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To: [(1) DBT Secretary of State (SoS)
Secretary of State, (2) Minister Kevin Hollinrake MP

From: Tom Cooper

SCS: Roshana Arasarathnam (UKGI) - GRO
Carl Creswell (DBT) GRO

Date: 24/3/2023

FOR INFORMATION

Confidential and privileged – please note this submission contains legally privileged advice and should be handled with appropriate care

Summary of the issue: POL CFO Exit Options

This submission sets out the current options POL is considering in relation to the CFO in light of recent developments with the incumbent and POL. A draft letter from POL's Chair is included at **Annex A** and sets out the background in more detail. However, in light of behaviours recently exhibited by the CFO since this letter was drafted, POL are now also considering [REDACTED]

This process may lead to a range of outcomes, including an agreed settlement (Options 2 and 3). It may also become litigious as the CFO has in the past suggested he has a number of potential claims against the company.

These options are due to be discussed with the Board on Tuesday 28th March.

The appointment and removal of the CFO requires SoS's approval under POL's Articles of Association.

This paper is currently for noting – but once POL has made a decision how to proceed, Ministers will be asked to consider the options set out below, alongside further legal advice and financial clearance. Any package will also need HMT approval.

Timing: Urgent – for noting only.

Recommendation:

- That you **note** the options, recognising:
 - POL has not yet decided what action it wishes to take. POL is receiving [REDACTED]
 - The financial consequences of the various options are set out below and in the Appendix to POL's draft letter.

Advice:

- 1) In November 2020, BEIS Ministers agreed to a request for POL to end its employment relationship with its incumbent CFO. As the basis for the request at

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the time was primarily cultural, POL began to explore options for an agreed exit package.

- 2) In January 2021, Ministers approved a proposal for the CFO's exit payment reflecting the CFO's contractual entitlement to employment through 31 March 2021 and [REDACTED]. In the end POL and the CFO [REDACTED] did not agree a package and the CFO [REDACTED]
- 3) In January 2023, Henry Staunton, POL's new Chair, met SoS and discussed a range of issues facing POL, including stabilising Nick Read as POL's CEO and the senior leadership.
- 4) We understand that in recent months there have been various complaints about the CFO's behaviour, which led POL to revisit the options for dealing with his behaviours and how the situation could develop. POL set out the current options in a draft letter to the Secretary of State (Annex A). However, events are unfolding quickly, and subsequent to the drafting of this letter additional information has come to light about the CFO's conduct which has prompted POL to examine [REDACTED]

	Option 1a	Option 1b	Option 2	Option 3
	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Exit Date	Following conclusion of investigation	Following conclusion of investigation (or immediate if termination on other grounds)	Gardening Leave	Gardening leave
Exit Package Base+ Benefits Pay in lieu of notice	£0	£315,900	£315,900	£315,900
Leaver Status	Bad	Bad	Good	Good
Additional Settlement	£0	£0	[REDACTED]	[REDACTED]
Overall exit payment	£0	£315,900	[REDACTED]	[REDACTED]

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	Option 1a	Option 1b	Option 2	Option 3
STIP/LTIP	£0	£0	STIP £97,920 LTIP £122,500 ¹	£0 (due to variable payment)
Total	£0	£315,900	£ [REDACTED]	£ [REDACTED]
Additional Costs	£150,00-£300,000 POL Legal Costs (See Linklaters Annex B-Section 3) Any damages compensation awarded by the court (See ranges in Linklaters Advice Annex B – Section 1)		£10,000 contribution to CFO's legal fees	

5) Options 1a and 1b, are likely to lead to extensive legal costs and potentially litigation. The CFO is likely to [REDACTED]
[REDACTED]
note therefore that the "additional costs" indicated in the table do not reflect the full extent of costs which would also include any amounts need to (a) either settle claims brought or (b) if litigated the potential financial award.

6) Options 2 and 3 would be agreed settlements achieved through negotiation. The [REDACTED]
[REDACTED] There can be no guarantee that an offer at these levels would be acceptable to the CFO who might prefer to pursue claims against the company through litigation.

7) POL has indicated that the CFO, consistent with other leavers, might additionally be entitled to 'good leaver' status for bonuses which means he would retain his entitlement to STIPs and LTIPs accrued during his employment. We would also [REDACTED]

8) POL are proposing a current Financial Director, Katherine Sherratt, would take on the CFO's duties while the investigation is under way and, if necessary, act as Interim CFO.

Comms Handling:

¹ Note that POL have indicated that they would not initially seek to offer full STIP/LTIP or good leaver status under option 2. However, POL may need to be flexible in order to achieve a settlement outcome taking into account the CFO's arguments relating to entitlement to these benefits.

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- 9) As noted above, any legal claim from the incumbent CFO could give rise to comms risks. On the other hand, given the current context of intense scrutiny of POL leadership (which has included criticism for previous remuneration arrangements), a large pay-out would likely generate significant criticism in the media.
- 10) We will prepare strong defence lines when a final decision is needed.

Annexes:

A – Draft Letter from Henry Staunton to Secretary of State

B – Legal Advice from Linklaters

Contributors

- DBT Legal have been consulted on this advice and are content with its contents.
- We will consult with DBT Finance and Comms when a final proposal from POL is made.

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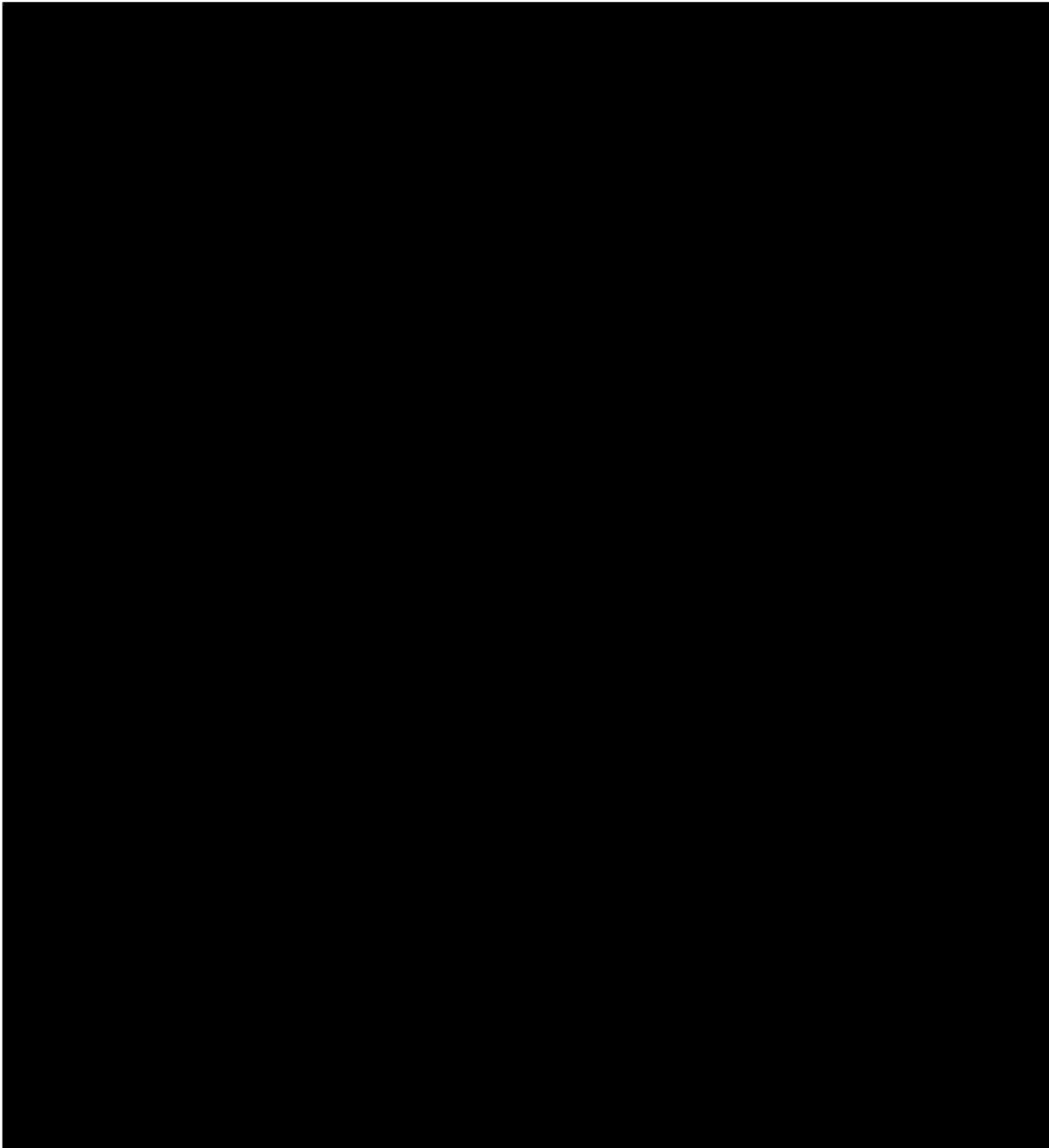
Annex A

Legally Privileged and confidential draft

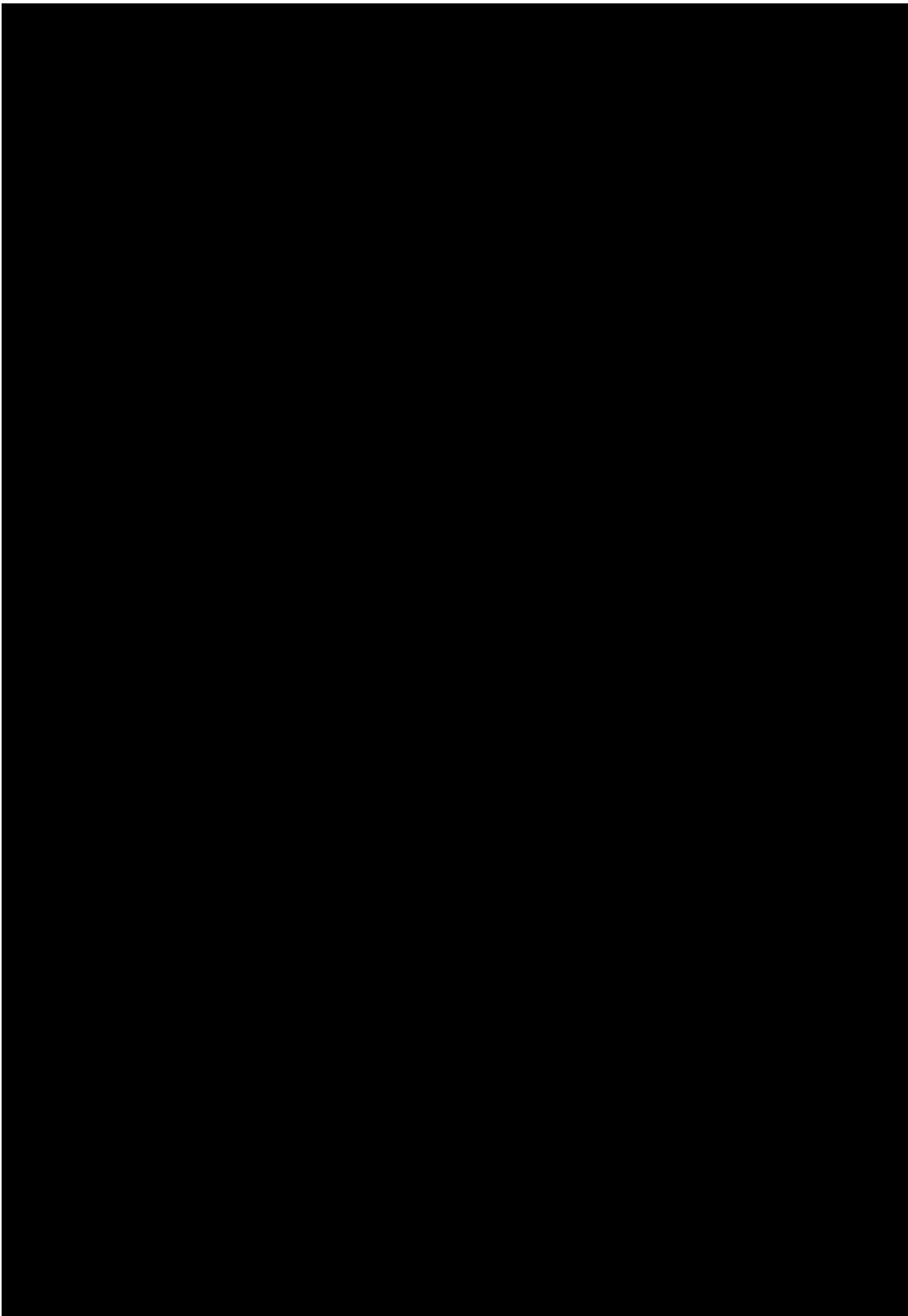
DRAFT TEXT OF LETTER TO BE SENT TO THE SECRETARY OF STATE

**The Right Honourable
Secretary of State for Business and Trade
1 Victoria Street
London
SW1H 0ET
United Kingdom**

Dear Secretary of State

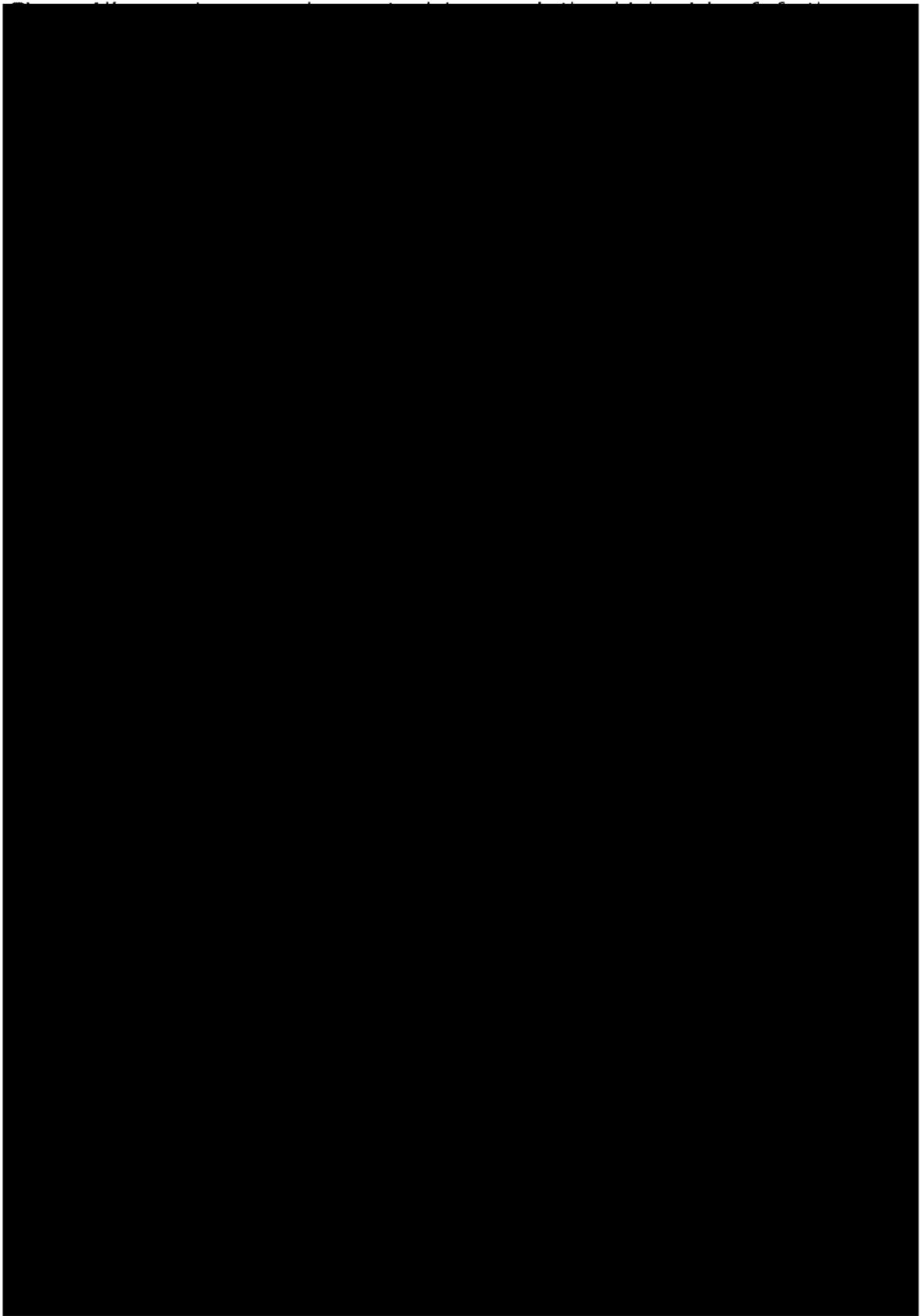


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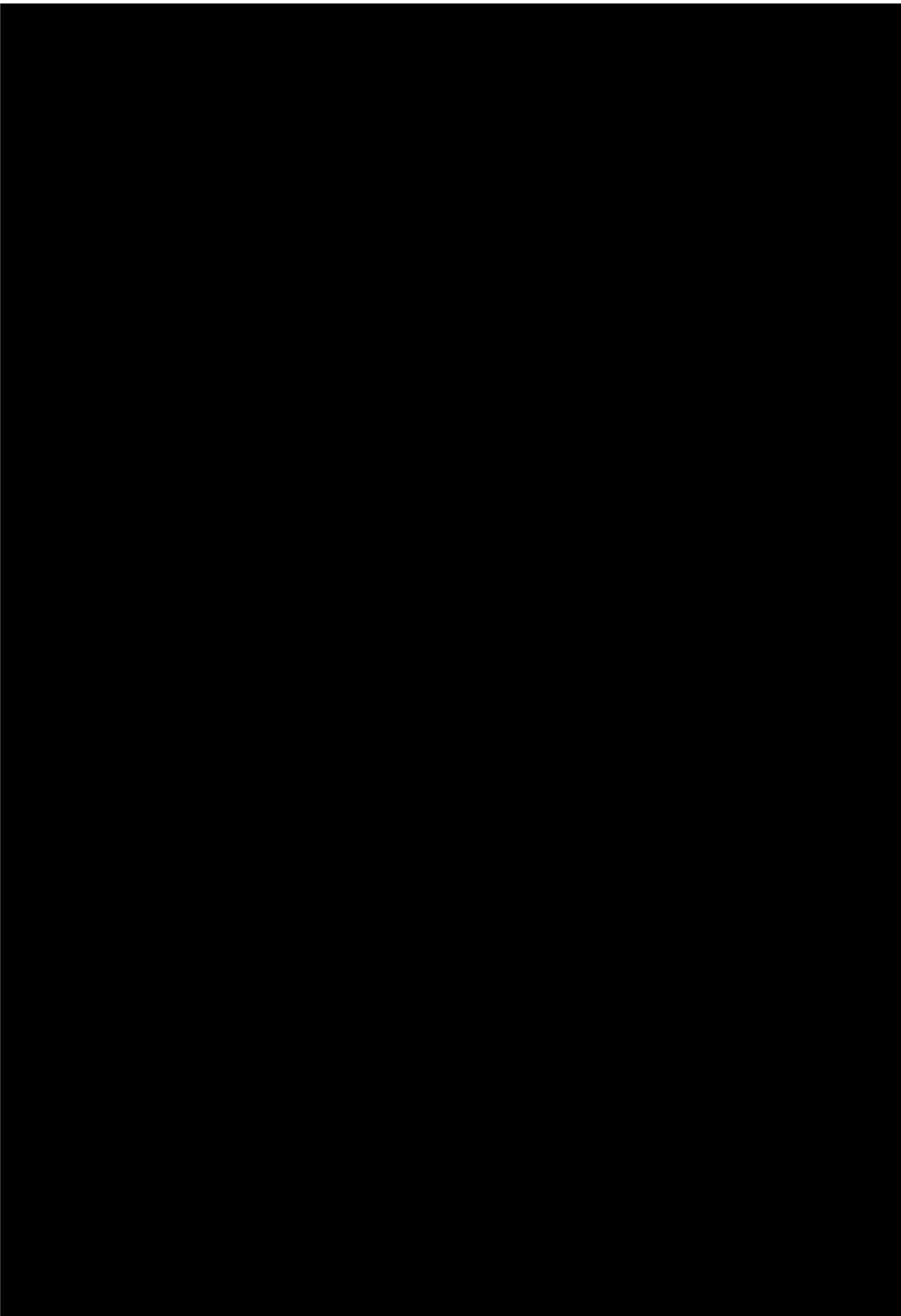
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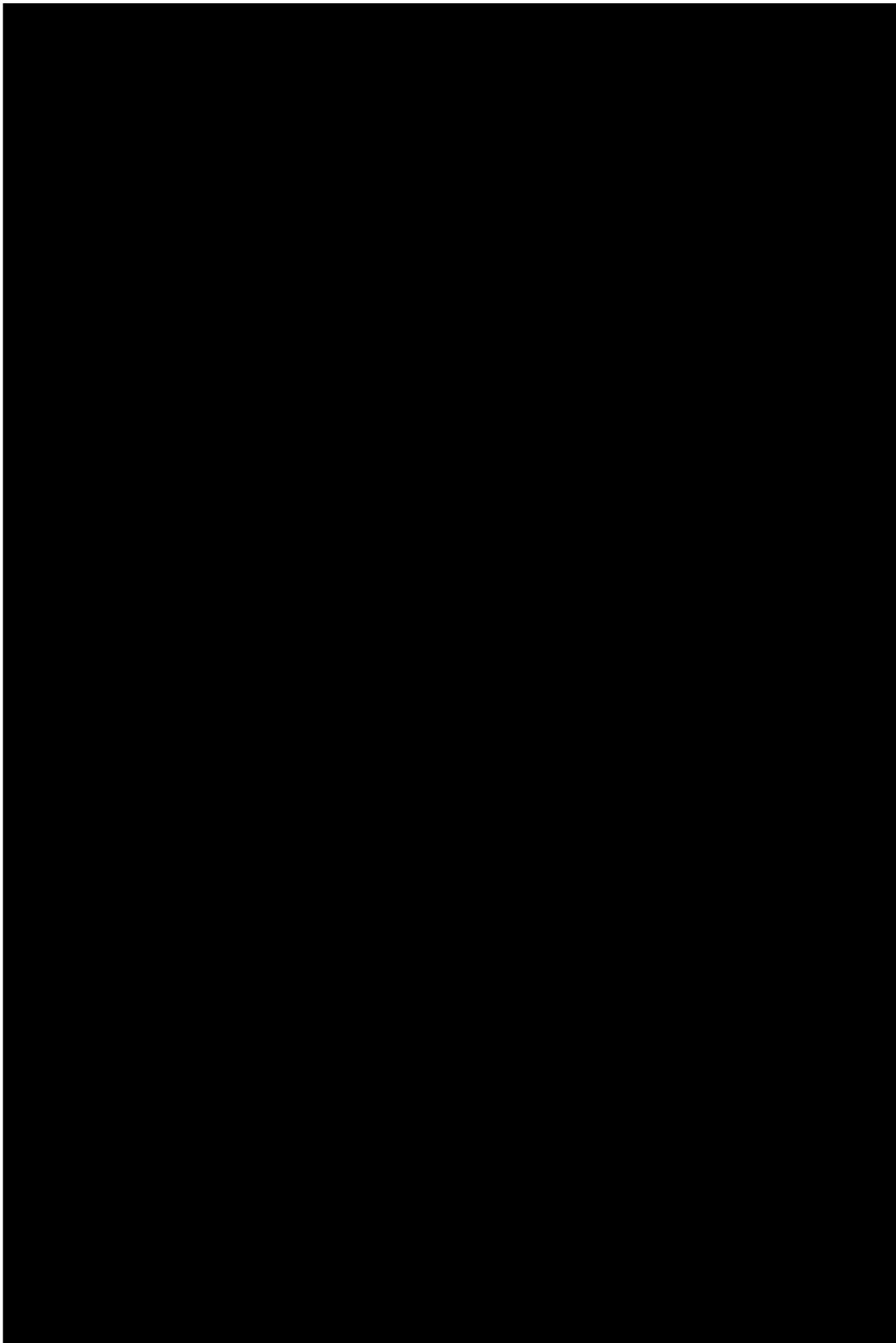
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Yours sincerely

Chairman

Post Office Limited

Appendix attached

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Appendix 1**1. AI's current remuneration package**

- a. **Base salary:** £244,800
- b. **Benefits: Pension contribution and other benefits:** £71,100 annually
- c. **Notice period:** 12 months (ability to put on garden leave or pay in lieu of notice. If paid in lieu of notice, may be paid in instalments and duty to mitigate loss by seeking alternative employment). Note that contract of employment contains inconsistent terms on whether payment in lieu of notice is calculated on base salary alone, or base salary and benefits.
- d. **STIP:** Up to 66% of base salary. For FY22/23 this is payable in August 2023, at 40% on target: £97,920
- e. **LTIP:** Up to 70% of base salary. Current LTIP 21/24 value is £81,600 and LTIP 22/25 value is £40,800

2. Exit Cost Comparison

	Option 1	Option 2	Option 3
Summary			
Pay in lieu of notice	Base: £244,800 Benefits: £71,100 Total £315,900 <i>Note that where dismissal is on grounds of gross misconduct no notice payment will be payable</i>	Base: £244,800 Benefits: £71,100 Total £315,900	Base: £244,800 Benefits: £71,100 Total £315,900
Additional settlement payments	£0		
Overall initial exit payment	Assuming no gross misconduct is found - £315,900		

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Incentives (STIP and LTIP)	Not payable as not a "Good Leaver"	STIP: £97,920 LTIP: £122,500 <i>Payments are not guaranteed and are subject to achievement of performance measures and paid in line with other incentive payments</i>	£0 (assuming fully replaced with fixed payment and paid out prior to the termination date)
Additional costs and payments	POL Legal fees - potentially in the region of £150,000 to £300,000 Any damages or compensation made by a Court or Employment Tribunal	Reasonable contribution to Al's legal fees: £10,000	Reasonable contribution to Al's legal fees: £10,000
Total	<i>Exclusive of any additional incentive payments, and any damages or compensation that may be ordered by a court or Employment Tribunal</i> <small>(further detail)</small>		

Note that it is proposed that all payments above would be subject to taxable deductions as required by law, save for the first £30,000 of the compensation payment which would be subject to the termination payment taxable exemption.

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Annex B Sycamore - summary of legal risks

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1.2

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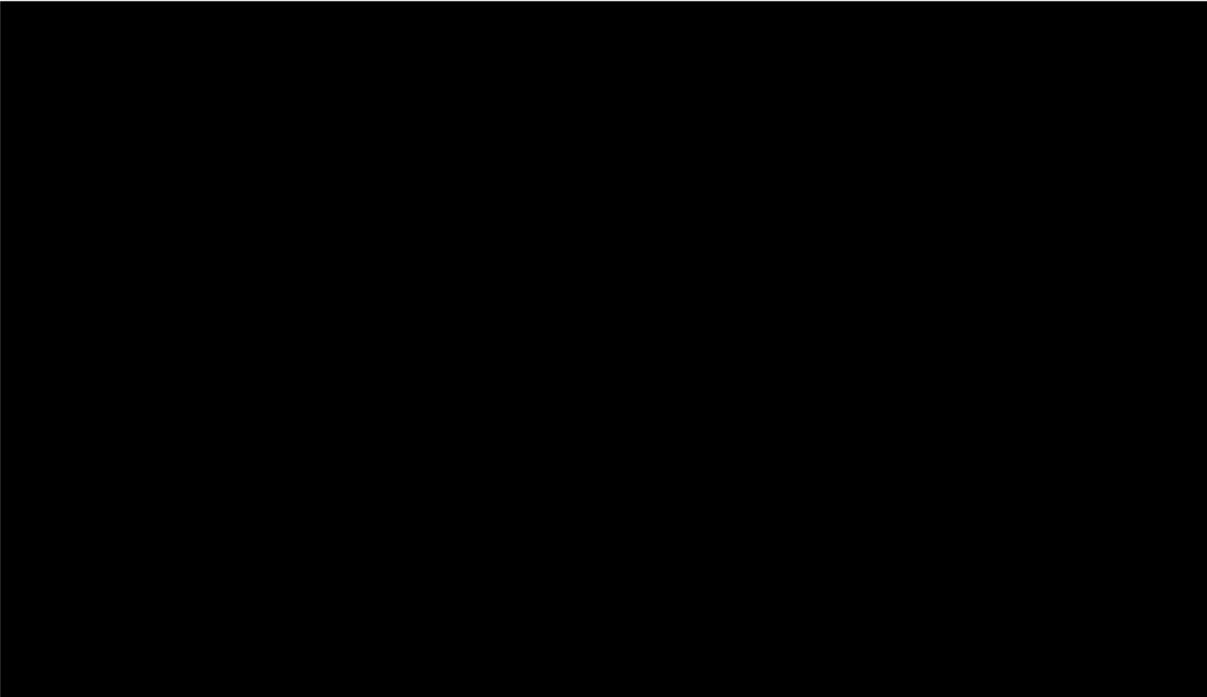
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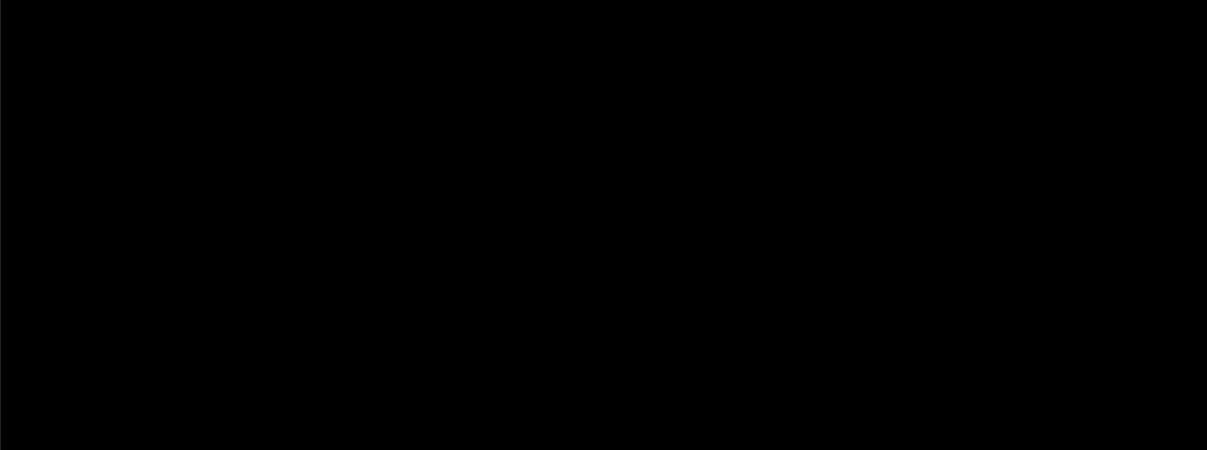
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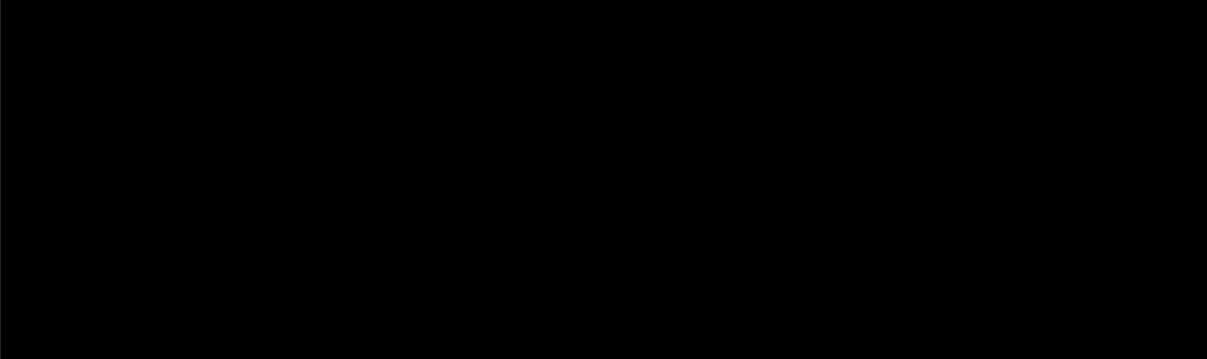
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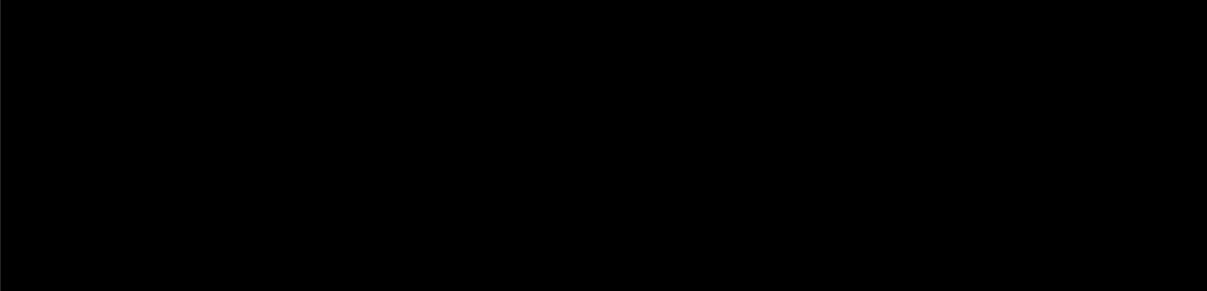
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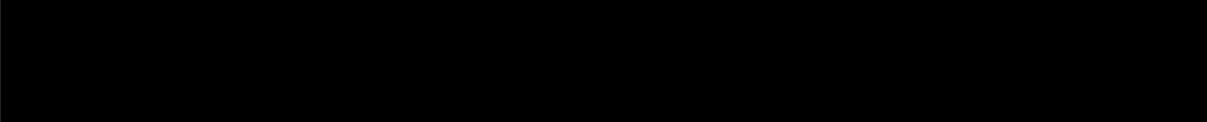
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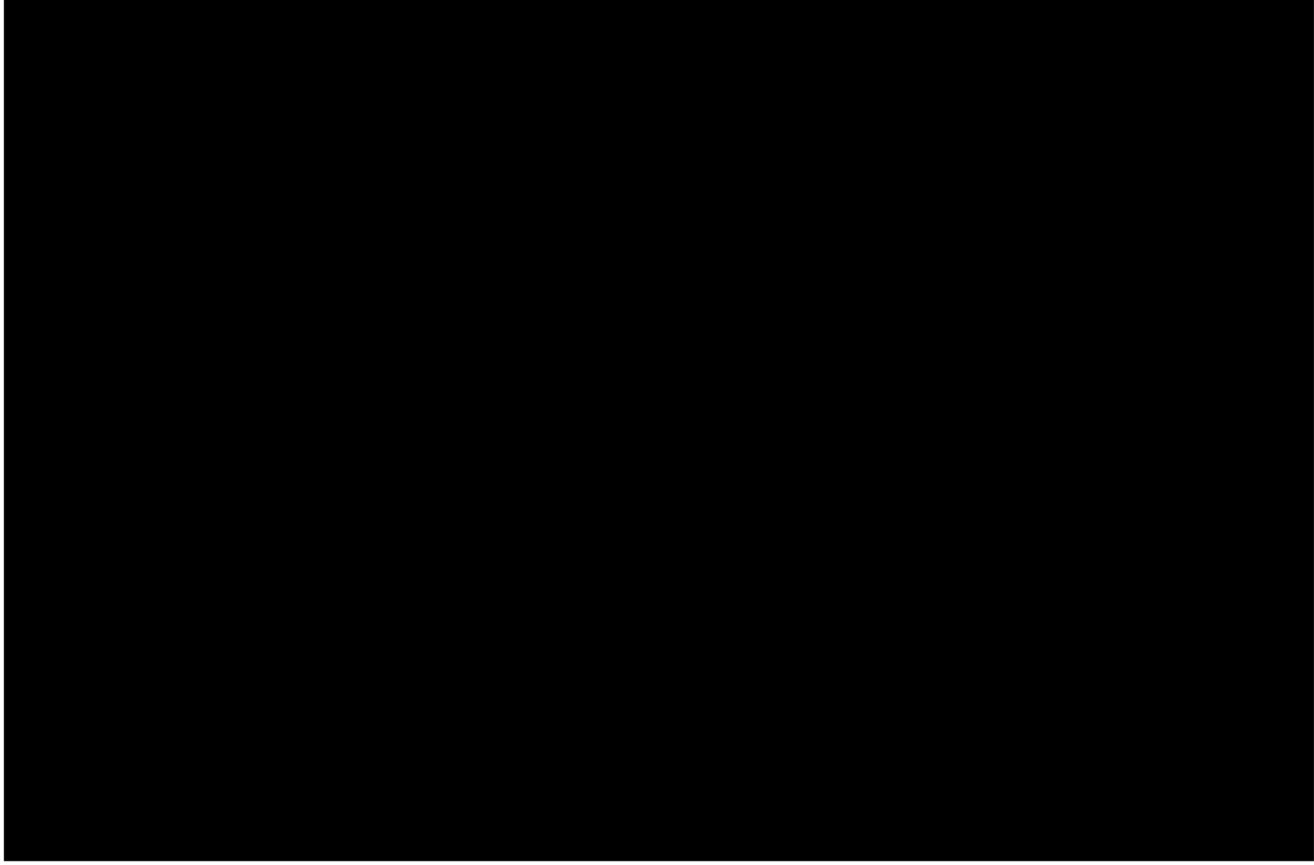
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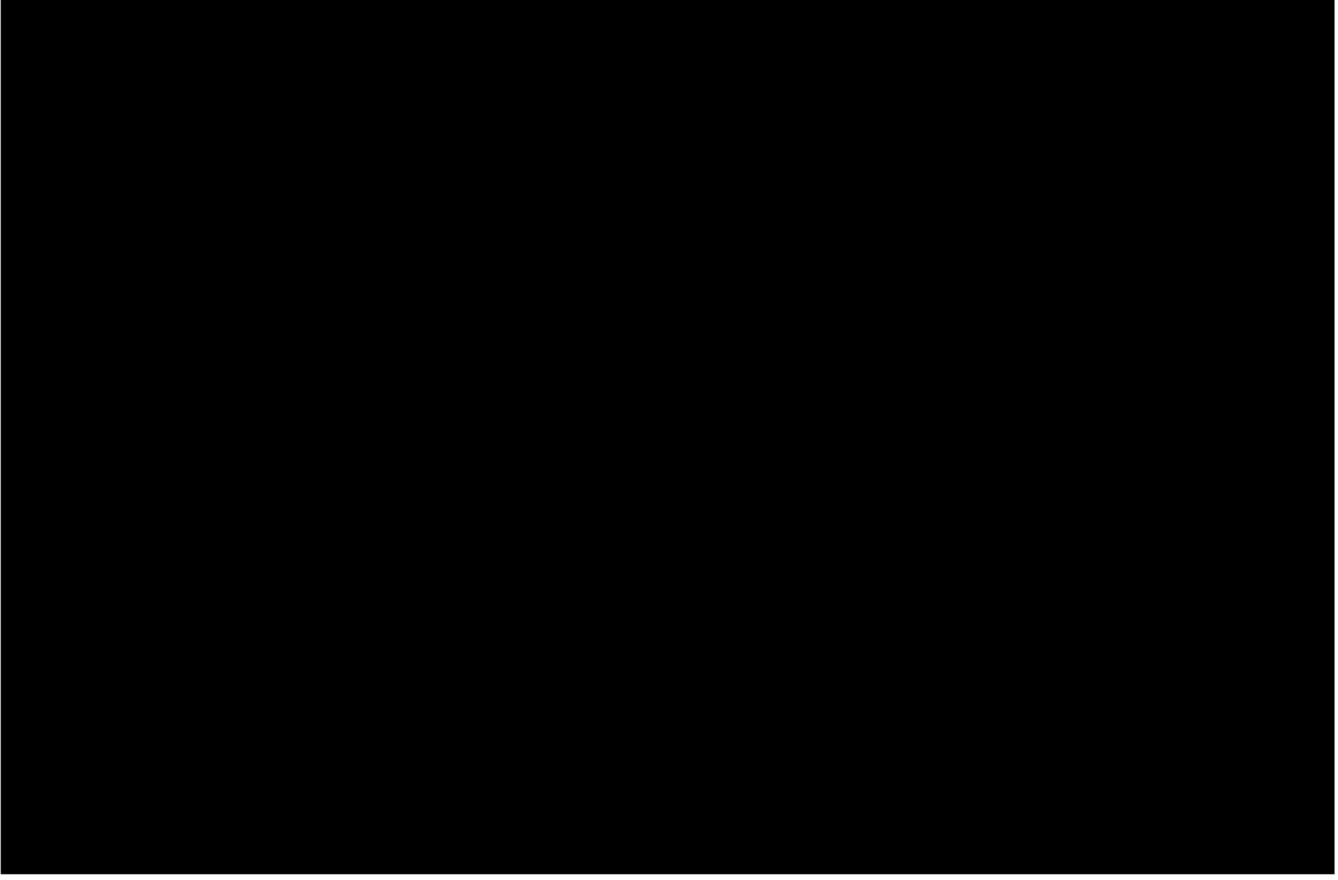


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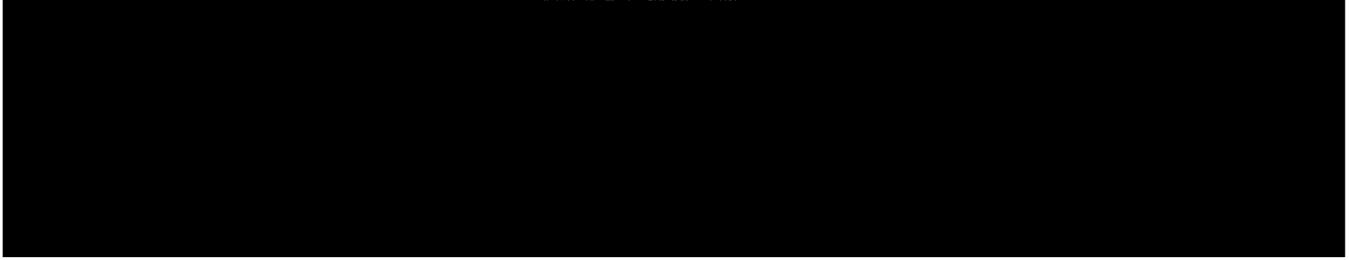
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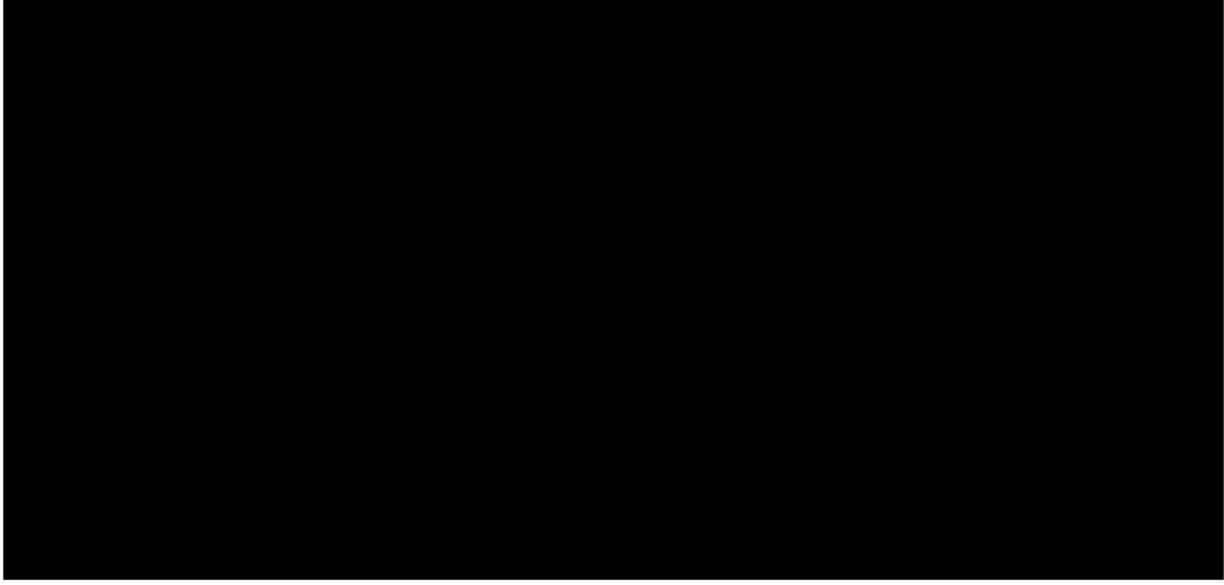
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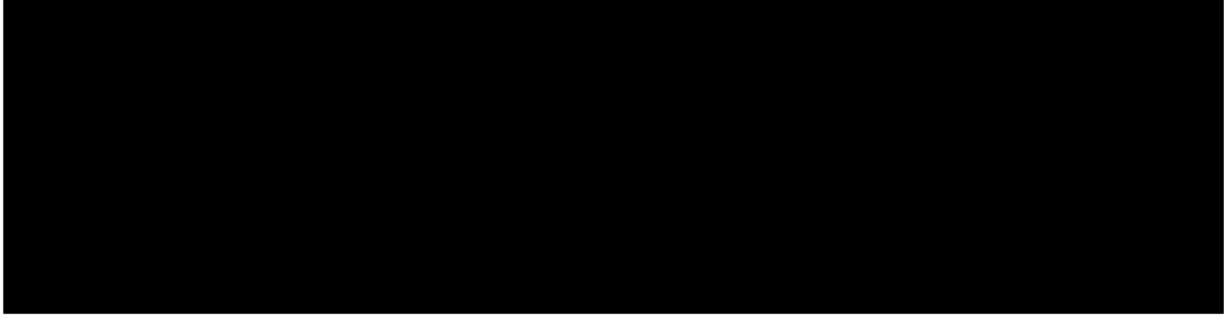
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2.1

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Linklaters LLP

17 March 2023