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Date: 19 January 2021

SCS clearance: Tim McInnes (Executive Director, UKGI)

Approval of POL CFO Exit Package	
To Approve	BEIS Secretary of State (SoS)
To Approve	Minister Paul Scully MP
To Clear	Special Advisers
Role, Partner Organisation	Chief Financial Officer (CFO), Post Office Ltd.
Prime Minister's interest list	No
Lead Official / Policy & Telephone	Siv Rajeswaran (UKGI) <span style="border: 1px solid black; padding: 0 5px;">GRO</span> Tim McInnes (UKGI) <span style="border: 1px solid black; padding: 0 5px;">GRO</span> Beth White (BEIS) <span style="border: 1px solid black; padding: 0 5px;">GRO</span>
Unique Reference Number	387

**Summary:** BEIS previously agreed to a request from POL for it to end the employment of its CFO. The last submission noted that POL's proposal for the terms of the CFO's exit package would follow once initial Ministerial feedback was provided. This submission sets out the options POL has to exit the CFO and a recommended course of action comprising a severance payment compliant with the £95k exit payment cap regulations and a transition period to ensure both an orderly handover and the CFO's ongoing participation in the Horizon IT Inquiry. A letter from POL's Chair is included at **Annex B** and sets out the options in more detail.

**Timing:** For clearance from Minister Scully and Special Advisers by 22 January, ahead of submission to SoS for clearance by 29 January.

#### Recommendation:

- **Reject** POL's request for an exemption to the £95k exit cap regulations and **Agree** that officials can relay this to POL if Ministers accept the advice to approve Option 2.
- **Approve** POL's proposed Option 2 exit package, with scope to offer 'good leaver' status for bonuses payable in relation to the period before his special leave starts.
- **Agree** that no bonuses should accrue in relation to the period of special leave and that bonuses payable in relation to the period before special leave are contingent on the outcome of the Horizon IT Inquiry.
- **Note** that if POL fail to reach agreement by end-March, a new approval will be sought.

#### Advice:

- 1) In November the Minister (per delegation from SoS) agreed to a request for POL to end its employment relationship with its CFO, Alisdair Cameron (AI). The submission noted that POL's proposal for the terms of an exit package would follow once initial Ministerial feedback was provided. In his feedback the Minister indicated that he wanted to see an exit package that reflected VfM and be in some way conditional on: (i) the incumbent's participation in the Horizon IT Inquiry; and (ii) being found to have done no wrongdoing when the inquiry concludes. POL have now responded with three options.

	Option 1	Option 2	Option 3
<b>Exit Date</b>	Exit Today	In 6 months	Exit Today
<b>Payment on Exit</b>	£316,000	£156,200	£156,200

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<b>£95k Exit Cap Exemption</b>	Required	No Exemption	No Exemption
<b>Earnings in Special Leave</b>	None	£159,800	None
<b>'Leaver' Status for Bonus</b>	Good	To Be Agreed	Bad

- 2) Al's contract entitles him to 12 months' notice of £244,800. POL are also proposing to pay an additional £71,200 (comprised of 12 months' Payment In Lieu Of Pension and other benefits) which, while not contractual, is consistent with POL's custom and practice, and is therefore considered by POL [REDACTED]

[REDACTED] Al is also aware of this practice, of paying these benefits to other senior leavers in recent years. The sum of these two equals £316,000.

- 3) [REDACTED] Option 1. [REDACTED]

[REDACTED] accept that this payment would require an exemption under the £95k exit cap regulations and that this is unlikely to be the preferred course of action for BEIS (i.e. BEIS did not approve POL's request for an exemption in late 2020 in relation to redundancies). Consistent with other leavers, Al would also be a 'good leaver' for bonuses which means he would retain his entitlement to STIPs and LTIPs accrued during his employment (the last of which would pay out in August 2022). Bonus entitlements are not subject to the £95k exit cap regulations. See Annex A.

- 4) Note that any refusal by BEIS to grant a request for an exemption from the £95k exit cap regulations should be formally documented, so that this can be made clear in negotiations with Al. This would arise if you do not agree to approve POL's preferred Option 1.

- 5) [REDACTED] Option 2 which sees Al working about half of his 12 month notice on special leave and, at end-September, he would receive £156k which is consistent with the £95k exit cap regulations (which permits 3 months payment in lieu of notice in addition to £95k). [REDACTED]

[REDACTED] and, as Al would remain on POL's payroll, it would ensure a comprehensive handover and participation in the Horizon IT Inquiry<sup>1</sup>. Subject to BEIS approval, POL propose to open discussions with Al on this option without offering 'good leaver' status for bonuses though they do want [REDACTED]

- 6) [REDACTED] Option 3. Even though this is the lowest cost option, it would [REDACTED] and the absence of 'good leaver' status for bonuses would be inconsistent with previous comparable exits of senior management from POL, the terms of which Al would be familiar with in his role as CFO. [REDACTED]

<sup>1</sup> Clause 16 of Al's employment contract allows POL to require Al to remain at home for all of his Garden Leave period performing such duties as POL may reasonably specify.

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- 7) If AI is granted 'good leaver' status for bonuses, subject to targets being met, he could receive benefits after leaving of up to £182,920. This is made up of £97,920 from POL's Transformation Incentive Scheme (an 18-month scheme that replaced the 20/21 STIP) and £85,000 pro-rated from POL's 19-22 LTIP. Both the Transformation Incentive Scheme and LTIP are in progress. These incentive schemes would pay out in March 2022 and August 2022 respectively.
- 8) If Option 3 is followed, AI would be highly likely to [REDACTED]
- 9) POL's [REDACTED] Option 2 with scope to offer 'good leaver' status for bonuses, is considered preferable to a 'bad leaver' Option 2 and Options 1 and 3. It is consistent with the £95k exit cap regulations, it ensures both an effective handover and AI's compliance with the Horizon IT Inquiry and it is preferable in Value for Money terms. It is also considered to have a low level of legal risk.
- 10) **We recommend you approve Option 2, with scope for POL to offer 'good leaver' status, subject to: (i) any bonuses payable in relation to the period before his special leave starts being contingent on the outcome of the Horizon IT Inquiry; (ii) no bonuses accruing in relation to the period of AI's special leave; and (iii) POL reaching agreement by end-March, otherwise POL should seek a new approval.**

**Handling:**

- 11) There is continued media interest in POL particularly around the long-running Horizon dispute and the Horizon IT Inquiry. As such, AI's departure and any payments made to him are likely to attract press and parliamentary attention (while he only joined POL in 2015, he is one of two Board members who were around during the full litigation period).
- 12) While AI's exit is a matter for POL, as he is a Ministerial appointment, we would expect BEIS to receive inbound enquiries, and as such we will work with POL to prepare reactive lines and a Q&A at the appropriate time. Pursuing an option that allows POL to reach a settlement agreement with AI (i.e. Options 1 or 2) would help to mitigate handling risks.

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Annexes:

- A – Exit Package Options
- B – Draft Letter from Tim Parker to Secretary of State

**Contributors**

This advice does have financial considerations, and has been cleared with Daniel Heath.  
This advice does not draw on analytical evidence, as approved by Eleanor Brooks.  
This advice raise legal issues and has been cleared with Jane Corera.  
This advice does not have parliamentary handling implications, as agreed with Eleanor Brooks.

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## Annex A – Exit Package Options

Table 1 sets out Al's legal entitlement on exit. Al is the last senior executive on an 'old-style' contract, which gives him a 12 month notice period. Nick Read, POL's CEO, was appointed in December 2019 on a 'new-style' contract with a 6 month notice.

**Table 1: Alisdair Cameron's Legal Entitlement on Exit**

	Legal Entitlement
Contractual Notice Period <i>(i.e. 12 months' Base Salary)</i>	£244,800
Other legal entitlement to employment benefits <i>(i.e. Payment in Lieu of Pension, and other benefits)</i>	£71,200
<b>Total Entitlement</b>	<b>£316,000</b>

Table 2 provides additional detail on the three options outlined in the submission setting out the amount Al would receive on exit (i.e. this would be disclosed in POL's annual report in Autumn 2021 for Option 1 and Option 3 as Al would exit in the 2020/21 financial year and in Autumn 2022 for Option 2 as Al would exit in the 2021/22 financial year) and, for Option 2, also the amount earned during Al's special leave. Since this would be paid through payroll it would not be disclosed as an exit payment in POL's annual report.

**Table 3: Comparison of Exit Payments and Total Payments Related to Exit**

	Option 1	Option 2	Option 3
Payment in Lieu of Notice	£244,800	£61,200	£61,200
Other Legally Binding Entitlements	£71,200	-	-
Additional Permitted Payment	-	£95,000	£95,000
<b>Total Payment on Exit</b>	<b>£316,000</b>	<b>£156,200</b>	<b>£156,200</b>
Earnings in Special Leave	-	£159,800	-
<b>Total Payments</b>	<b>£316,000</b>	<b>£316,000</b>	<b>£156,200</b>

Under Option 1 and potentially under a 'good leaver' Option 2, Al would be granted 'good leaver' status in relation his accrued bonuses, which means these would be paid as they fall due. These payments are outside the scope of the £95k exit cap regulations as they are earned during an individual's employment and payment is not triggered by or made on exit, and they would be disclosed in the annual report for the year which they relate to.

Table 3 sets out these entitlements assuming that 'good leaver' status is granted on all accrued bonuses and that POL achieves 'on-target' targets in relation to these bonuses in future years (i.e. POL's bonus schemes have three payout tiers: (i) threshold target; (ii) on-target; and (iii) stretch target).

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**Table 3: STIP / LTIP Entitlement as a 'Good Leaver'**

	<b>Option 1</b> <i>Exit on 31-Mar-21</i>	<b>Option 2</b> <i>Exit 30-Sep-21 (with no accrual after 31-Mar-21).</i>	<b>Option 3</b> <i>Exit on 31-Mar-21</i>
Transformation Incentive Scheme (Mar-22 payout)	£97,920	£97,920	-
<b>Total Short-Term Bonus Payments</b>	<b>£97,920</b>	<b>£97,920</b>	<b>-</b>
<i>LTIP</i>			
LTIP 2018-21 (Aug-21 payout)	Target Miss	Target Miss	-
LTIP 2019-22 (Aug-22 payout)	£85,000	£85,000	-
LTIP 2020-23 (Aug-23 payout)	No Scheme	No Scheme	-
LTIP 2021-24 (Aug-24 payout)	-	-	-
<b>Total LTIP Payments</b>	<b>£85,000</b>	<b>£85,000</b>	<b>-</b>
<b>Total STIP and LTIP Payments</b>	<b>£182,920</b>	<b>£182,920</b>	<b>-</b>

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Department for  
Business, Energy  
& Industrial Strategy

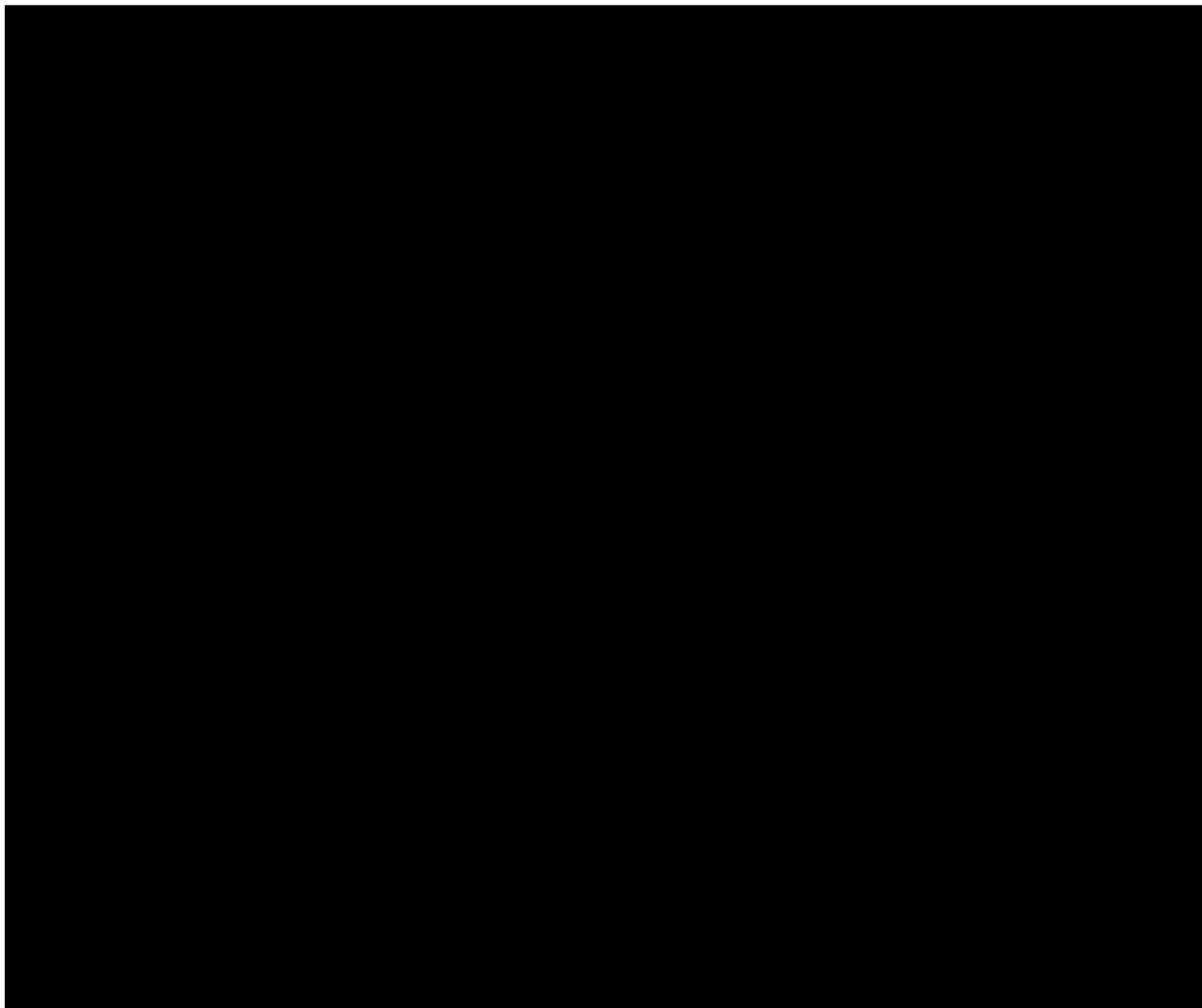
**Annex B – Draft Letter from Tim Parker to BEIS Secretary of State (as at 18 January 2021)**

**DRAFT TEXT OF LETTER TO BE SENT TO THE SECRETARY OF STATE**

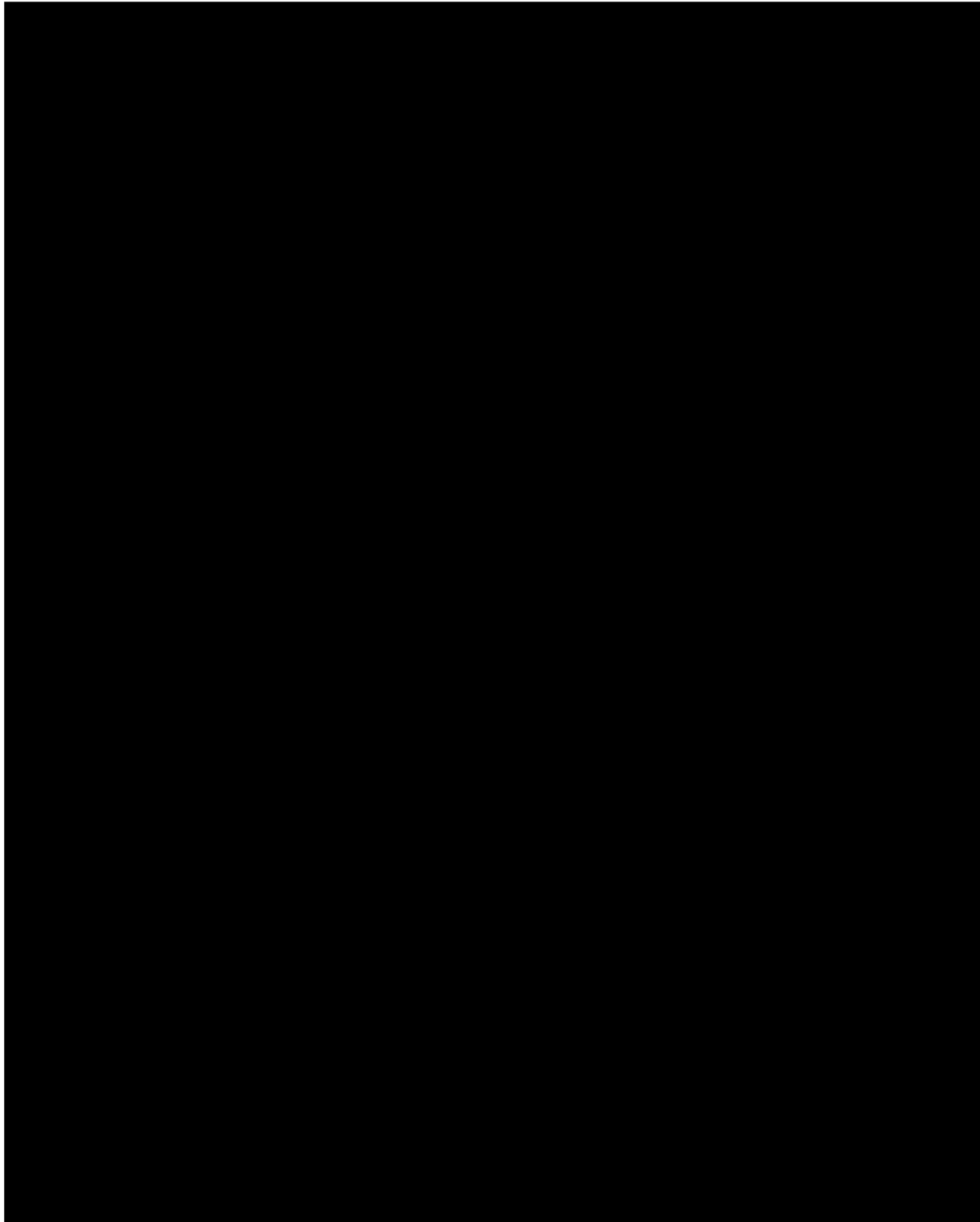
**The Right Honourable  
Secretary of State for Business, Energy & Industrial Strategy  
1 Victoria Street  
London  
SW1H 0ET  
United Kingdom**

Dear Secretary of State,

**Departure of CFO – Post Office Limited ("Post Office" / "POL")**



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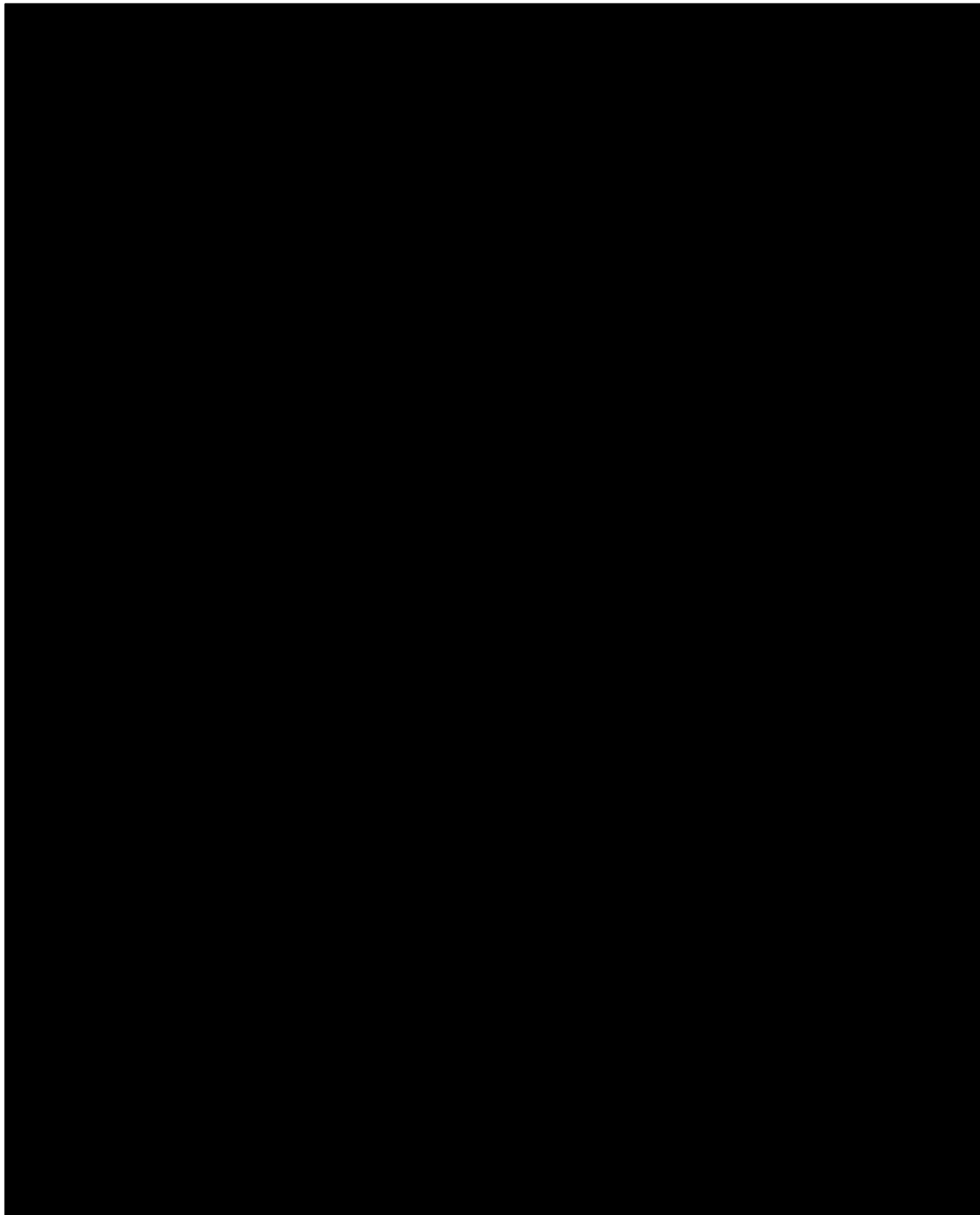


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<sup>2</sup> (AI's is one of the few remaining legacy Group Executive employment contracts with a 12-month notice period. New executives are given 6-month notice periods).



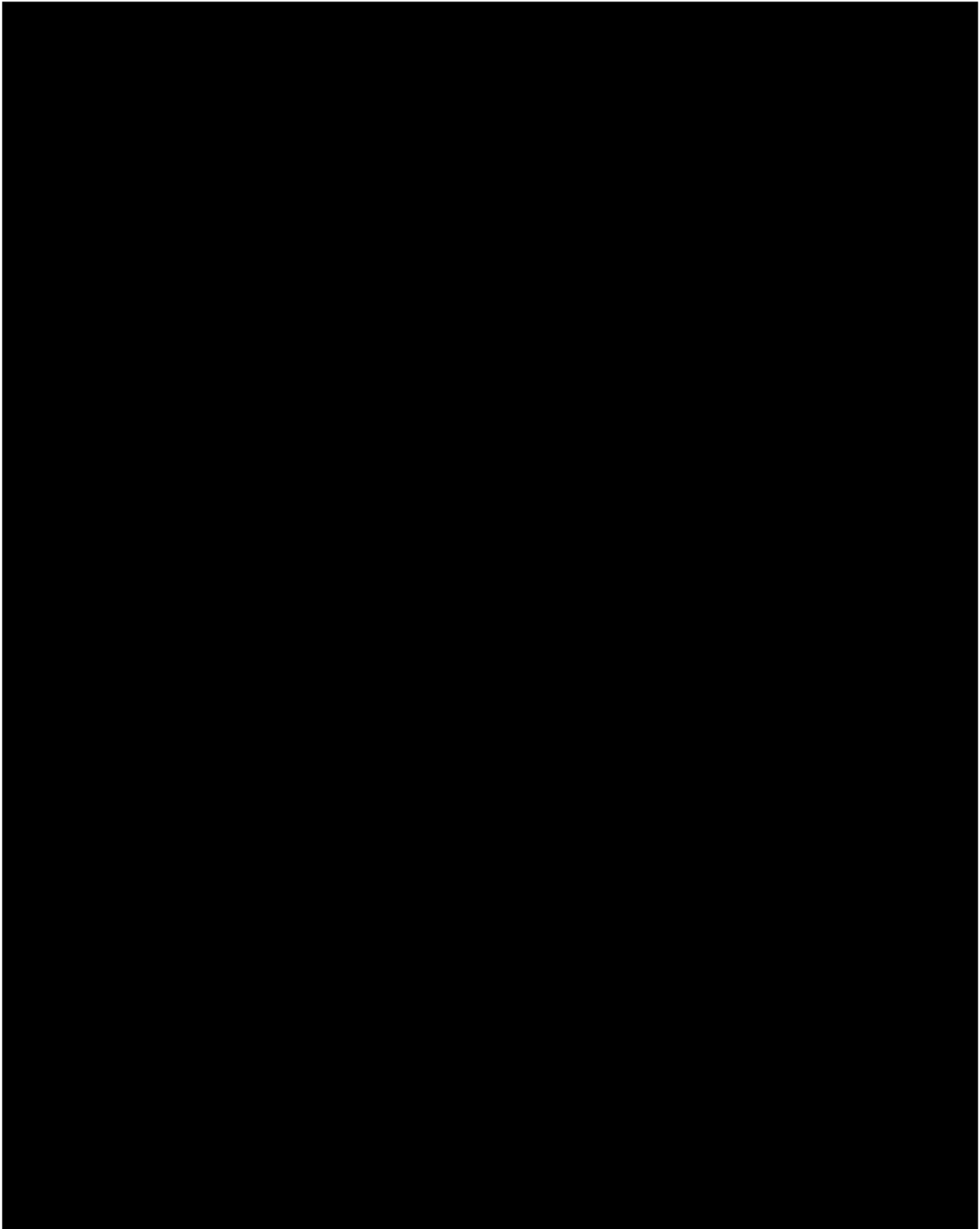
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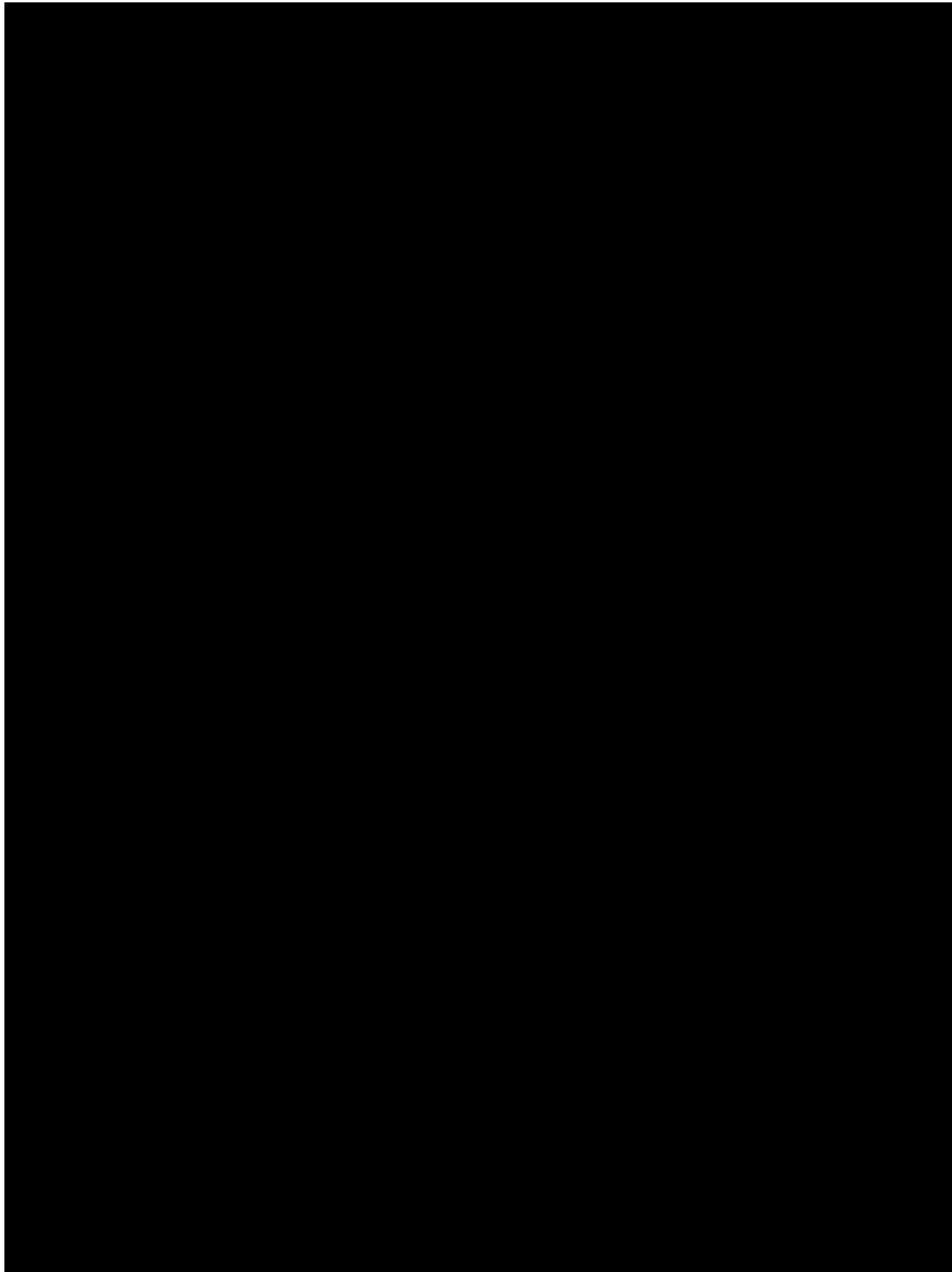
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<sup>3</sup> This is a practice that current Remco's under our new CEO have sought to depart from by revisiting the rules around "good leavers" under the bonus schemes and by requiring a change in culture.

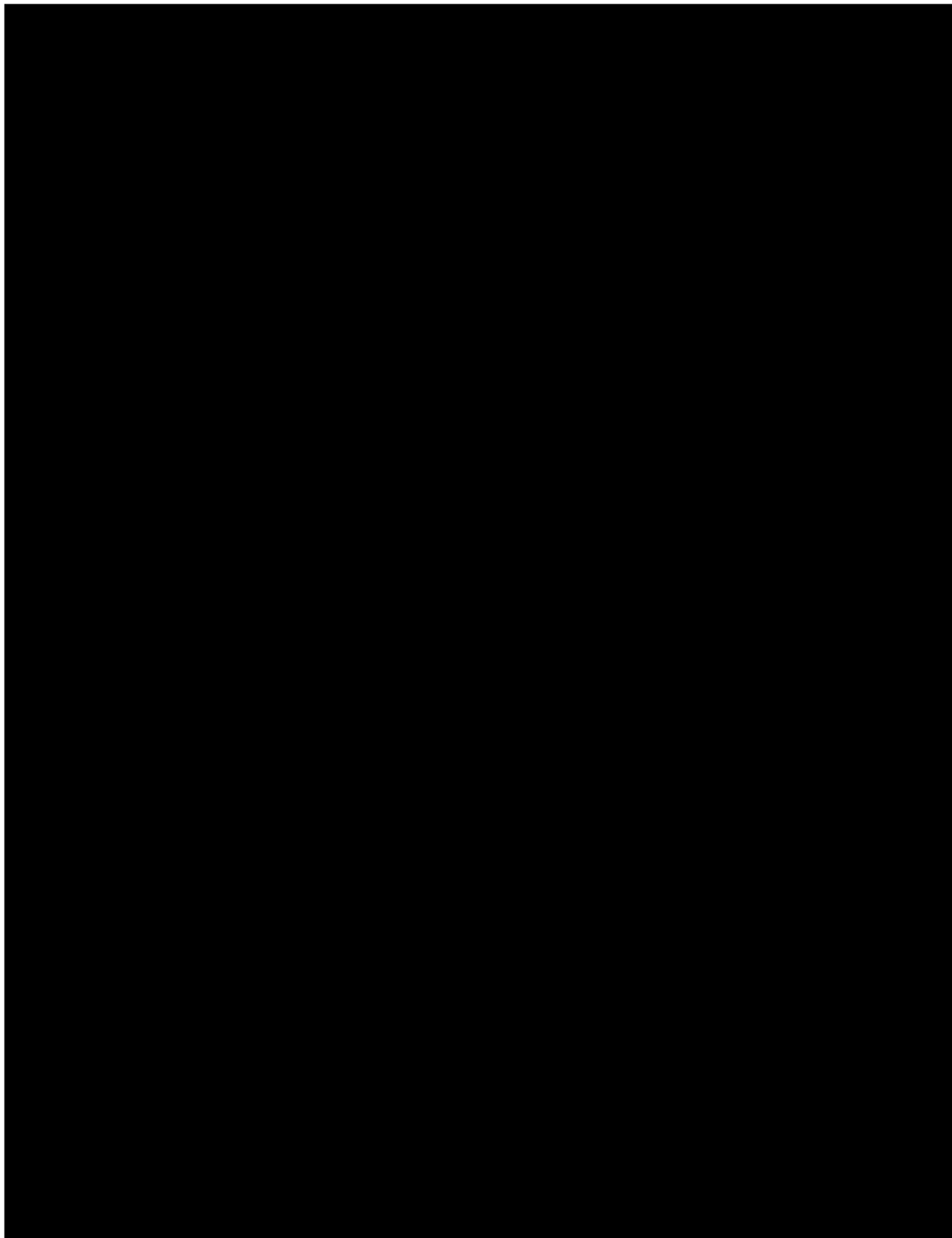
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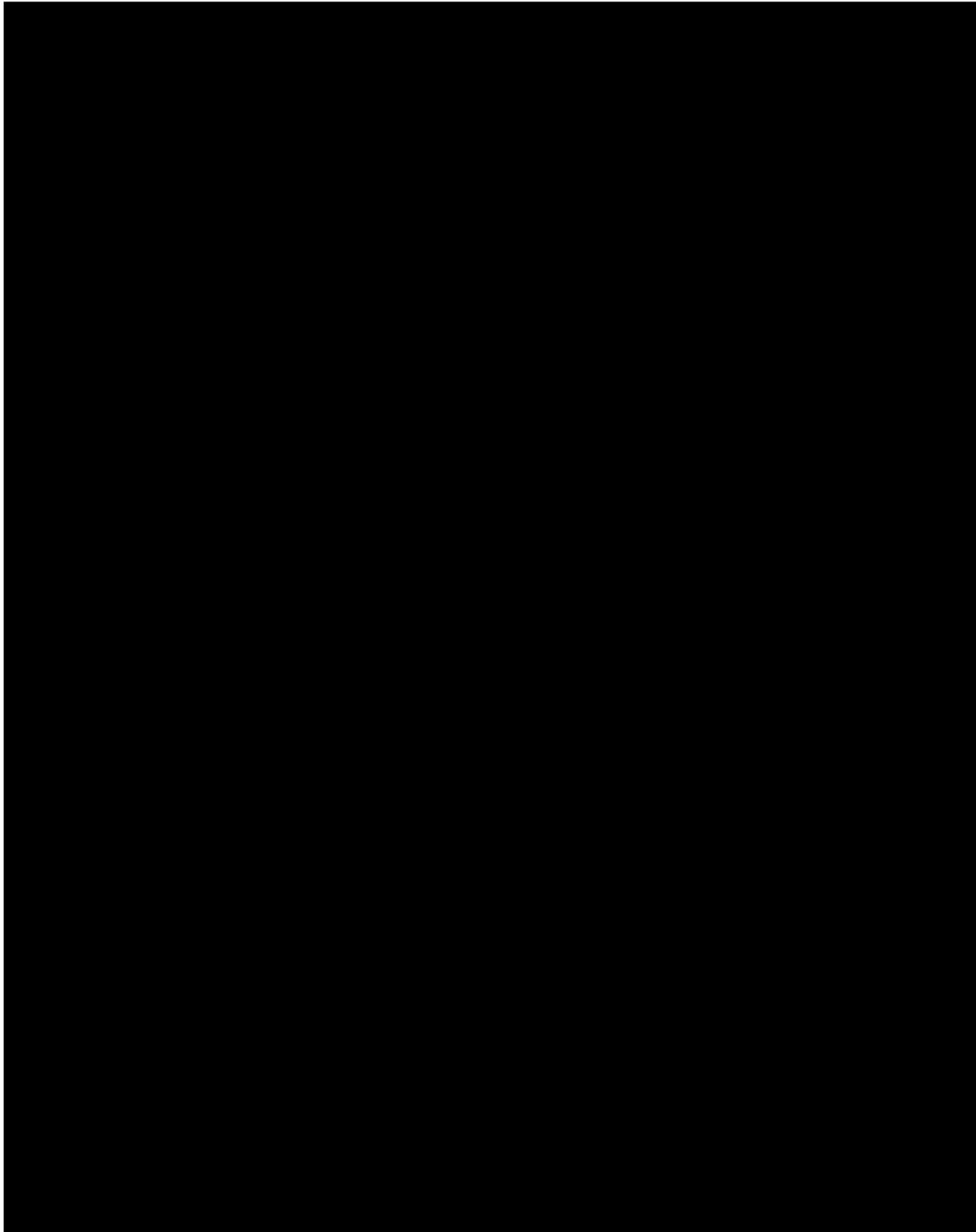
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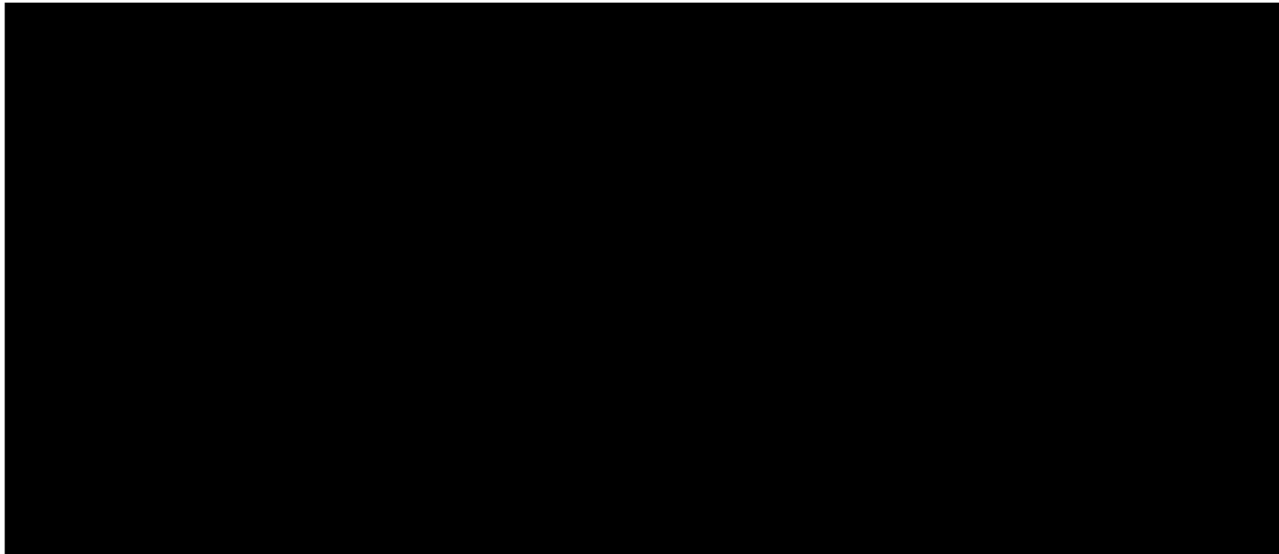
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Kind Regards

Tim Parker  
Chairman  
Post Office Limited

**Appendices attached**

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## Appendices

**Table 1 - Exit Cost Comparison**

	<b>Option 1</b> <i>Exit on 31-Mar-21</i>	<b>Option 2</b> <i>Exit on 31-Mar-21. Garden Leave 1-Apr-21 to 30-Sep-21.</i>	<b>Option 3</b> <i>Exit on 31-Mar-21</i>
<b>Exemption to Exit Cap Regs required?</b>	<b>Y</b>	<b>N</b>	<b>N</b>
Annual Base Salary	£244,800	£244,800	-
Annual Payment in Lieu of Pension	£61,200	£61,200	-
Other Annual Benefits	£10,000	£10,000	-
Total Annual Contractual Entitlement	£316,000	£316,000	-
<b>Pro-rated remuneration package until Last Day of Service (for 2021 calendar year)</b>	<b>£79,000</b>	<b>£237,000</b>	<b>-</b>
<b>Bonus (detailed breakdown shown below in Table 2)</b>	<b>£182,920</b>	<b>£182,920</b>	<b>-</b>
PILON Payable	£244,800 (although AI will argue for £316,000)	£61,200	£61,200
# months PILON	12	3	3
Additional Permitted Payment	-	£95,000	£95,000
<b>Total Exit Payment</b>	<b>£244,800</b>	<b>£156,200</b>	<b>£156,200</b>
<b>Total Exit Payment Inc. salary and lower PILON amount until LDOS</b>	<b>£506,720</b>	<b>£576,120</b>	<b>£156,200</b>
<b>Total Exit Payment Inc. salary and higher PILON amount until LDOS</b>	<b>£577,920*</b>	<b>£576,120</b>	<b>£156,200</b>

\*May need to use this payment sum following negotiations on PILON figure.

### Treatment of Bonus

Any payments of STIP/LTIP are exempt from the £95k Exit Cap Regulations because they are not payments that arise in consequence of an exit. As part of the exit negotiations, it is open to Post Office to call AI a “good leaver” for the 18/21 and the 19/22 LTIP schemes as per the scheme rules prior to April 2020. AI’s current likely maximum payment due is £106,250 based on the current projected leave date and assuming on target performance of POL, which would only be paid if the 19/22 LTIP target is achieved by POL, however this figure is subject to further approval from the Remuneration Committee who have already provisionally agreed to a

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payment of up to £85k based on circumstances presented at the time. If POL performs at a higher target, then the contractual payment due could be higher.

If “good leaver” status is agreed, the likely on-target pay outs are detailed in Table 2.

Although it is technically possible for us not to give AI good leaver status under these schemes, it is highly likely that AI will expect to be included as per custom and practice of which he is aware. Rather than not make these payments we would be inclined to pay them but to ensure that they could be cancelled or clawed back in the event of certain adverse findings of the public enquiry.

Tables 2 below details the overall potential on target payments for each option.

**Table 2 – STIP / LTIP Entitlement as a ‘Good Leaver’**

	<b>Option 1</b> <i>Exit on 31-Mar-21</i>	<b>Option 2</b> <i>Exit on 31-Mar-21. Garden Leave 1-Apr-21 to 30-Sep-21.</i>	<b>Option 3</b> <i>Exit on 31-Mar-21</i>
<b>STIP</b>			
2020/21 (Mar-22 pay-out)	£97,920	£97,920	-
2021/22 (Aug-22 pay-out)	-	-	-
<b>Total STIP Payments</b>	<b>£97,920</b>	<b>£97,920</b>	<b>-</b>
<b>LTIP</b>			
LTIP 2018-21 (Aug-21 pay-out)	Target Missed	Target Missed	-
LTIP 2019-22 (Aug-22 pay-out)	£85,000	£85,000	-
LTIP 2020-23 (Aug-23 pay-out)	No Scheme	No Scheme	-
LTIP 2021-24 (Aug-24 pay-out)	-	-	-
<b>Total LTIP Payments</b>	<b>£85,000</b>	<b>£85,000</b>	<b>-</b>
<b>Total STIP and LTIP Payments</b>	<b>£182,920</b>	<b>£182,920</b>	<b>-</b>

**Notes:**

- Amounts shown are OTE based on interim CEO salary of £255k
- Good leaver status is at the discretion of the REMCO if not related to a redundancy or DIS situation.
- STIP 2020-21 is the Transformation Incentive scheme.
- LTIP 2018-21 scheme is unlikely to pay out due to EBITDAS threshold being missed. Any payment subject to discretion by the RemCo.



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- LTIP 2019 – 22 scheme. Current target may change as the EBITDA threshold and business performance are not yet confirmed, subject to Remco. Any payment subject to RemCo setting an EBITDA target above £50m.
- LTIP 2020-23 scheme not launched.
- LTIP 2021-24 scheme. Predicted business performance not yet known, and current target may change. Any payment subject to discretion by the RemCo.

**Table 3 - Summarised View of Options Presented**

Option	Pros	Cons
1) OPTION 1 - Contractual expectations in respect of what constitutes his legally binding contractual entitlement, early exit (requirement for exemption from Exit Cap Regs)		
2) OPTION 2 – Contractual entitlement, garden leave and exit payments of up to £95k		

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<p>3) OPTION 3 - Terminate contract under SOSR dismissal and defend claims</p>	
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