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To: Norman Lamb
From: Robert Faull, ShEx (tel **GRO**, mob **GRO**)
Date: 12 June 2012



Subject: POST OFFICE LIMITED – PAULA VENNELLS' BASE SALARY

Purpose:

How to reply to Alice Perkins' letter of 3 May which, while not proposing any action at this stage, lays the ground for future proposals on increasing Paula's base salary (Annex A).

Recommendation:

While you do not need to give a substantive reply, we recommend that you reply noting Paula's significant pay increase last year (c11%); recognising that her pay should be based on her track record; and agreeing this should be considered by the new POL Remuneration Committee (pointing out that this should be done in the context of Paula's overall remuneration package), all within the context of public sector pay constraint. A draft letter is attached at Annex B.

Timing:

By 15 June given Alice wrote on 3 May.

Summary:

- POL's benchmarking (to equivalent FTSE 250 companies) shows that her salary is around half of that at the median level (£510k) and below the lower quartile (£454k). While we might debate with POL the precise details of the most appropriate benchmark businesses, we do recognise that Paula Vennells' base salary of £250k is low when compared to the pay of CEOs in equivalent sized companies.
- We are, however, currently discussing with POL proposals for a Short Term Incentive Plan (STIP) and a Long Term Incentive Plan (LTIP) for Paula and Chris Day (the Finance Director). The POL team is looking at this in the context of Paula's current salary. We would, therefore, want to consider any future proposals on Paula's salary in the context of what we agree on the STIP and LTIP.
- A submission on the incentive plans will follow once we have concluded our discussions with the POL Team. We will, of course, discuss POL's proposals with the SROC before submitting advice.

Copied to:

cc PS/Cable; Martin Donnelly; Roger Lowe; Rachel James; Will Gibson; Jane Hoy; Tim McInnes; Mike Whitehead; Katie Wake; Peter Batten; Josh Coe; SPADs

Advice received from:

Finance	SpAds	Press	Legal	Analysts
N/A	N/A	N/A	N/A	N/A

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Annex A



SheX

Alice Perkins CB
Chairman
Post Office Ltd
148 Old Street
London EC1V 9HQ
Tel: **GRO**



Norman Lamb MP
Minister for Employment Relations,
Consumer and Postal Affairs
Department for Business Innovation & Skills
1 Victoria Street
London
SW1H 0ET

3rd May 2012

Dear Minister,

Chief Executive's Remuneration

As you well know, the Post Office is now running as a separate business from Royal Mail with Paula Vennells as its Chief Executive.

I fully appreciate that the issue of remuneration continues to be a very difficult one for the Government. But I do feel it is necessary to draw the issue of Paula's remuneration to your attention although, at this stage, I am not asking for any action on it.

Paula was appointed as the Managing Director of the Post Office in late 2010 when her predecessor was moved unexpectedly quickly in his term to another role in Royal Mail. The circumstances surrounding her early months in the role were challenging, as she sought to lead the organisation out from under the shadow of Royal Mail, not least because she was involved in very difficult negotiations with Moya Greene, her boss at the time, about the future commercial arrangements between the two businesses.

Since I arrived last August, I have seen Paula develop into her current role in leaps and bounds. Both I and our Senior Independent Director, Neil McCausland, (who has been here almost as long as I have) are very pleased that she is our Chief Executive and believe she is well placed to lead the Post Office through its transformation.

We are, however, both very struck by the level of her salary given the complexity and scale of the business and the challenge of our change agenda.



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Paula's current salary is £250,000 – increased from £215,000 as a step to recognise her promotion to the role of Managing Director of the Post Office while it was still a Division of the Royal Mail. That was, in itself, well below the comparator salaries for equivalent roles, even allowing for the fact that we would expect a "discount" to apply for working in an organisation which is owned by Government and partly funded by the taxpayer.

The position is significantly worse now she is the CEO. Early indications suggest that her salary is roughly half the median salary of people who she would view as her peers, as is her total remuneration package including her likely bonus and LTIP.

Now that the membership of the PO Board is almost complete, we will be setting up the Board Committees, including the Remuneration Committee. One of the first things which I shall be asking that Committee to do is to consider Paula's remuneration, largely because it is essential to retain and motivate her fully to develop and deliver our strategy, and partly because of the knock-on effects which her salary level has on the salaries we can offer her direct reports.

In the meantime, I simply want to draw this to your attention because I thought it would be helpful for you to have advance warning of this issue and because it would seem odd not to raise it at the point of our separation from Royal Mail.

Alice Perkins

GRO

Alice Perkins

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Annex B

DRAFT REPLY TO:

Alice Perkins
Chairman
Post Office Limited
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CHIEF EXECUTIVE'S REMUNERATION

Thank you for your letter of 3 May about Paula Vennells' remuneration. I should begin by saying I agree with your assessment of Paula's leadership of Post Office Limited over the past few months. Much has been accomplished recently, not least Post Office Limited's independence from Royal Mail, and these are exciting times for the business.

As you know, executive remuneration across the business community is very much in the public spotlight at the moment. For Government-owned companies, this issue also has to be considered in the context of the need for public pay restraint. But I am also mindful of the need to preserve and grow value in Government-owned businesses like Post Office Limited, and therefore of the importance of recruiting and retaining top management talent.

I have noted the points that you have made in your letter about Paula's base salary. As you note in your letter, Paula received a significant increase in her base salary last year to reflect her establishment in the post as Post Office Limited's Managing Director.

I agree that it will be important for us to ensure that Paula continues to be paid appropriately, taking account of her position as Chief Executive of the newly independent Post Office Ltd. The separation of the Post Office from Royal Mail is an important milestone in the development of the business. In any deliberations around remuneration, we would need to understand fully the nature of the changes to her role brought about by separation. We should also consider not only market trends and the public sector context but also Paula's track record in the new role, just as has been done to date. I therefore agree with your approach in taking some time to consider this issue in the round through the newly-constituted remuneration committee. This will allow the remuneration

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committee the time to consider Paula's ongoing development into the role and to collate a compelling evidence base for its recommendations (on which the requisite Board decision will rely). That evidence base will also need to inform any required Ministerial approval for changes to Paula's remuneration, which will also reflect the need for public sector pay restraint.

The remuneration committee will need to take into consideration the arrangements for short and long term incentives for Post Office Limited executives which your team and my officials are currently considering in the context of current base remuneration rates.