



Chairman notes: Request for approval to retain and seek an increase in remuneration for Nick Read CEO Post Office Ltd

1.Positioning:

- (i) You've appointed me as Chair of Post Office to come in, build a business that protects your policy objectives and which has a sustainable future.
- (ii) That having spent considerable time looking at POL over the last few months I can see that we face unprecedented challenges in terms of the public enquiry, the replacement of the Horizon system, the level of industrial unrest, and retaining a commercial focus for the business, all of which require strong leadership and a 'steadying' of the ship – this is both a unique and critical time for POL.
- (iii) I have got to know Nick, who I view as a hugely talented CEO; he remains very committed to his role and feels a strong sense of responsibility in seeing POL through this turbulent period and beyond
- (iv) In my view (and one that is shared by my predecessor, Tim Parker) Nick has built huge confidence in the stakeholders, colleague, postmasters, and now is the time to back him and to demonstrate to him that we place huge value and worth in the role he plays.
- (v) That we minimise any risks to our 3-year plan by removing any possible instability caused by disruption if Nick were to leave and recognise that his exit would cause irreparable damage / damage with a cost far in excess of what it should cost to retain him.
- (vi) As per my letter, I have a deep concern about the external and reputational impact on the Shareholder, that losing our Chief Executive Officer will have at this time, but particularly on Sir Wyn William's confidence that Post Office has the required capability to deliver and sustain changes.
- (vii) Fixing the past and taking the situation seriously, addressing compensation issues, fronting at Select Committees/APPG and providing visible leadership through the Inquiry. Nick's departure would undermine the BEIS position. I also believe the credibility and confidence with the wider stakeholder group is what BEIS will lose/miss going into the Inquiry year.
- (viii) Nick also has wider relationships with CWU, Inquiry, Postmasters, as well as suppliers, partners and customers – this includes banks (Nick knows all the CEO's, having worked with a number of them. This was important in Banking Framework negotiations) and the Regulators - the FCA, UK Finance, Ofgem etc.
- (ix) The SoS needs to understand this NOT business as usual– the dramatic collapse in trade, Industrial Action, Public Inquiry, Compensation, migration off Horizon, desperate Postmasters (can the business afford to be rudderless?).
- (x) My strong recommendation is that we should do all we can to retain Nick, to reinforce our support for him and the value he has within the POL. I would ask you to agree to:
 - a. To approve the increase in his overall remuneration as recommended and outlined in my letter which is fully aligned with the principle of the HMG policy - to compare roles against private sector and lower quartile positions – see comparator table below.
 - b. That we support Nick in his decision to build a capable leadership team to deliver the much needed modernisation and sustainable change to the POL (which we need to deal with as a separate point in the coming weeks)

2.Background:

- (i) Nick was appointed in September 2019 on a base salary of £415k. 30% STIP and 30% LTIP.
- (ii) He has received no increases since then, yet the market value for CEO's is increasing as per the data outlined in the letter.
- (iii) Benchmark for the role – extracts are in my letter – show total CEO reward at POL at c40% to 50% off benchmark. In real terms, this shows Nick is £400k off the lower benchmark group, on total package.
- (iv) Nick's current bonus is frankly intolerable. Background to his bonus;
- (v) 19/20 – 50% reduction in STIP because the Remco said the 'optics' weren't good
- (vi) 20/21 – 100% removal of STIP AND LTIP
- (vii) 21/22 – Bonus paid out – but still awaiting final SoS acceptance of the application to the multiplier to the full STIP
- (viii) 22/23 – currently no bonus scheme in place...9 months into the year. Nothing confirmed covering short, medium nor long term plans; No reward, no incentive nor retention scheme for the current year frankly, feels reckless.



- (ix) Paula Vennell's last full year in CEO role £717k total reward - £328k fixed and £389k variable – 2018/19.
- (x) We have costed that any replacement will be seeking as a minimum a Lower Quartile package in excess of £1m (and recruitment fees of c£150k)
- (xi) I know my predecessor Tim Parker, raised the specific issue of Nick Read's remuneration with both Paul Scully and with Kwasi Kwarteng over the past year. On both occasions the ministers declined to approve any improvement in Nick's package, citing concerns over the Inquiry and the context of the public sector pay freeze. They indicated that the situation be reviewed again in September 2022 once the Inquiry was concluded (which has now been extended and potential it may not conclude until at least 2024/25). So I believe we need to respond now to the very real risk.

3. Risks – Funding (3 year) and Costs: (awaiting addendum from Tim McInnes on this section)

Nick is very well respected and recognised by everyone at BEIS and UKGI, across all activities. Most recently he is actively engaged in reviewing and updating the future funding and strategy for the Post Office.

- (i) since I've arrived it is clear Post Office is facing unprecedented challenges and headwinds like I've not seen anywhere else before, and without reinforcing our support and recognition for Nick, this raises very significant risks and consequences for the business and the Shareholder;
- (ii) there will be no easy choices only trade-offs to resolve these challenges; and I need you to understand this, be willing / ready to step in with support and we need to agree to keep talking on how we navigate through the next 18 months.
- (iii) Specifically in relation to our spending review settlement in March, in September POL has reforecast its 3YP projections which has identified a [IRRELEVANT] deterioration in cash headroom mainly due to trading challenges, inflationary pressures and unplanned increases in legal and technology costs.
- (xi) Since then, management have been working hard to close the gap and significant progress has been made however new challenges outside POL's control have emerged. This includes further weakness in mails, slippage of the Inquiry timeline and increase NBIT costs.
- (xii) We do not know what these mean for our forecasts today, but we do know is that we will need additional support from BEIS.
- (xiii) We have intimated already that we will need a minimum of [IRRELEVANT] to address short term difficulties and we think this remains the case and we are engaging with the PermSec on the detail of this.
- (xiv) This ongoing dialogue and trust between BEIS/UKGI and Nick is pivotal to ensuring the sustainability of the POL. Nick's relationships will enable a continued level of trust and confidence in addressing these significant funding challenges.

4. Risks – Public Inquiry Impact, Reputation, Confidence & Leadership Instability

- (i) With specific reference to the Inquiry, Nick has been exemplary in his navigation through the sensitivities and demands of the process; he strongly guards the reputation of both the PO and the Government.
- (ii) If we lose Nick, I anticipate that questions will rightfully be raised as to why this risk was not anticipated and addressed. Furthermore, it could be taken as an indication of a lack of serious commitment to acting on the findings of the original Judgements and the Inquiry.
- (iii) The current lack of any suitable internal replacement (though this is something which will be a priority in the coming period).
- (iv) The value of Nick's leadership which brings much needed stability to Post Office at the current time
- (v) The strong relationship he has built with UKGI and BEIS and funding security (as above).
- (vi) His strong executive, commercial and retail skills – heightened by the flight risk (retirement) of other Executive talent (e.g., Owen Woodley, Chief Commercial Officer, intended retirement in 2023).

Summary recommendation:

I, and the rest of the Remuneration Committee at POL, believe we need to take control of this situation which has posed a **long-standing risk** and is genuinely at risk of materialising at any time.

- We see Nick's case as a unique case at a critical time for the Post Office.



- The profile of the PO Executive team now includes several recent recruits or promotes, where the package has been set at an appropriate market level, we need to do the same for the CEO.
- We must recognise that, if Nick were to resign, any replacement will be **seeking as a minimum a Lower Quartile package in excess of £1m** to substantial exposure and scrutiny of the role as well as the ongoing challenges associated with the Inquiry adequately compensate for this position.
- If this were to be approved, I would seek to a) fix the remuneration at this level for the next 2 years and b) introduce a retention mechanism which Nick will need to sign up for at least 2 years.

Back-up information:

Current Package and Remuneration History:

Salary & Incentives	On Target Compensation	Maximum Compensation
Base salary including benefits	£415,000*	
Annual incentive (30% target, 45% maximum)	£124,500	£186,750
Long-term incentive (30% target, 45% maximum)	£124,500	£186,750
Total on-target compensation	£664,000	£788,500

**Note that the base salary level also includes provision for benefits (e.g., pensions, healthcare and car benefits which were integrated into base salary on date of joining) – if we exclude benefits, Nick's base salary is actually c.£330,000. Since his appointment in September 2019, Nick has not had any base pay increase(s).*

Benchmark Data:

- Advice from compensation advisors, Willis Towers Watson (and our Remuneration Committee Advisers)
- From the benchmark data /evidence we have gathered we applied the **principle of the HMG policy** - to compare roles against **private sector and lower quartile positions**. This shows Nick's current package falls short of lower quartile market level (overall by £400k shown in table) in
The **comparator group (Table 1)** comprised of mails & retail, social purpose organisations and challenger banks/mutuals, **reference data is relevant to 2021 and is under review in 2022** - initial data indicates that base salary levels are not substantially changed but **that incentive opportunities for both annual and long-term incentives have increased significantly:**

Table 1 – shows the detail on the comparator group



Market assessments – Publicly funded organisations

Group Chief Executive Officer

Company	Role	Incumbent	Revenues (£)	Base salary (£)	Target bonus (% of base salary)	Target total cash (£)	LTI expected value (% of base salary)	Target total direct compensation (£)
NATS	CEO	Martin Roife	540		35%		70%	
Channel Four Television Corporation	Chief Executive	Alex Mahon	1,164		40%		N/A	
HS2	Chief Executive	Mark Thurston	-		N/A		N/A	
National Rail Limited	Chief Executive	Andrew Haines	1,438		5%		N/A	
BBC	Director General	Tim Davie	5,330		N/A		N/A	
Nuclear Decommissioning Authority	Chief Executive	David Peattie	900	GRO	25%	GRO	25%	GRO
Bank of England	Governor	Andrew Bailey	740		N/A		N/A	
The Financial Conduct Authority	Chief Executive	Nikhil Rathi	675		N/A		N/A	
The Civil Aviation Authority	Chief Executive Officer	Richard Moriarty	282		N/A		N/A	
Ofcom	Chief Executive	Dame Melanie Dawes, DCB	144		N/D		N/A	
The Royal Mint Limited	Chief Executive	Anne Jessopp	1,057		17%		20%	
GRO								
Post Office	Group Chief Executive Officer	Nick Read	815	415,000	30%	539,500	N/A	539,500
Lower quartile			410	330,000	20%	325,000	--	325,000
Median			740	460,000	35%	475,000	--	475,000
Upper quartile			1,110	540,000	40%	595,000	--	595,000

Ordinance Survey Limited's Interim Chief Executive Officer was appointed in October 2021, succeeding Steve Blair, remuneration received in the financial year was pro-rated. Within the peer group set out above there is a market trend for pension provisions. Executives at NDA for example are eligible for membership of the civil service scheme (CEO cash in lieu), whilst executives at BBC receive no pension provision if LTA/AA applies. Alternatively, executives at FCA, Channel 4 and HS2 for example eligible for defined contribution schemes, or cash in lieu.

© 2022 WTW. Proprietary and confidential. For WTN and WTN client use only.

Summarised benchmark data and Nick's current package & proposed package (for info):

	Lower Quartile	Median	Upper Quartile	Nick Read – On Target	Current package compared to Lower Quartile	Proposed On Target New Package compared to Market
Base Salary	£465,000*	£545,000*	£625,000*	£415,000**	–£50,000	£535,800**
Total Cash (Salary plus annual bonus)	£740,000	£900,000	£1,090,000	£539,500	–£200,500	£803,700
Total on target Compensation (Total cash plus long-term incentives)	£1,065,000	£1,300,000	£1,550,000	£664,000	–£401,000	£1,125,180
Annual incentive target opportunity	50%	65%	85%	30%		50%
Long-term incentive: annual target opportunity	60%	75%	85%	30%		60%

*Benchmark base salary data excludes benefits

** Nick Read's base salary includes an allowance for benefits. Salary without benefits is c£330,000

Total recommended package increases – 4 elements:

1. **Base salary increase** – aligned to lower quartile **£465,000** (as per the HMG policy).

Post Office Limited is registered in England and Wales. Registered No. 2154540. Registered Office: Finsbury Dials, 20 Finsbury Street, London EC2Y 9AQ. Post Office and the Post Office logo are registered trade marks of Post Office Limited.

postoffice.co.uk



2. A provision for **benefits** total of **£70,800**. Nick's provision for benefits currently stands at c£85k as it includes a 25% pension contribution, which is out of line with the 'all employee pension contribution which stands at [IRRELEVANT]'. Our proposal is to **reduce and align his pension contribution to [IRRELEVANT]**. The provision also includes no further increase in his car and healthcare allowance £10,000 and £5,000 respectively, as included in the original 'provision for benefits' in his offer of employment.
3. To **increase the % opportunity for:**
 - the **annual incentive** to the lower quartile benchmark of **50% at target** amended for 22/23
 - **long-term incentive** to **60% at target**, amended for the 2022/25 LTIP.
4. To **increase the maximum pay-out opportunity** for the annual incentive to **90%** of target and to **100%** for the long-term incentive plan since current market movements indicate that maximum bonus levels are far in excess of the current POL offer.

Nicks Bonus Position (for information)

The reference to point re the SoS' acceptance on STIP for 2021/22 is due to the application of the personal multiplier to the whole of Nick's bonus for 2021/22. Key extract from the plan design for 2021/22:

There are Company measures in the plan which account for 80% of the plan payment and comprise both financial and Postmaster-centric measures. The remaining 20% is on personal performance in line with the rating received through the Performance Management process.

The application of the multiplier to the whole of the bonus has been the basis of the challenge, as the interpretation is a grey area. Whilst approved by the RemCo before payment in August 2022 this resulted in UKGI flagging the issue to BEIS – and correspondence has exchanged between RemCo and the RemCo Chair has engaged directly with BEIS. The amount in question is £30k. We have yet to have this approved, though we understand it will be. Going forward, we will be defining clearly the rules of the scheme and tightening areas of discretion.