance Report
- review-of-the-governance-relevant-to-post-office-limiteds-senior-executive-remuneration.pdf

Appendix 7

Glossary

Appendix 7

Glossary

Abbreviations

CPO

DBT

DoA

Execs

MI

NED

POL

Rem Co

Rem Co Chair

Review Reports

Rem Co Report recommendations

The Code

The Government Code

The Shareholder Agreement

ToR

UKGI

Shareholder Representative

The Horizon IT Inquiry

WTW

Full version

Chief People Office, Karen McEwan

Department for Business and Trade

Delegation of Authority

Executives

Management information

Non-Executive Director

Post Office Limited

Remuneration Committee

Remuneration Committee Chair, Amanda Burton

Refers to a review undertaken by Amanda Burton in May 2023 as Rem Co Chair and separately Simmons and Simmons in June 2023 on aspects to the governance practices at Rem Co

Refers to the nine recommendations as outlined in the Review Reports with a further two additional recommendations made by the Rem Co Chair in her report

2018 UK Corporate Governance Code

The Government Code

The Shareholder Relationship Framework Document, dated March 2020

The Rem Co Terms of Reference

UK Government Investment

The Shareholder/UKGI representative that sits on the Board and Committees of POL

Post Office Horizon IT Inquiry

Willis Towers Watson

