

OFFICIAL – SENSITIVE (APPOINTMENTS)

**To:** 1. Jo Swinson, 2. Secretary of State  
**From:** Rob Faull **GRO** Richard Callard **GRO** (ShEx)  
**Date:** 10<sup>th</sup> July 2014  
**Subject:** **POST OFFICE LIMITED – APPOINTMENT AND REMUNERATION OF NEW CHIEF FINANCE OFFICER (CFO)**

**Purpose**

1. The POL Board wish to appoint a new CFO who will be able to fulfil a significantly broader remit than the current CFO to help drive and deliver the company's Strategic Plan. The candidate that they wish to appoint is Alisdair Cameron from Centrica plc on a remuneration package higher than the current CFO's.

**Recommendation**

2. That you **agree**:
  - Alisdair Cameron's appointment as the new POL CFO, replacing Chris Day;
  - his remuneration package, which is potentially £110k higher and includes a one-off £75k (linked to performance) to **IRRELEVANT** and
  - to write to CST seeking approval for the package (letter at Annex B).

**Timing**

3. Urgent. POL wish to confirm appointment before recess, and this will also require CST approval.

**Background**

4. The POL Board considers that it needs to expand the CFO job remit to accelerate the delivery of the company's strategy. POL is increasingly facing strategic challenges which require a robust commercial response:
  - For the first time, competitor networks for parcel pick up/ drop off are now bigger than POL's;
  - Government contracts are increasingly competitively priced. In addition, Government business has simply not been as forthcoming as anticipated, providing further downward pressure on revenue;
  - It continues to compete with alternative channels / digital evolution (e.g. the removal of the physical car tax disc later this year) which further erodes significant levels of revenue;
  - In response POL must diversify in to other markets like financial services, which is again very competitive given the established players, and make significant and aggressive costs reductions.

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5. The Board consider that, while Chris Day has done well in terms of the remit originally given to him (primarily to establish a finance function in an independent POL), he is unable to carry out the revised role as outlined in Annex C as he lacks the necessary breadth of experience. ShEx agrees with their assessment.
6. POL's search for a new CFO was commissioned back in March/April 2014. An external search firm Russell Reynolds Associates was hired to conduct the search. They contacted over 70 prospects, almost half of which (29 out of 70) declined to consider the role specifically due to the level of compensation offered or due to lack of interest in working in the public sector. The recruiter interviewed 18 candidates from those who had expressed interest and 11 candidates were short listed for POL. Of the 3 candidates considered to be "over the line", Alisdair Cameron has emerged as the preferred choice of the POL Board (via the Nominations Committee) and the Chief Executive.
7. ShEx is satisfied that Mr Cameron fits the job specification and has an excellent track record. There is no doubt that he is a high quality candidate and that POL would be fortunate to recruit him. We have met him and been impressed by his understanding of what is required, his commitment to the POL post and his grasp of the governmental environment in which he will find himself. He is attracted to a role which offers a complex range of issues whilst having a clear purpose, and where there is significant scope for his skill set to add value.
8. Mr Cameron will be taking a pay cut to join POL. At Centrica, Mr Cameron's potential maximum remuneration is **IRRELEVANT** excluding share options. However, to secure him POL has to offer a remuneration package that reflects the wider remit for the CFO post and as a result the proposed package is higher than that for Chris Day. The proposals involve a potential maximum remuneration of £638k compared to the current £528k (with "on target" figures being £525k vs £439k). The table at Annex D compares the proposed remuneration to Mr Cameron and Chris Day's current package.
9. POL has provided benchmarking data to show that the remuneration package is less than the median for a CFO of an equivalent sized company.
10. In joining POL, he would also **IRRELEVANT** **IRRELEVANT** and a potential **IRRELEVANT** POL, therefore, proposes to offer a one-off payment of £75k to **IRRELEVANT** subject to achieving specific performance conditions set by the CEO in the first 6 months in post.
11. Given that he will be taking a significant pay cut and **IRRELEVANT** **IRRELEVANT** we consider that POL has negotiated a remuneration package that will secure him while showing an appropriate the level of restraint. A lower package would risk losing him.
12. ShEx recognises that a one-off payment to **IRRELEVANT** is unusual for the public sector. However, given the scale of what he is prepared to forego, we consider that this is appropriate to secure him. In addition, the payment will not be automatic but will be dependent on performance in the first 6 months.

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13. The exiting CFO is contractually entitled to payment in lieu of notice. This will be 12 months' salary plus pension contribution (ie £215k plus 25%). On the basis that his departure is amicable, he would be considered a good leaver and as such be entitled to receive pro-rata bonus payments for the year, at the discretion of the remuneration committee. Clearly the quicker he exits the business the less bonus he would be entitled to.
14. SROC has scrutinised the proposal. They are content for it to go forward after asking for more detail in certain areas about the recruitment process and benchmarking (see Annex E). Note also that we will work with Comms to develop relevant lines near to the time of any appointment.

**Copied to:**

Perm Sec, Cable Spads, Fallon MPST, Mark Russell, Anthony Odgers, Howard Orme, POL Team, Aileen Boughen, Jo Fletcher

**Advice received from:**

| <b>Finance</b>                           | <b>SpAds</b> | <b>Press</b> | <b>Legal</b> | <b>Analysts</b> |
|------------------------------------------|--------------|--------------|--------------|-----------------|
| N/A, although this has been through SROC | N/A          | Jo Fletcher  | N/A          | N/A             |

| <b>Devolution Issues</b> |
|--------------------------|
| No                       |

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**Annex A – Alisdair Cameron CV**

Alisdair Cameron

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**Education**

1987                      University of York,  
BA (Hons), History

**Professional Qualifications**

1990                      ACA

**Business Experience**

2002 - Date              Centrica plc

2013 - Date              *Director, Energy Transition*

- Developing this new role, leading the transition of British Gas's Energy businesses to embrace Ofgem's new Standards of Conduct.
- Very significant set of changes, requiring them to re-assess the way they price, develop products, sell, contract and communicate with customers and manage and incentivise their people.

2012 - 2013              *Managing Director, British Gas Enterprise (BGE)*

BGE has c.700k sites, making profits of £150m pa. In 2011-12, BGE was in free-fall, missing profit targets and haemorrhaging customer numbers at 8% pa net.

*Key Achievements:*

- In 12 months, brought in a new leadership team and communicated a clear strategy to transform service, reduce costs and invest in customers. Customer contact became the best in British Gas, in spite of new billing systems and off-shoring call centre roles to South Africa. Endemic cultural issues were being tackled openly. Complaints halved and net promoter scores increased by 20 pp. Customer numbers were back to break-even, six months ahead of plan.
- Led the dialogue with Ofgem to manage historical issues and set the approach for a new Standards led regime. Improvements in operational controls were well underway. Operating costs were falling. Profits were stable and on plan.
- Feedback is that he was "turning it around and making a massive difference after a considerable period of poor performance." Phil Bentley, May 2013.



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2006 - 2012

*Finance Director, British Gas*

Became Finance Director of the residential energy business of British Gas (BGR) in 2006 and of the whole business (BG) in 2009, when it was brought together under a single MD. BG has revenues of £14b, 22m customers and 20k employees.

Was at the heart of the leadership team that transformed British Gas. BGR's profits increased from £93m pa in 2005-6 to a sustainable £623m pa over 2010-12. As service improved from worst to leading, customer numbers stabilised, growing by 0.5m 2008-12, compared to losses of 1.9m in 2005-8. The overall profits of BG grew from £284m in 2006 to £712m in 2008 and to an average £1.1b in 2010-12.

*Key Achievements:*

- Operating cost reductions of £500m announced and delivered
- Reduced the cost of energy "imbalance" by c. £120m pa in two years.
- Delivered profit from meter debt, credit balances and VAT of c. £200m.
- Created effective financial controls regime from scratch
- Reduced uncertainty in revenue estimation to c.0.5% within 3 days of month-end
- Created a BG procurement function, delivering c.£50m pa of savings
- Led strategic review, "Home of the Future", enabling innovation leadership
- Created a pan-BG MI team, reducing reporting by c.50%
- Created an accounts Payable and accounting team offshore (India)
- Member of Centrica's oversight committee on hedging commodity risk
- Met regularly with analysts focused on BG
- Organised formal Capital Markets presentation to investors in 2011
- Led the 1,200 person debt team in 2006-7: debt charge at c.1% of revenues

2004 - 2006

*Director, Financial Control*

Responsible for Centrica's published results and investor updates, gaining agreement with the auditors and presenting them to the Executive and Audit Committees. Led the conversion to IFRS, explaining the results to analysts.

- Oversaw the Group's forecasts and budgets for profit, capital and cash flow.
- Worked with Investor Relations, developing messages for investors and ratings agencies, and with the tax and treasury teams to identify and manage opportunities.

2002 - 2004

*Director, Business Assurance*

- Responsible for internal audit and risk management, reporting to the Chief Executive and the Audit Committee.
- Managed the Audit Committee agenda, dealing directly with non-executives.
- The team served the energy businesses in the UK, US and Canada as well as the AA, Goldfish Bank and One Tel.

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1987 - 2002      **Deloitte & Touche, Arthur Andersen and Binder Hamlyn**

1987 - 2002      *Partner*

- Became a partner in Arthur Andersen in 1999, selling and delivering audits, risk management and projects supporting listings and due diligence for M&A.
- Worked extensively with US and continental European businesses across a wide range of industries: financial services (leading investigations for a predecessor of the FCA); technology; data management; security and FM; retail; and manufacturing.
- Ran the London Office of the mid-market practice from 1998 to 2002, growing revenues by 31% and contribution by 36%.
- Accepted a partnership with Deloitte & Touche in 2002, on the completion of the transaction with Arthur Andersen, deciding to join Centrica later that year.

**Portfolio Experience**

2009 - Date      **Oxford Radcliffe Hospitals NHS Trust**  
*Non-Executive Director*

2008 - 2012      **e-learning foundation**  
*Non-Executive Director*

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**Annex B - DRAFT LETTER TO CST****POST OFFICE LIMITED – REMUNERATION PACKAGE FOR NEW CHIEF FINANCE OFFICER**

I am writing to seek your approval of the proposed remuneration package for a new CFO for Post Office Limited (POL).

The POL Board has advised me that it needs to expand the CFO job remit to accelerate the delivery of the company's strategy, which as you are aware is significantly funded by Government. The Board consider that, while the current CFO, Chris Day, has done well in terms of the remit originally given to him, which was primarily around the separation of the company from Royal Mail, he is unable to carry out the revised role as he lacks the necessary breadth of experience.

POL wants a CFO with significantly more commercial experience, particularly in leading challenging business turnarounds. POL faces significant strategic challenges which require it to cut costs aggressively and diversify income. For example, competitor networks for parcel pick up/ drop off are now bigger than POL's, Government contracts are increasingly competitively priced, and revenues continue to be eroded by digitisation.

Following a comprehensive recruitment process involving 70 potential candidates, they have identified Alisdair Cameron. He is at present working as Director of Energy Transition at Centrica plc leading the transition of British Gas's Energy businesses to embrace Ofgem's new Standards of Conduct. He was previously MD for British Gas Enterprise, with 700,000 sites, and turned it around from loss-making to stability. As Finance Director for British Gas, a £14bn turnover business with 22m customers, he was at the heart of the leadership team that transformed this business from relatively low profits of £93m p.a. in 2005/6 to a sustainable £623m over 2010/12. This included operating cost reductions of £500m, at the same time improving service levels from the worst to amongst the leading companies in the sector.

He has therefore completed complex commercial negotiations and completed significant cost transformation activities in a highly regulated and sensitive political environment. We are satisfied that he is a high quality candidate with the right track record to drive POL's strategy.

To secure him, POL wishes to offer a remuneration package that is higher than the existing CFO's. This reflects the increased responsibilities of the post and the need to offer a package that will be able to secure him.

By accepting the POL post, Mr Cameron will be taking a pay cut. At Centrica, his potential maximum remuneration is **IRRELEVANT** excluding share options.

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The proposed package offered by POL is a potential maximum remuneration of £638k compared to the current POL CFO's £528k (with "on target" figures being £525k vs £439k). The table in Annex A compares Mr Cameron's proposed package with his current package at Centrica, and the current incumbent.

In joining POL, Mr Cameron would also **IRRELEVANT** **IRRELEVANT** and a potential **IRRELEVANT** POL, therefore, proposes to offer a one-off payment of £75k to **IRRELEVANT** subject to achieving specific performance conditions set by the CEO in the first 6 months in post.

Given that he will be taking a significant pay cut and **IRRELEVANT** **IRRELEVANT** we consider that POL has negotiated a remuneration package that will secure him while showing an appropriate the level of restraint. A lower package would risk losing him.

While BIS Ministers recognise that a one-off payment to **IRRELEVANT** is unusual for the public sector. Given the scale of what Mr Cameron is prepared to forego, we consider that this is appropriate to secure him especially given the assurance by POL that the payment will not be automatic but will be dependent on performance in the first 6 months.

I fully appreciate that increasing pay for an existing post seems to run counter to Governments policy on pay restraint. I am, however, satisfied that the role of the new CFO is a significantly enhanced, as is required to protect Government's investment in POL. POL would be paying more to get more in return. Mr Cameron is a high quality candidate who has the right track record and experience to drive through the POL strategy thereby achieving our objectives for the company.

My officials will submit a full pro forma to your officials seeking your approval of this remuneration package.



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Annex A to letter to CST

**Comparison between the proposed package, Mr Cameron's current pay, and the current CFO**

| Remuneration (on-target)       | Proposed package to AC | AC's current package | Chris' current package |
|--------------------------------|------------------------|----------------------|------------------------|
| Base salary                    | <b>IRRELEVANT</b>      |                      |                        |
| STIP (on target)               |                        |                      |                        |
| STIP (maximum potential)       |                        |                      |                        |
| LTIP (on target)               |                        |                      |                        |
| LTIP (maximum potential)       |                        |                      |                        |
| Pension (company contribution) |                        |                      |                        |
| Benefits                       |                        |                      |                        |
| <b>Total (on-target)</b>       |                        |                      |                        |
| <b>Total (maximum)</b>         |                        |                      |                        |

The STIP payment as a percentage of salary will remain the same as those for the incumbent CFO but the LTIP awards as a percentage of salary will be increased to 50% on target and 70% for stretch (compared to 35% and 49% respectively). Providing incentives for long term performance is consistent with Government's policy on remuneration.

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### **Annex C - The Enhanced CFO role**

In the future, the remit of the POL Chief Financial Officer will be expanded to cover the following in addition to the core Finance role:

- Own the delivery of the Business Transformation agenda, once the Business Transformation Programme is up and running during 2014/5.
- Oversee the development of POL's financial services business, as a Board member of POMS (the legal entity being established to accelerate POL's development as a financial services business) which will cover aspects of compliance and regulatory risk.
- Chair FRES (First Rate Exchange Services) the joint venture that POL has established for foreign currency business with the Bank of Ireland.
- Lead POL's commercial negotiations with suppliers and partners.
- Take responsibility for operational functions supporting POL's network including functions such as Supply Chain, Property, Security, Contact Centres and other Channel Support.
- Act as the Deputy for Paula Vennells, Chief Executive Officer of POL at the POL Board and at meetings of the POL Executive Committee.

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**Annex D – Remuneration Package Comparison**

Comparison between the proposed package, Mr Cameron's current pay, and the current CFO's is as follows:

| Remuneration (on-target)       | Proposed package to AC | AC's current package | Chris' current package |
|--------------------------------|------------------------|----------------------|------------------------|
| Base salary                    | <b>IRRELEVANT</b>      |                      |                        |
| STIP (on target)               |                        |                      |                        |
| STIP (maximum potential)       |                        |                      |                        |
| LTIP (on target)               |                        |                      |                        |
| LTIP (maximum potential)       |                        |                      |                        |
| Pension (company contribution) |                        |                      |                        |
| Benefits                       |                        |                      |                        |
| <b>Total (on-target)</b>       |                        |                      |                        |
| <b>Total (maximum)</b>         |                        |                      |                        |

The STIP payment as a percentage of salary will remain the same as those for the incumbent CFO but the LTIP awards as a percentage of salary will be increased to 50% on target and 70% for stretch (compared to 35% and 49% respectively). Providing incentives for long term performance is consistent with Government's policy on remuneration.

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**Annex E – Questions raised by SROC**

The following questions were raised by SROC, with ShEx's associated replies.

1. **How many other candidates seen, were of a sufficient quality to do this role i.e. over the line. It strengthens the case if there were no others or if all were of similar cost.**  
 Out of the 11 shortlisted candidates, 3 were considered suitable to taken through to the final round for assessment. The base salary of the candidates were in the range of £220k to £300k with differing ranges of short term and long term incentive plans. POL are proposing £240k base.
2. **Of those over the line what salary expectations would they reasonably have (RR will know this detail even though we/POL won't have entered into detailed discussions themselves) and how does this compare to the preferred candidate. The SoS will surely want to know this would be the ball park figure for all prospective candidates, and that we are not paying over the odds for one in particular.**  
 The salary expectations for Alisdair and one other candidate were of similar value, the third candidate was considerably higher. POL have therefore landed their favoured candidate for an amount at the lower end of the scale, and lower than other potential candidates.
3. **What was the advice of RR in advance of the campaign as to the salary range they might be have to reasonably work within to find the right candidate**  
 Russell Reynolds advised POL that seeking an appointment of this calibre and in the current market place, they would expect to a base of £300k/£325 (with an STIP of 50% and LTIP of 100% - both on target). To find a field of candidates with the depth and breadth of experience on a base of below £250k (the CEO base) was going to be a very challenging assignment. As noted in the original paper, almost half the candidates initially considered refused to be considered given the levels of pay available or the fact that the job was public sector based.
4. **What would the justified lines to take be publicly, as a journalist would read this as it costs us £1m to find a new CFO – paying£250k to let the current one go and over £750k to land the new one**  
 In terms of public justification, we don't necessarily agree that the cost of recruitment is £1m. We would have to pay Chris out (c£450k max\* but probably less), and **IRRELEVANT**  
**IRRELEVANT** That is nevertheless high, but the line would be that HMG has provided £640m to complete the modernisation of the Post Office, making it sustainable in the long term and reducing the on-going cost to taxpayers (who currently fund it to the tune of c£160m per annum before any modernisation costs). Government's plan is to reduce that subsidy amount over the coming years. The candidate has a strong track record of removing significant costs from businesses and leading them to sustainability, which can only benefit the taxpayer in the longer term.  
 \* Calculation of payout (12 months notice)
  - Salary £215k
  - Pension (25%) - £53k
  - STIP pro rated for 9 months (assumed max possible, noting max bonuses have not been received in recent years) - £108k
  - LTIP (again pro-rated assuming max) - £78k
  - Total £454k



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**5. Question: “How does pay compare to the third sector?”**

In summary:

- a. POL faces many strategic challenges that are common to very commercial businesses, not least the level of competition which it faces and the level of organisational change being implemented. We don't therefore consider that POL comfortably sits within the third sector; and
- b. Given POL does not have a direct comparator to benchmark against, they therefore looked at a range of organisations, including ShEx companies, mutuals and FTSE listed companies to establish a median level of pay.

**a. POL's challenges and the third sector**

POL is in a unique position. Whilst there are other Government owned companies in existence, very few if any are facing the many significant strategic challenges which POL needs to address, whilst at the same time modernising and transforming.

In terms of challenges, first and foremost is competition:

- For the first time, competitor networks for parcel pick up/ drop off are now bigger than POL's. Rival Collect+ has publically stated its intention to target POL, and POL must respond
- POL's bill payment business has essentially been taken by competitors such as Paypoint and others. They must not let this happen to mails, which makes up over 40% of its business
- It must compete for Government contracts, which are increasingly competitively priced meaning POL must cut its costs further. And Government business has simply not been as forthcoming as anticipated, providing further downward pressure on revenue.
- In response POL must diversify in to other markets like financial services, which is again very competitive given the established players
- It continues to compete with alternative channels / digital evolution (e.g. the removal of the car tax later this year removes significant levels of revenue)

The other significant challenge is the level of modernisation it must undertake:

- It has already transformed more of its outlets than the whole of Barclays network, but it has more than that amount still to do
- It must cut significant costs out of its central functions – they are aiming for over 25% - to have a chance of reducing the Network Subsidy Payments to the levels Govt aspires to (from current £160m to c£50m from 2018)
- POL is still emerging from under Royal Mail's shadow, post separation 2 years ago, increasing the challenge culturally and organisationally
- At the same time, POL must continue to meet customer, subpostmaster, staff and other stakeholder engagement and satisfaction levels, across a network bigger than all the banks combined, given it remains in the public eye.

POL, and ShEx, therefore consider the challenge for the incoming CFO to be very different from a typical third sector or government owned business – driving down costs very aggressively, renegotiating contracts, overseeing the development of the new financial services business, amongst others.

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**b. Benchmarking undertaken by POL**

Given the challenges faced by POL, they looked at a range of organisations including publically accountable bodies (e.g. NATS, NDA, Thames Water etc), mutuals (Skipton building society, LV, Yorkshire), and certain FTSE listed companies (WH Smiths, Paypoint etc). In summary, the relevant median levels of pay for on target performance are:

- Mutuals £466k
- Publically accountable orgs £410k
- FTSE listed £901k
- Overall median £561k
- ***Proposed pay £525k***

Whilst the pay proposed for Alisdair is above those of the mutual and other publically accountable organisations, there are individual organisations within the list of those comparators that do pay more. And the proposed level of pay is well below listed levels. We therefore think that this sufficiently balances the level of complexity and challenge which is unique to POL, with attracting the right talent whilst maintaining a degree of restraint.