

Final

Review of the Transformation Incentive Scheme (TIS)

Confidential report to the POL Board : Final 2/6/23

Terms of Reference

I have been asked by the POL Board to conduct a review of the circumstances which led to the Inquiry wording in the TIS and annual report and accounts (ARA). The terms of reference under which I have been asked to conduct a review of the TIS and in particular the Inquiry metric are attached as Appendix 1. I have focused solely on the Inquiry metric (also sometimes referred to as a focus area and a target) and sub metrics (also sometimes referred to as targets).

What has been reviewed?

I have reviewed all Remuneration Committee papers and minutes for the period September 2020 to August 2022 (to cover the drafting of the DRR). I have checked whether the Board papers for the same period make any reference to the TIS scheme. In the context of their role as solicitors for POL in the Post Office Horizon IT Inquiry, Herbert Smith Freehills (HSF) undertook a targeted search of certain mailboxes available to them for the period September 2020-March 2022. I have read their chronology but have concentrated on reviewing the Remuneration papers and minutes. I have sought clarification on some specific points from a targeted number of people, including Lisa Harrington (Chair of the Remco Committee from January 2022), Nick Read (CEO) and Tom Cooper (shareholder representative and member of Remco). I have sent the final draft of the review to Ken McCall, (Chair of Remco until December 2021), Tim Parker (Chair of POL at the relevant times), Lisa Cherry (CPO who went on maternity leave in May 2021 and chose not to return) and Angela Williams (Interim CPO from May 2021), all of whom have left the Company as they are specifically mentioned in this report. Tom Cooper has also been sent a copy. Following submission of the report to Minister Hollinrake on 26 May 2023, some additional clarification has been requested and this final report reflects that clarification where I have been able to give it.

Rationale for the TIS

In 2020 the financial position of POL, as with all other companies in the UK, was impacted by the pandemic. Normally the Group Executive (GE) and Senior Leadership Population (SLP) would have participated in an annual bonus (STIP) and a long term bonus (LTIP), but because financial targets were proving to be very difficult to determine, and trading profit was reducing considerably, it was felt inappropriate to put in place those schemes for that financial year. In addition, the Board was very focused on ensuring that POL supported the Inquiry being led by Sir Wyn Williams, began implementing and embedding any recommendations for improvement in the culture, ways of working and the relationship with Postmasters as a result of that Inquiry, retaining senior people and working towards the replacement of Horizon. Taking into account all these factors, the CEO recommended to the Remuneration Committee that an incentive scheme should be put in place which became known as the Transformation Incentive Scheme.

Remuneration Committee members and CPO

The Remuneration Committee members from September 2020 to December 2021 were Ken McCall (Chair of the Committee), Tim Parker (Chair of POL), Lisa Harrington and Tom Cooper (UKGI). Lisa Cherry was CPO until May 2021 when she went on maternity leave (and later chose not to return) and Angela Williams was appointed interim CPO on a 12 month contract. At the end of 2021 Ken McCall resigned as a director of POL and Lisa Harrington became Chair of Remco and Ben Tidswell joined Remco. In September 2022 Tim Parker was replaced by Brian Gaunt as a Remco member. The independent remuneration advisers, Willis Towers Watson were appointed in September 2020 and apart from the November 2020 meeting attended the relevant Remco meetings throughout. The CEO was not a member of Remco but was invited to attend as appropriate and proposed the TIS scheme (see below).

Final

Overview of timeline and the terms of the TIS

At the **September 2020** Remuneration Committee (Remco), a paper was tabled to approve the 20/21 STIP design. Normally the STIP would be reviewed earlier in the financial year but, for reasons explained above, it had been agreed to delay this. The minutes of that meeting (tabled at the November Remco) show that the CEO had advised that it was now recommended not to have a STIP for 20/21 for the senior leaders, although a STIP would remain for the grades below the senior team, which had different metrics. For the senior team “there needed to be a way to incentivise the senior team to deliver the transformation agenda and these measures would be developed with a pay-out date in around 18 months’ time. No STIP or LTIP scheme would be launched for the current financial year”. It was agreed that a paper would come back to Remco.

At the **November 2020** Remco meeting, a paper, written by the Reward and Pensions Director, was tabled. As recorded in the minutes of that meeting, the CEO reminded Remco that there had been a reduction of 20% in the 2018/19 STIP and for the 2019/20 STIP, a 50% reduction for Executive Directors and a 20% reduction for the SLP. Many of the SLP had been at POL for less than two years.

The proposed terms of the TIS were:

1. To award each member of GE and SLP a grant value equivalent to 100% of their equivalent on-target STIP value. So for the CEO this would be 30% of salary, CFO 40%, GE pre 9/19 30%, GE post 9/19 25%, SLP 25%.
2. Any pay-out to be self-funded through profit in 20/21, conditional upon the achievement of metrics aligned to the business transformation plans, and individual performance.
3. The metrics were proposed as
 - (1) Delivery of an improved organisation design and lower operating cost model through the successful implementation of Tranche 1, 2 and 3 of the organisation change plans. Measured by improving spans and layers (in accordance with the McKinsey key metrics on spans and layers and best practice), making the organisation flatter and more aligned to the Postmaster
 - (2) Recruiting, onboarding and training the new Postmaster NEDs through a fully robust process aligned to the Ministerial process and ensure they are fully set up to succeed as valued members of the POL Board
 - (3) Delivery of a step change in Postmaster engagement through delivery of key milestones and metrics aligned as part of the culture change programme. Measure the effectiveness through feedback from new Postmasters who joined POL over the last 12 months (end 21) and ensure this represents a significant change vs. the existing feedback from the Postmaster Consultation with Quadrangle.
 - (4) Delivery of all the required information and support for the Horizon inquiry satisfying the requirements of Sir Wyn Williams, ensuring there is a clear measurable plan created to demonstrate action on improving overall operational and back office processes for Postmasters in line with recommendations from the inquiry.
4. Employees must be rated 3 or above to qualify, assessed at end of year review 20/21 and mid year review 21/22 and ongoing performance until the time of pay-out. As a further incentive, for those rated 4 or 5, there was an opportunity to earn a higher amount. “This would be determined based on business performance and the distribution of ratings”.
5. Recipients must be employed by POL at the time of payment in March 2022 (and not under notice) or been granted good leaver status, when there would be a pro rata payment. If a recipient joined the GE or SLP during the year, the award would also be pro-rated.
6. The cost of the scheme was estimated at £3.56m, assuming everyone achieved 100% and covering 52 people. In the minutes of the meeting, the CEO is recorded as saying that the pay-out would be equivalent to 37% of the previous pay-out for the GE and 47% of the previous pay-out for SLP and the average payment would be £70k for a GE member and £35k for an SLP member.

The minutes record a lively debate. It was agreed that there would be a TIS in principle but that further thought should be given to the metrics and the views of Tom Cooper and Lisa Harrington in particular would be sought.

On 5 November 2020 Sir Wyn published a timeline for the Inquiry which showed the final report being prepared in July and August 2021 and the inquiry concluding thereafter. POL had started receiving requests for information from the Inquiry, with deadlines for completion.

Final

During November Tom Cooper was involved in discussing the various metrics and sub-metrics with the CEO and CPO. On **4 December 2020** a document headed Final version of the TIS was circulated to Remco members and approved. The email from Lisa Cherry attaching the documents noted that this incorporated Tom Cooper's comments. This paper set out the 4 targets (ie metrics) and the Inquiry one broadly reflects the wording which went to the Permanent Secretary, although at this stage there were 5 sub-metrics. As it turned out, this wasn't the final version as discussions continued over the next few months on the Postmaster and OD metrics.

Eligible employees were informed of the scheme by email from the CPO on 8 December and the CEO presented the TIS to the GE and SLP on 14 December. Letters were sent on or about 18 December. This letter set out the 4 metrics but did not detail the sub-metrics underneath. The letter stated that detailed terms of the scheme would be circulated in the New Year. The Scheme rules were then circulated in January 2021 and included malus and clawback provisions.

At the **April 21 Remco**, a paper was tabled on progress against the metrics, reminding Remco that the TIS had been approved in November 2020 with 4 metrics. However, the paper then went on to say that the Postmaster metric and the OD metric had been reviewed and proposals for revised metrics were included in the paper. The proposed revised metrics were:

- (1) Delivery of a step change in Postmaster engagement through delivery of key milestones and metrics aligned as part of the culture change programme. Measure the effectiveness through delivery of top priority areas identified from the feedback and ensure this represents a significant change by January 22 vs. the existing feedback from the Postmaster Consultation with Quadrangle
- (2) Delivery of all the required information and support for the Horizon inquiry satisfying the requirements of Sir Wyn Williams, ensuring that there is a clear measurable plan created to demonstrate action on improving the overall culture to be Postmaster centric and to ensure processes for Postmasters are addressed in line with recommendations from the inquiry. Any actions or plans must have been endorsed by the inquiry and the Board.
- (3) Create a Board approved SPM plan and business case to move off Horizon dependence (first version by March 21, final by December 21) and deliver a prototype to operate an 'express' proposition fully outside Horizon by 31/12/22 with ability to subsequently scale across the POL network
- (4) Delivery of an improved organisational design and lower cost operating model through the successful implementation of Tranche 1, 2 and 3 of the organisational change plans. Measured by improving metrics on spans and layers (in accordance with the McKinsey key metrics on spans and layers and best practice), making the organisation flatter and more aligned to the Postmaster.

At this meeting, the paper said "each target will be either hit or miss", with an explanation that this meant that each had to be achieved individually to reach 100% payout. The measures to determine success were included in the paper. For the Horizon inquiry target, this was reported as per Appendix 2 attached. This shows 5 sub metrics.

Due to other items being on the agenda, Remco did not have time to discuss this proposal and update and a discussion was deferred until the June 2021 meeting. It was noted that feedback from committee members was that the metrics were not challenging enough.

At the **July 21 meeting**, (there was no meeting in June so I assume the dates were changed), the matters outstanding report (which was the first one the Remco had seen since February) said that an action from the February meeting was that Tom Cooper noted that we needed to revisit what a successful outcome would be for the Postmaster engagement measure in the TIS. Lisa Cherry would bring this back for discussion at the additional March Remco. The update was "Additional Remco on 9/4/21 continued discussions re the TI metrics. Following discussions with UKGI, Angela Williams will circulate a paper to Remco members in June 21, with revised proposals for the TIS metrics and progression of metrics, for Remco approval."

Final

A paper was tabled at this meeting with a reminder that three metrics had been previously agreed in December, and the fourth relating to Postmaster satisfaction had been circulated in June 21 which the Remco had agreed so this paper was for noting.

This paper also said that if this final metric was agreed, shareholder consent would then be sought for the CEO and CFO to participate in the TIS. All other participants would be communicated with during July 21.

In the minutes of this meeting, it is recorded that email approval to the Postmaster satisfaction measure had been agreed subject to addressing the points raised by Tom Cooper in his email of 27 June 21 and that the papers submitted to the July meeting reflected his comments.

On **26 July 2021** Ken McCall wrote to Sarah Munby, Permanent Secretary and Principal Accounting Officer, BEIS outlining the proposed scheme for the CEO and CFO. This is attached as Appendix 3. The Inquiry metric (described as a focus area) is explained in detail in the Appendix and now shows 6 sub metrics, with the new one referring to external sign off of execution of plans instigated by Deloitte work (using the tracker that monitors against these and is reviewed weekly and would be reviewed by Internal Audit). The letter explained that each of the four metrics would be assessed independently of the others and that it was anticipated that Remco might exercise discretion, and that the process would be fair and challenging. A deck of slides also went to Remco members in August which set out the terms agreed and these are attached as Appendix 4.

At the September Remco meeting the paper said that in July Angela Williams had provided a verbal update to the GE of the detailed metrics/targets, stressing that the metrics/targets were provisional and still subject to both Remco and BEIS approval.

At the **September 21 Remco** meeting, a paper was tabled which noted that the TIS had been agreed in December for the GE and SLP population, the measures and metrics had been approved at the July meeting, and that Remco approved the implementation approach by email following the July meeting. It was noted that BEIS approval was awaited for CEO and CFO participation, and that the targets have been communicated verbally to participants with a plan to follow up on progress in September. The paper also says there is an IDG tracker, each metric has an owner, that internal audit will verify the action status, working with Deloitte (which were co-sourced to provide internal audit work) to validate the findings. Deloitte will provide the final sign off. This will also apply to the HIJ work.

The paper set out the following:

1. Target payout opportunity for GE 25%, SLP 18% (as per STIP payout)
2. Extra 5% funding available for distribution to those consistently rated 4 or 5. The actual numbers will depend on the numbers nominated and their salaries. To be modelled in January 22.
3. Metrics and sub metrics set out in appendix 1. The Inquiry metric and sub metrics reflect the wording tabled in the letter to the Permanent Secretary and in the August slides.

At the **November 21 Remco**, an update was given on progress against metrics. It was noted that approval had been given by BEIS to the CEO and CFO participation. This was given by email on 2 November by Minister Scully to UKGI. The progress report suggests that the Inquiry metric is tracking green.

In the minutes of the meeting for November 21, Angela Williams said that “the main incentive measure to flag was the targets for Drop and Go which were not on track but which we did not think that the executive should be penalised for.” The Remco “acknowledged this flag”.

At the **January 22 Remco**, Lisa Harrington is shown in the minutes as Chair in place of Ken McCall, and Ben Tidswell, having been appointed at the end of November 2021, attended his first Committee meeting. A progress report was given on TIS. “We are confident that we will be able to

Final

evidence a level of performance under each area that will enable the committee to take a judgement in the round and approve a level of award under each area”.

The key features are now shown as:

1. Target payout opportunity of 25% for the SLP
2. Extra 5% as detailed above.
3. 6 sub metrics for the Inquiry, with the wording consistent with the July/August slides. Rated Amber/Green.

In the minutes of that meeting, the issue around Drop and Go was again discussed, noting that there had been a deliberate scaling back of the earlier phases of the plan which would be covered in more detail in February.

Tom Cooper is recorded in those minutes as asking “how we would evidence that we were meeting the requirements of the Public Inquiry”. There is reference to an appendix in a January 2022 Board paper which “provided helpful detail about our interactions with the Inquiry Team”. This is the HSF report to the Board referred to in the next paragraph.

At the **February 2022 Remco**, a paper was tabled outlining progress against the metrics. This paper is attached as Appendix 5. The assessment as to whether the Inquiry metric was achieved is contained in p3-4, with a recommendation that there is 100% payout for that metric. The formatting and descriptors used have probably caused confusion. The Inquiry metric is shown in italics and below that there are shown to be 4 metrics with targets against those. The targets are in fact the sub-metrics (the headings against them described as metrics are effectively short descriptions of the sub metrics). The “targets” (ie the sub metrics) have been grouped differently so that sub metric 3 and 4 are shown as one, and sub metric 5 and 6 are shown as one, so it looks like there are only 4 sub metrics, but in reality there are 6, just shown differently. The paper goes on to say: “Our assessment is that this objective has been achieved in spite of shifting requirements associated with the Inquiry and recognises the substantial work and efforts of our people”. The paper says that a redacted copy of the rule 9 notices (requiring individuals or organisations to provide relevant material to the Inquiry) had been reviewed. It isn’t clear whether Angela Williams saw this information. However, Lisa Harrington and Ben Tidswell have confirmed that there was considerable debate about all four metrics and the sub-metrics and that the papers which had gone to the January Board, amongst other things, were taken into account and relied on by Remco when making a decision about the Inquiry sub metric. The January 2022 board papers included a report authored by HSF and POL Legal giving an update on recent developments in the Inquiry programme. The report commented that POL had received several Rule 9 requests and noted the progress made against each.

The paper also referred to two reports from Deloitte (who provided internal audit services at the time) which verified the status of the Common Issues Judgement and Historical Issues Judgement activities which I have seen. A summary of the outcome of those audits was given to ARC in March 2022. These papers are not relevant to the Inquiry sub-metric.

Overall, the recommendation was that the Postmaster Satisfaction metric had been 50% achieved, the Inquiry 100%, SPM 100% and Organisational Design 75%, giving a total of 81.25%. In addition, 7 individuals (including the CEO) in the TIS had been rated 4 or 5, and therefore there would be an enhanced payout as had been agreed. In this paper the top up is described as a multiplier of 1.75 x the base award for the CEO and 1.5 x the base award for the other 6. The paper goes on to say that “this is within the rules of the TIS which provides for the fact that the maximum amount that an individual can be paid under the scheme cannot exceed the maximum STIP amount”. The maximum payout for the CEO was 45% of salary. For noting, the CPO Angela Williams was not a recipient of the TIS scheme.

The paper estimated the cost of the core award to 41 eligible employees as being £1.86m and the enhanced award for 7 employees at £110k, bringing the total to £1.97m. Confirmation was given that this had been accrued in the accounts. It has been confirmed to me that there was an accrual of £2.5m in the accounts. (NB the actual number of employees who were given a bonus under the

Final

TIS was 45 plus 2 leavers (who had an amount pro rated)). I have not been able to establish why the numbers of recipients changed, as the relevant HR people have left the Company.

In the minutes of the February meeting, there was a discussion about the Postmaster Satisfaction and SPM metrics. In my opinion, it would have been appropriate to record in more detail the assessment of all four metrics undertaken by the committee. Tom Cooper is recorded asking about the external validation of the targets that had been set from the Historical Issues Judgement (HIJ)/Common Issues Judgement (CIJ). Angela Williams said that Deloitte had been appointed as an independent third party to review the original findings in the HIJ and CIJ and identify the priority actions/targets that had to be delivered by January 22. Tom Cooper said that he was satisfied, but that he would welcome reviewing the underlying assessments, justifications and metrics. Angela Williams agreed to share this data and justifications with the Committee.

Following this discussion, the Remco approved the recommendations for the core award of 81.25% and the enhanced award for the 7 people.

At the **July 22 Remco**, the action log said that Angela Williams had provided UKGI with materials to support the external validation of targets as requested by Tom Cooper above, and that Deloitte were available for further support. It is not clear whether Remco as a whole saw this additional information which related to the HIJ and CIJ matters, although as noted above a summary of the findings was produced for the Audit and Risk Committee and in any event are not relevant to the Inquiry sub-metric.

With regard to the drafting of the Annual Report and Accounts and the Directors' Remuneration Report, the usual timeframe is that the process starts in April, with various teams allotted responsibility for the various sections. For the DRR, this would have been the HR team and the Remco (see below). PWC as auditors would review the ARA as drafting progressed and the Audit and Risk Committee (ARC) would review the draft in June, when the focus would be on key estimates and accounting judgements. At this stage the front end (Chair and CEO reviews) and the DRR would not be in final form. The ARA, including the DRR, would be shared with UKGI officials who would comment on them (in 2022 emails from UKGI were received on 8/7/22, 25/7/22 and 5/8/22). A near final version of the ARA, including the DRR, was seen by ARC in July and a sub-committee was appointed to finalise the drafting. The final draft was presented to the Board for approval on 12 August and was published with the date of 17 August 2022.

At the July Remco meeting the latest draft of the DRR was tabled for approval. The POL Comms team (Richard Taylor is named) had provided support on messaging. The TIS was described using the same formatting as had been tabled in February 2022 ie the Inquiry one had wording at the top describing the metric, and underneath there are 4 headings described as metrics, against which there are 4 targets (which are in fact the sub-metrics). The minutes of this meeting show that Committee members discussed the draft and wanted amendments, mindful of the sensitivities surrounding POL. I have not been able to establish why no one questioned the drafting of the Inquiry metric and sub metric which in my opinion should have described the use of discretion when determining the outcome.

The DRR is next discussed at the **August 22 Remco meeting**. The draft contains financial figures and shows that the CEO received a base salary of £415k, a TIS award of £177k, an STIP award of £163k and an LTIP award of £115k, resulting in total variable awards of £455k. As the DRR explained, the TIS award was paid out in March 2022 and therefore included in the 2021/22 figures rather than in the 2020/21 figures. The DRR confirmed that the 2020/21 STIP had been cancelled and the TIS was a replacement scheme. The CFO received a base salary of £245k, £79k TIS, £99k STIP and £132k LTIP. The DRR shows that no such awards were paid in 20/21 for either the CEO or CFO. The Inquiry section has not changed.

Findings

1. The TIS was put in place to replace the STIP and LTIP during a period of great uncertainty due to Covid which had dramatically impacted profits. As explained earlier, the Remco had taken the decision to reduce the awards made on earlier schemes, despite targets being met. The

Final

TIS was a one off scheme. This wasn't unusual during 2020, many organisations felt they could not put in place sensible targets as there was so much that was unknown. At the same time, POL was facing a great deal of public scrutiny as a result of the Inquiry, and was directed by Government to move away from dependency on Fujitsu. The CEO had been appointed in September 2019 and needed to motivate his immediate team against a background where previous scheme awards had been reduced. I therefore can understand why a Transformation Incentive Scheme was proposed.

2. The Remco was mindful of corporate governance best practice and as far as applicable aimed to follow the UK Corporate Governance Code issued by the FRC (which is applicable to public companies). Many aspects of the TIS followed the Code eg predictability, proportionality, alignment with culture and shareholder engagement. However, there were issues with clarity and simplicity. As can be seen from the timeline section above, the wording of the metrics and sub-metrics kept being reviewed (and were even inconsistently described eg sub-metrics described as targets) and weren't finalised until July 21. I also note the high number of sub-metrics (17) which all had to be tracked.
3. The Inquiry metric and sub metric wording were generally consistent throughout, although the 6 sub metrics were re-grouped in the February 2022 meeting and in the DRR into 4 (but the substance was the same). However, the wording of the first sub-metric was completely inappropriate once the Inquiry was placed on a statutory footing and the timelines moved considerably. In hindsight it was clearly inaccurate to suggest that Sir Wyn would be in any way involved in determining whether any part of the bonus had been achieved. There was no deliberate intention on anyone's part to mislead the role of Sir Wyn in this matter. Having said that, numerous people both inside and outside POL saw the wording over many months, and no one questioned it. The wording was substantially the same in the letter to the Permanent Secretary, the February 2022 Remco and the DRR. I do not find the grouping of the 6 sub metrics into 4 as being material as this is a change in formatting, but the words are the same.
4. The Shareholder Relationship Framework Document describes how POL is expected to operate and how the Shareholder (now DBT), the Shareholder's Representative (UKGI) and POL will interact with each other. The POL Articles also proscribe that the remuneration of all Board members requires the approval of the Shareholder, and any material variation or amendment. Tom Cooper was the shareholder representative throughout the relevant period and attended all remuneration committee meetings. In addition as can be seen from the various minutes he was (as were other committee members) engaged in discussions and requested additional information. POL wrote to the Shareholder in July 2021 setting out the proposals for the TIS and received a reply in November 2021 accepting the proposals. As far as I can tell, the letter to the Shareholder and the reply were not seen by Remco, although Ken McCall would have seen the letter as he signed it. There is also evidence that a UKGI official was involved in the drafting of the letter.
5. Turning to the Inquiry first sub-metric itself, it was drafted at a time when the Committee thought that the Inquiry would be completed within the time frame. However, the Inquiry moved onto a statutory footing in June 21 (announced May 2021) and the terms of reference of the Inquiry put the tabling of a report at Autumn 2022. At this stage, the wording of the metric and specific sub-metric should have been revisited, but this did not take place. Nor did anyone raise this when the Remco met in February 2022 to determine whether the metrics/sub-metrics had been achieved. This was a clear failing of everyone involved, although I do not believe this was deliberate. Remco did have discretion to look at whether the metrics/sub-metrics had been met and clearly exercised that discretion on a number of fronts. The terms of discretion were explained in the letter to the Permanent Secretary. The determination by Remco was not discussed with the Permanent Secretary as they considered that they had discretion. As described above, any material variation or amendment of remuneration schemes should be discussed with the Shareholder, however the quantum we are looking at for the Inquiry sub metric is not, in my opinion, material as it is one sixth of one quarter of the total scheme. To put this in context, for the CEO this translates to just over £5000 for the base award or £9000 if one includes the personal performance multiplier. These amounts are gross of tax and NICs. The Board had discussed in January 2022 the progress being made in delivering everything that the Inquiry had asked for and had been pleased with progress. The

Final

status in relation to all the metrics was also tracked by Internal audit, and in relation to HIJ and CIJ, by Deloitte. On a black and white reading of the first sub-metric, it was not achieved as by then the Inquiry had not completed, nor had the feedback from Sir Wyn (quite rightly) been sought. However, it does seem that Remco exercised discretion, bearing in mind that events had changed and that they were pleased with progress, which is why they rated the overall metric as achieved. As I have said, it would have been better to minute the depth of discussion and for the rationale to be explained in the DRR.

6. The original estimate of £3.56m (discussed in November 20) presumably included the 5% “pot” and also presumably included NICs. The actual base awards made totalled £1.66m, with an additional £144k paid out for the “pot” plus £249k NICs (a total of £2.05m) so well within the accrual of £2.5m. I have not been able to determine the original amount of the “pot” as the Reward Director at that time has left. The Remco minutes do not show any discussion as to the modelling but they did approve the multipliers of 1.75 for the CEO and 1.5 for the other high performers, which was disclosed in the paper tabled at that meeting. The CEO was not present when his performance ratings were discussed. When looking at the letter which went to the Shareholder in July 21, this says “Funding from this additional 5% pot is only released in proportion to the number of targets that are hit. For example, if one focus area meets target, one quarter would be released, if two focus areas meet target then one half would be released”. However, I don’t think this wording was ever seen by Remco and I have not found any reference to this in any Remco papers.
7. The DRR wording followed the wording which had been discussed at the Remco, although the 6 sub-metrics had been consolidated into 4, presumably copying the paper tabled at the February 2022 Remco. I do not consider this consolidation to be material as this was probably done for presentation purposes and does not alter the decisions reached by the Remco. The DRR explicitly says that the base award made to participants was 81.25%, before any adjustments for individual performance. Again it is hard to understand why no one thought to consider the wording in the DRR and the wider context in which the DRR would be read.

Conclusion and recommendations

In conclusion, the rationale for the TIS looks sound and the Shareholder was consulted in July 2021. However, the TIS became too complex, with 17 sub metrics and many people involved in the drafting and approval process over a long period of time. It is difficult to understand why the Inquiry first sub-metric was not questioned by anyone, and yet seen by so many people. However, having taken into account the discretion available to Remco and the confirmation I have received that Remco considered that there had been very good progress in supporting the Inquiry, I consider that the decision made should be taken in that light.

There has been debate about clawback. The CEO and CFO have already and voluntarily paid back the element of bonus associated with the sub-metric, as announced on 5 May 2023 (together with a full personal apology from the CEO on behalf of POL to Sir Wyn).

Looking at the Scheme rules in relation to clawback, the only one which could be relevant is if an assessment of performance conditions was based on an error or inaccurate or misleading information. In my opinion the assessment was made fairly, the problem was that the wording of the Inquiry sub-metric was inappropriate once the Inquiry moved onto a statutory footing. I note that some participants in the TIS below Board have already volunteered to pay back an amount equal to the post tax element of the sub metric. The Board, cognisant of the impact of the inappropriate wording of the sub-metric to public confidence in Post Office, has asked the CEO to seek similar repayment, in the first instance on a voluntary basis, in relation to the sub metric from all those who received an award under the TIS.

The CEO and the Chair of Remco, on behalf of POL, have both publicly apologised that this situation has arisen and are right to do so.

In line with planned succession, I have been appointed Chair of the Remuneration Committee as of 26 May 2023. Lisa Harrington has stepped down on 1st June after three years on the Board. Tom Cooper has stepped down from the Board in May. This means that the Remco members

Final

going forward will be myself as Chair, Henry Staunton (Chair of POL), Ben Tidswell, Brian Gaunt and Lorna Gratton.

In terms of recommendations going forward, and as Chair of the Remuneration Committee, there are clearly lessons to be learned. My recommendations are:

1. Variable pay schemes, whether short term or long term, need to be simple, transparent and clear.
2. The timeline between the initial proposal, design and approval of variable pay schemes needs to be shortened as it does not make sense to have schemes being debated months (even a year) after the awards should have been made.
3. When assessing whether metrics have been achieved, there needs to be a clear audit trail of the data reviewed. When discretion is exercised, the circumstances need to be carefully minuted and explained in the DRR.
4. The Remco must assess whether any metrics remain valid if circumstances change, and actively determine whether changes to the metric are appropriate and what the consequences of that would be (including potentially further consultation with the Shareholder).
5. Remco needs to be mindful of all stakeholders when putting in place new schemes, when determining the outturn and when reporting on reward in the DRR.
6. POL needs to re-engage with the Shareholder. Just reading the Remco minutes and background information, I can see that a large amount of time is taken in schemes being drafted at a detailed level, but I think we need better engagement at the macro level, as that will drive better decision making at the micro level.
7. The Remco will review the terms of the 2022/23 STIP when it meets later in June and I will be recommending that Remco exercises its discretion not to award the element of bonus specifically relating to the Inquiry. Any variable pay schemes going forward should not include any metrics relating to the Inquiry.

Amanda Burton
2 June 2023