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Department for
Business, Energy
& Industrial Strategy

To: Greg Clark - Secretary of State	Cc: Kelly Tolhurst – Minister
From: Alex Chisholm, Permanent Secretary	
Date: 5 March 2019	
Post Office – litigation trial and leadership succession	

Dear Greg,

You asked me yesterday to look into some issues relating to the Post Office and to advise both you and Kelly on the way ahead. The two most pressing issues relate to the court case and the appointment of an interim Chief Executive, and I deal with these first. I cover a number of less pressing points on page 2 of this note. The advice that follows is mine but draws on conversations I have had since your request with Tim Parker, the POL Chairman, Tom Cooper, UKGI-appointed NED at POL, Tom Aldred (UKGI on secondment from HMT) and BEIS officials Gavin Lambert and Craig Watson.

1. **Litigation.** I agree with the legal and policy advice that we should not seek permission to see the judgment in advance of it being made public, and not comment when it is published. To obtain an advance copy we would need to satisfy the judge there was a clear public interest in such. This is difficult in any case but especially in one such as this where there are no immediate consequences, and we have presented the trial as being an operational matter for the Post Office. This is only the first of four trials scheduled to continue until at least March 2020, and the final outcome will not be clear until they have all completed. Ministers will want to keep an appropriate distance from the trial and not comment directly while it is *sub judice* (POL may wish to appeal if the judgment goes against them). Personally I would not be surprised if the proceedings uncovered some faults on both sides in the litigation. Hence it would be especially advisable to stay above the fray for now, leaving you free to speak and act as necessary and in the public interest once the matter is decided.
2. **Interim CEO.** POL is a big and complex business and needs an acting CEO now that Paula has stood down. Having spoken with Tim and Tom C, I am satisfied that Al Cameron (POL's current CFO and COO) is the right person – indeed the only real candidate - to be appointed as interim CEO. I am advised this would have the support of the entire POL Board and of the management team. POL have proposed that, as interim CEO, Al's base pay is increased to the level received by Paula Vennells, the current permanent CEO. The monetary difference in salary is about £10,000 (from £244,800 to £255,000). With cash in lieu of benefits and the knock-on effect on Incentive Plans a maximum of a further £16,000 could be earned. But this maximum would only occur if the interim post lasted for a full year and maximum was achieved on all stretch targets; in practice we would expect both figures to be lower. I recommend you give your assent to his appointment this week.
3. **Retention payment.** POL's Board advise that it would be prudent to also make a retention payment of £50,000 payable if Al is not appointed as permanent CEO and remains in post for six months after the new CEO starts work. POL rely heavily on Al for leadership and expertise at what is a critical strategic juncture for the business, and judge that the business would be exposed if he were to leave rapidly after the appointment of a new CEO. BEIS's SCS Review Panel have expressed reservations about the payment, and suggested that if it is approved this should come with performance conditions. CST approval is also required. On balance I would be inclined not to reject a risk management device that the POL Board have judged necessary, but make your assent conditional on performance in effecting a successful transition.

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4. **Interim CFO**. With AI stepping up to CEO, **POL should appoint an interim CFO** to help manage the business and avoid excessive concentration of responsibility in one person. It would be appropriate to delegate this appointment to POL's Board to enable a swift transition and since the appointment will cover a relatively short time period (6-9 months). I have advised POL that the interim CFO should sit on POL's board to ensure that they can be effective in discharging their responsibilities. In addition, AI's current COO responsibilities should move to an existing member of the Executive Team.
5. **Permanent CEO**. This is a crucial post and I have asked POL and officials here to accelerate the recruitment process. The job specification and salary advice will be sent up within the week (with benchmark data to support the latter). I also propose that you exercise your right to appoint an independent person to the selection panel. My view on the recruitment is that we should give ourselves the best chance of securing a high calibre person to lead what is a complex commercial organisation with a turnover of £1bn and the largest retail network in Europe.
6. **POL Performance**. As I mentioned briefly when we met earlier, the business itself is achieving a turnaround from its former loss-making state. Thanks to the Franchising Programme and the investment we made in transformation, POL has improved the ratio of variable to fixed costs and begun to lower operating costs as a percentage of revenues. They have renegotiated the Bank of Ireland contract and hope to secure over the next month a much fairer and better remunerated relationship with the banks. If they can renew the Royal Mail contract on acceptable terms and come through the litigation without significant financial cost, the business is set pretty fair, and should generate tens of millions in annual dividends as well as continuing to perform its vital public role.
7. **POL Priorities**. I went through the attached Chair's letter with Tim when we met for the annual review. He is in full agreement with all that we ask. He accepts the need to further develop the executive team so that it is more resilient to change. He has committed to working with us to better manage the communications and engagement in the final stage of the franchising programme. And he was appreciative of the support as well as challenge he has been getting from BEIS and UKGI.

GRO

Alex Chisholm