



Sarah Munby  
Permanent Secretary & Principal Accounting Officer  
Department for Business, Energy & Industrial Strategy  
1 Victoria Street  
London  
SW1H

26<sup>th</sup> July 2021

Dear Sarah,

**For Approval: Post Office Transformation Incentive Scheme for FY20/21 for the Chief Executive Officer and Chief Finance Officer**

I am writing to request approval to include the Chief Executive Officer (CEO) and Chief Finance Officer (CFO) of Post Office Limited in a new Transformation Incentive (TI) Scheme. As set out in the Articles of Association of POL (Articles 50 to 52), the remuneration of all Board members including the CEO and CFO requires approval by the Shareholder.

The TI scheme has been approved by the Remuneration Committee in June 2021 in respect of the Group Executive (GE) and Senior Leadership group (SLP). The scheme replaces the current existing discretionary short-term incentive plan (STIP) for 2020/21 and the long-term incentive plan (LTIP) for 2020/2023 for this population, which, at the end of 2020, the Remuneration Committee decided to withdraw.

The proposals requiring your approval in relation to the CEO and CFO are:

1. To withdraw the discretionary STIP for 2020/21 and LTIP for 2020/23 in line with the withdrawal of the scheme for all other GE and SLP members.
2. To introduce a one-off discretionary Transformation Incentive Scheme in line with all other GE and SLP members. It is proposed that this scheme pays out in March 2022, subject to the achievement of plan measures as set out in this letter.

**1. Withdrawal of the 2020/21 STIP and 2020/2023 LTIP plans for the CEO and CFO**

The Remuneration Committee considered a number of factors in relation to the 2020/21 STIP including the financial position and the on-going Covid-19 situation. From a financial perspective, the original anticipated trading profit for FY 20/21 was £90m trading profit. The Board approved a revised forecast of £9m in May 2020 and forecasts at the time of the December Committee meeting was a trading profit of £17m. In light of these considerations, the Remuneration Committee agreed that it would not be appropriate to have a STIP or LTIP for the CEO and CFO or other SLP

and GE members in 2020/21 and approved a decision to this effect on 5 December 2021.

As background, the CEO and CFO eligibility to participate in the 2020/21 STIP and 2020/2023 LTIP is as follows:

Position	STIP		LTIP	
	On-target	Stretch	On-target	Stretch
CEO	30%	45%	30%	43%
CFO	40%	66%	50%	70%

The Remuneration Committee decided that there should be another way to incentivise senior leadership to deliver the transformation agenda. This led to the development of the TI Scheme.

## 2. Introduction of a new Transformation Incentive Scheme for the CEO and CFO

It is proposed that the CEO and CFO:

- a) participate in a one-off discretionary TI scheme.
- b) be eligible to receive up to 100% of their current on-target STIP value, as set out above, or greater than 100% dependent on their personal performance. The maximum payable will be no greater than the current maximum stretch opportunity if all measures are met.
- c) This value will be deferred until a specified pay out date, recommended to be in March 2022.

Payment under the TI scheme is subject to the achievement of:

- a) a gateway target of network coverage: 11,500 branches, or in line with any waiver agreed with the shareholder
- b) four equally weighted metrics focussed on measuring the success of the business transformation plans. These are:
  - i. Postmaster Engagement
  - ii. Inquiry
  - iii. Strategic Platform Initiative (SPM)
  - iv. Organisational Development

Each of the metrics has a set of targets and method of assessment which will be carried out in January 2022 and includes external validation as appropriate. This detail is attached as Appendix 1 to this letter. The four focus areas and associated targets have been developed in consultation with the Remuneration Committee over the course of this year. They have been agreed as reflecting the key strategic priorities to drive the cultural change required to transform the business going forward.

Each of the four focus areas will account for 25% of the payment. Achievement against one focus area will equate to 25% of the payment, two focus areas will equate to 50% of the payment and so on.

Each metric is assessed independently of the others. For the other plan participants, evidence of achievement in each of the areas will be considered by Remuneration Committee and an assessment made "in the round" as to whether the target has been achieved or not. The Inquiry, SPM, and Organisational Development targets comprise multiple goals. It is anticipated that Remuneration Committee will exercise some discretion in the case that there is a small slippage against one or two of these goals, rather than apply a strict formula, and will have discretion to adjust an award below the 25% level in recognition of any slippage. This is with the caveat that, at this juncture, the proposed budget is still pending final approval.

This flexibility will ensure that we maintain the motivation and commitment of the senior leadership team by taking a fair and reasonable approach. We ask that similar flexibility be applied to the CEO and CFO, supported by clear evidence with external validation as appropriate. Given that this is the first time that there has been such an emphasis on non-financial measures relative to previously approved schemes, we understand the need for assurances that the measurement of metrics will be robust enough to withstand external scrutiny. We are confident that the proposed process, using evidence-based data to support the assessment of achievement, will be fair and challenging.

There is no "stretch" level of payment payable against any of the four focus areas. However, there is the opportunity for individuals to earn above 100% in recognition of exceptional personal performance. There is additional budget of up to 5% of the total pot available to reward employees whose performance across the plan period is consistently rated as Exceeds Expectations or Exceptional (ratings 4 or 5 in the performance rating scale). Funding from this additional 5% pot is only released in proportion to the number of targets that are hit. For example, if one focus area meets target, one quarter would be released, if two focus areas meet target then one half would be released.

There will be a calibration process in January to identify these high performers. We will follow the same calibration process that we use every year to ensure that 4s and 5s are fairly assessed. Managers will submit their initial rankings based on guidelines, which will include guidance on the proportion of people who should be awarded a 4 or 5. The People team will do an initial review of the data and flag any concerns. This will lead to a refined list which will be reviewed and approved by the relevant GE member for the SLP. The CEO, CFO and CPO performance ratings are handled separately, ( they do not review themselves) will do a final review before formally approving for SLP or submitting to the RemCo for approval of the GE ratings.

We will at the same time undertake iterative modelling to distribute the available pot between eligible individuals. The maximum amount awarded to any individual will not exceed their maximum eligibility under the STIP plan.

Final proposals will be submitted for approval by Remuneration Committee for the other plan participants.

A payout matrix is included as Appendix 2 to this letter which sets out for the CEO and CFO how the plan would payout in line with the above provisions, showing both target and outperformance levels. We have included a comparison with the payout from the 2021/22 STIP by way of comparison.

If either the CEO or CFO resign from their positions, they will lose their eligibility. Good leaver status will only be granted to any employee who is genuinely made redundant, or at the discretion of the Remuneration Committee in exceptional circumstances. In line with our requirements any good leaver status would also require approval from the shareholder.

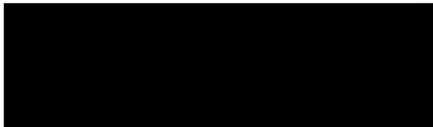
A pro-rata payment will be calculated for any employee who is made genuinely redundant before the payment date.

The proposed payment date for the TI Scheme, subject to the approval of the achievement of targets by the Board, the Remuneration Committee and BEIS, will be March 2022.

Proposals in relation to the 2021/22 STIP and 2021/2024 LTIP for the CEO and CFO will be provided for approval in the near future as Remuneration Committee have now approved the proposals.

I look forward to receiving your approval to withdraw the 2020/21 STIP and 2020-23 LTIP plans for the CEO and CFO and replace them with the TI Scheme as detailed in this letter.

Yours sincerely

A solid black rectangular box used to redact the signature of Ken McCall.

**Ken McCall**  
Chair, Remuneration Committee

## Transformation Incentive Scheme Metrics and Targets

Focus Area	Description	Targets
Postmaster Satisfaction	Delivery of a step change in Postmaster engagement through delivery of key milestones and metrics aligned as part of the Culture change programme. Measure the effectiveness through delivery of top priority areas identified from the feedback and ensure this represents a significant change by January 2022 vs. the existing feedback from the Postmaster Consultation with Quadrangle.	<ul style="list-style-type: none"> <li>• Improvement to around 1 in 3 Post Master’s positive sentiment in:               <ul style="list-style-type: none"> <li>– B1 “how would you describe your relationship with Post Office” increase from 17% to 30%</li> <li>– B7 “how supported, or not, do you feel from Post Office?: increase from 25% to 30%</li> </ul> </li> </ul>
Inquiry	Delivery of all the required information and support for the Horizon inquiry satisfying the requirements of Sir Wyn Williams, ensuring there is a clear measurable plan created to demonstrate action on improving the overall culture to be Postmaster centric and to ensure processes for Postmasters are addressed in line with recommendations from the inquiry. Any actions or plans must have been endorsed by the inquiry and the Board.	<ul style="list-style-type: none"> <li>• All required evidence and information supplied on time, with confirmation from Sir Wyn and team that POL’s performance supported and enabled the Inquiry to finish in line with expectations.</li> <li>• Deliverables and actions from culture change programme achieved with clear evidence to support this on improvements and overall symbols of change e.g. rhythms and routines, new ways of working, activities undertaken to bring our people closer to Postmasters etc.</li> <li>• Clear documented plan on all major operational process, with defined change plans in progress as per recommendations from the Judgements and Inquiry</li> <li>• Deliverables from these changes transitioned to BAU with appropriate controls in place</li> <li>• External sign-off of IT Audit on HIJ (via Internal Audit with their external audit partners to check the findings)</li> <li>• External sign-off of execution of plans instigated by Deloitte work (using the tracker that monitors delivery</li> </ul>

Focus Area	Description	Targets
		<p>against these and is reviewed weekly. This is then reviewed by Internal Audit and available for review by their external partners). We are currently defining the lines of defence and will complete this by mid-August 2021.</p>
SPM	<p>Create a Board and Shareholder approved SPM plan and business case to move off Horizon dependence (first version by 31 March 2021, final by 31 December 2021) and deliver a prototype to operate an 'express' proposition fully outside Horizon by 31 January 2022 with ability to subsequently scale across the POL network</p>	<ul style="list-style-type: none"> <li>• Prototype express proposition in place by 31 January 2022</li> <li>• Clear understanding and Board approval for the roadmap, major milestones, overall business case and overall programme cost to incrementally stand-up a core IT platform that eventually allows for the retirement of Horizon over the next 3-5 years</li> <li>• A functional SPM module, which includes a retailer-facing device and new Postmaster interface, that allows Postmasters to process transactions from the "basic" and "express" propositions without the need of a Horizon terminal</li> <li>• A roadmap and timeline for the rollout of that SPM module to 400 new or existing POL locations in order to meet the first business objectives of the Network Strategy</li> <li>• Remco to assess whether the investment has been spent wisely.</li> </ul>
Organisation Design	<p>Delivery of an improved organisational design and lower cost operating model through the successful implementation of Tranche 1, 2 and Tranche 3 of the organisational change plans. Measured by improving metrics on spans and layers (in accordance with the McKinsey key metrics on spans and layers and best practice), making the organisation flatter and more aligned to the Postmaster.</p>	<ul style="list-style-type: none"> <li>• Reduction of net 280 FTE excluding any capability build for IT and Data and any FTE reductions made as a result of the DMB Programme (subject to shareholder funding and sign off) between August 2020 (baseline) and January 2022.</li> <li>• Average of fewer than 6 direct reports per manager</li> <li>• Less than 15% of the workforce as line managers</li> <li>• Maximum 90 examples of grade compression across the structure</li> </ul>



## Illustrative Payout Matrix

CEO	Period	Salary	Measurement date	Payout	OTE eligibility (% salary)	OTE eligibility (£)	Enhanced eligibility: maximum payout* (% salary)	Enhanced eligibility: Maximum payout* (£)
TI Scheme	1/4/20 – 31/3/21	£415,000	Jan 2022	March 2022	Metric 1: 7.5%	£ 31,125	Metric 1: 11.25%	£ 46,687.50
					Metric 2: 7.5%	£ 31,125	Metric 2: 11.25%	£ 46,687.50
					Metric 3: 7.5%	£ 31,125	Metric 3: 11.25%	£ 46,687.50
					Metric 4: 7.5%	£ 31,125	Metric 4: 11.25%	£ 46,687.50
					Total: 30%	£124,500	Total: 45%	£186,750
STIP 2021/22	1/4/21 – 31/3/22	£415,000	May 2022	August 2022	30% salary	£124,500	45% salary	£186,750

CFO	Period	Salary	Measurement date	Payout	OTE eligibility (% salary)	OTE eligibility (£)	Enhanced eligibility: maximum payout* (% salary)	Enhanced eligibility: Maximum payout* (£)
TI Scheme	1/4/20 – 31/3/21	£244,800	Jan 2022	March 2022	Metric 1: 10%	£24,480	Metric 1: 16.5%	£ 40,392
					Metric 2: 10%	£24,480	Metric 2: 16.5%	£ 40,392
					Metric 3: 10%	£24,480	Metric 3: 16.5%	£ 40,392
					Metric 4: 10%	£24,480	Metric 4: 16.5%	£ 40,392
					Total: 40%	£97,920	Total: 66%	£161,568
STIP 2021/22	1/4/21 – 31/3/22	£244,800	May 2022	August 2022	40% salary	£97,920	66% salary	£161,568

\* The actual amount that will be awarded to recognise individual performance will depend on the distribution of the 5% pool. The distribution will depend on who is recommended for an award and the spread of salaries in this recommended population. The amounts shown are the maximum possible amount that will be payable under Scheme rules.