



Proformas for BEIS SCS Recruitment Panel

Red text indicates additions to CST proforma.

Pro forma A: for salaries/remuneration at or above £100,000 per annum (pro-rata)

Post	Chief Executive Officer (CEO)										
Employer or Appointing Authority	Post Office Limited (POL)										
Name of Post Holder (if applicable)	N/A										
Background <ul style="list-style-type: none"> • please confirm that this application is being made before advertising and provide details of the proposed timetable. • if the case is being reverted back following a recruitment exercise please provide details of the preferred candidate and attach their CV 	<p>POL's current CEO Paula Vennells is leaving the company to take up a new part-time position as non-executive Chair of the Imperial Healthcare NHS Trust, and ministers have separately approved her exit terms.</p> <p>Ministers have also approved an outline of the recruitment process for the new CEO, including the use of recruitment consultants and the composition of the selection panel. The proposed timetable in the submission was for the advert to open on 8 April, subject to pay clearance from the SCS Panel, BEIS Ministers and the CST, and to have a new CEO in place on 1 September.</p>										
<ul style="list-style-type: none"> • Please provide a brief description of the role including objectives and budgets that the role holder will be responsible for • Please attach any job brief as supplied to (or intended for supply to) candidates • Please include brief details about the purpose and objectives of the employing organisation. For UKGI organisations and trading funds also include budget and turnover 	<p>Post Office Limited is the organisation responsible for operating the nationwide network of 11,500+ post office branches, providing mails, financial services and government services.</p> <p>It has a turnover of c.£1bn per annum and is on a trajectory of rising profitability. It is 100% owned by SoS BEIS.</p> <p>The CEO is responsible for the day-to-day operations of POL and delivery of its strategy.</p>										
Is this a new role? If not what is the value of the package of the former post holder?	<p>No, the CEO role has been performed by outgoing CEO Paula Vennells. Her package for 18/19 (maximum opportunity) consisted of</p> <table> <tr> <td>Base pay</td><td>£255,000</td></tr> <tr> <td>Benefits (car & medical allowance)</td><td>£9,900</td></tr> <tr> <td>Cash in lieu of pension</td><td>£63,750</td></tr> <tr> <td>STIP (2018-19)</td><td>£204,000</td></tr> <tr> <td>LTIP (2016-19)</td><td>£245,900</td></tr> </table>	Base pay	£255,000	Benefits (car & medical allowance)	£9,900	Cash in lieu of pension	£63,750	STIP (2018-19)	£204,000	LTIP (2016-19)	£245,900
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	<div>Total£782,500 (max opportunity)</div> <div>The maximum pay-out of the STIP is 80% of salary, so £204k. The maximum pay-out of the LTIP is 98% of her salary in 2016/17 (£250k), so £245k.</div> <div>Benefits and cash in lieu of pension are part of the CEO's contractual arrangements (with cash in lieu of pension set at 25% of base salary).</div>									
Please provide details of proposed base salary or salary range. For public appointments this should include all proposed non-discretionary remuneration.	<div>Total base pay of £415k. POL proposed base pay of £325K (an increase of £70k or 28% on the outgoing CEO) plus the same allowances as the outgoing CEO (total of £9.9K) and cash in lieu of pension of 25% (£81.25k). However, since these allowances and cash in lieu of pension do not conform to HMT best practice, we propose shifting these into base salary, giving a total base pay of £415k</div>									
Taxable allowances and fringe benefits being proposed.	<div>None – see above. To conform with latest best practice we propose to no longer offer these elements but instead provide a higher base pay to offset this and ensure that the package is still competitive.</div>									
Proposed performance related pay arrangements.	<div>We believe that the outgoing CEO's STIP of 80% and LTIP of 98% of base pay remain appropriate.</div> <div>However, the calculation should <u>exclude</u> the increase in salary that occurs simply because pension and allowances are move into base salary. We adjusted for this by using POL's original base pay proposal of £325k, giving a maximum pay of <u>£260k for STIP</u> (325k x 80%), and <u>£318.5k for LTIP</u> (325k x 98%). Based on these maximums we have calculated STIP and LTIP on £415k base pay.</div> <table><tr><td></td><td>STIP max, 80%</td><td>LTIP max, 98%</td></tr><tr><td>325</td><td>260 (80%)</td><td>318.5 (98%)</td></tr><tr><td>415</td><td>260 (63%)</td><td>318.5 (77%)</td></tr></table> <div>Adding these to base pay of £415k gives a <u>maximum pay-out of £993.5k</u>, representing a 27% increase on the maximum pay-out for the outgoing CEO of £782,500.</div>		STIP max, 80%	LTIP max, 98%	325	260 (80%)	318.5 (98%)	415	260 (63%)	318.5 (77%)
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For any non-standard terms being	<div>The current performance measures for STIP are:</div>									

proposed (in excess of £17,500) please provide details of objectives against which payment will be assessed and how they link with organisational objectives.	<ul style="list-style-type: none"> • Performance against business measures and targets (80% of the STIP opportunity). The business objective is based on a profit measure, EBITDAS, with entry, target and stretch measures to be agreed by Remco, following the finalisation of POL's annual budget. • Performance against personal objectives (20% of the STIP opportunity – assessed by the POL Chair at the year-end) <p>The structure of the LTIP is currently based on profitability (EBITDAS) in the financial year three years after the start of the scheme. I.e the LTIP payment for the period [2019-22] will be based on EBITDAS in FY [2021/22]. Final targets will be set by Remco following the agreement of POL's annual budget.</p> <p>The performance measures for both the STIP and LTIP are being reviewed by Remco, who are considering whether to broaden the metrics beyond the current reliance on EBITDAS.</p>
Please confirm that tax and NICS will be deducted at source	Yes
Proposed Pension Arrangements	The successful candidate will not be able to take cash in lieu of pension. However, we propose to offer the successful candidate the option of taking their £415k base pay as a combination of salary and contribution to a pension.
Any non-standard compensation arrangements	None. The 'non-standard' allowances and cash in lieu of pension forming part of the outgoing CEOs package have been shifted into the base salary for the new CEO to conform with best practice.
Proposed negotiating flexibility on any of the above package elements	<p>We recommend that negotiating flexibility is focused on performance pay. The evidence is compelling that the current base pay is significantly below the level at which high quality candidates could earn elsewhere and well below the lower quartile.</p> <p>If you are uncomfortable with the level of the maximum pay out, we recommend that you agree to the increase in base pay but ask POL to freeze performance pay at the current envelope of £453,900. Maximum pay would fall to £868,900.</p>

	POL have also indicated that they would prioritise STIP rather than LTIP because the candidates they want to attract are likely to be taking a hit on annual compensation (base and short term bonus), and this avoids exacerbating the issue further. PWC's benchmarking also found a greater emphasis on STIP than LTIP in relevant comparator organisations (para 16).
Type of Appointment (Fixed Term or Permanent). If a public appointment, specify the time-commitment and period of appointment	Permanent, full-time appointment
<p>Justification for proposed package. This should include:</p> <ul style="list-style-type: none"> • Benchmarking data against suitable comparators in the wider public and private sector (of similar sector size & industry). Where private sector is used you should explain the particular skills and experience needed and the degree to which the employing organisation operates in competition with the private sector. • To support recruitment and retention arguments, information on the employing organisation's recent performance. • For preferred candidates, details of their skills, experience and track record. • For re-appointments, an assessment of the risk to delivery of the employing organisation's objectives if the existing post holder is not retained. And the potential cost of advertising externally, including the package that would need to be offered. 	<p>The maximum pay-out of £993.5k under this proposed package represents a 27% increase on the maximum pay-out for the outgoing CEO of £782,500.</p> <p>POL's headhunters Russell Reynolds tested the market against the existing pay package (ie base of £255k) and at a higher level proposed by POL (£325k), which showed a material difference in the candidates who might consider joining POL at £325k vs £255k; eight potential candidates identified all earned above POL's current CEO's base pay of £255k, ranging between £275k to £508k. RR's strong advice is that it could attract a more suitable pool of candidates to lead the Post Office if base pay was set at £325k plus the same benefits and bonus scheme as currently in place. However, as explained above, to conform with current HMT best practice, we propose to shift the benefits (allowances and cash in lieu of pension) into base pay giving a total of £415k.</p> <p>Benchmarking analysis suggests POL's current CEO is substantially underpaid relative to comparator organisations, with base pay lying well below the lower quartile. POL's Remco commissioned PWC to carry out specific benchmarking analysis against similar-sized organisations in three areas: social purpose, mail and retail, and challenger banks. PWC constructed a weighted average of the lower quartiles of each group, based on a 40/40/20 split. Lower quartile base salary was £429,000, which is more than two-thirds greater than received by POL's current CEO. Pension contributions would be additional to this. While benchmarking exercises have their limitations,</p>



	<p>we believe this is compelling evidence that base pay is too low.</p> <p>A higher base salary also addresses the severe pay compression at executive level in POL. The CEO's base pay is currently just 4% above the CFOO's. This compares to a pay gap of 57% in comparable organisations and 54% in the FTSE 250. Pay compression can limit the ability to attract candidates at lower levels in the organisation. The proposal would create more headroom, creating a gap of 32% in the base pay of CEO and CFO, which we believe is more appropriate</p> <p>The performance pay available at POL, while generous, is also substantially below that in benchmarked organisations. Benchmarked organisations in the lower quartile pay bracket offer an average STIP of 131% and average LTIP of 81%, compared to POL which pays an STIP of 80% and an LTIP of 70%.</p>
Name of Permanent Secretary (for civil servants and public appointments) or Head of Remuneration Committee (for other public servants) supporting this application. [Permanent Secretary support not required for BEIS SCS Panel]	n/a
Any other evidence / argument deemed relevant	n/a
Views of Departmental Minister [Not required for BEIS SCS Panel]	n/a
<p>Timing</p> <p>a. When is the Panel's advice required?</p> <p>b. When will the Panel next need to be consulted?</p> <p>c. When is the next opportunity to revise performance pay arrangements?</p> <p>d. When is the next opportunity to revise the overall structure of the remuneration package?</p>	<p>a. Urgent. We propose to open the advert on 1 April with the ultimate aim of a candidate taking up their position by 1 September. In the meantime, the current CFO will act as CEO but we wish to minimise this interregnum to give the business the long-term stability it needs to develop its ambitious strategy.</p> <p>b/c – STIP and LTIP is reviewed on an annual basis for both the CEO and CFOO</p> <p>d – there is a permanent appointment so the overall structure cannot be revised until the next change of CEO.</p>
Name and post of person submitting this application	Tom Aldred, Executive Director, UKGI
Contact telephone and email	GRO
Date of Application	15 March 2019