



Rt Hon Grant Shapps MP
Secretary of State
Department of Business, Energy and Industrial Strategy
1 Victoria Street
LONDON
SW1H 0ET

11 November 2022

Dear Secretary of State

Request for approval for an increase in remuneration for Nick Read Chief Executive Officer Post Office Ltd.

I am writing to ask for your support in addressing a significant risk to the reputation and success of Post Office Limited, namely the retention of the Chief Executive Officer, Nick Read.

As you know I will become the Chair of Post Office Ltd on 1 December 2022. In preparing for that role, I have identified what I believe to be a critical situation regarding Nick's remuneration package which I welcome your support to address. This will allow us to mitigate against the risk of Nick leaving the Post Office in the coming months and the significant consequences this would have for the reputation and future of the Post Office.

My predecessor, Tim Parker, has 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. However, particularly in light of the extended Inquiry process and the subsequent delay in any report being published, which means that it may not conclude for at least one more year, I believe that the risks to Post Office are now even more present and that we need to take active control of the situation. As incoming Board Chairman, I have a responsibility to seek action without delay and seek the invaluable support you can offer me.

Current Package and Remuneration History

The CEO's current package is as follows:

Base salary including benefits	£415,000*
Annual incentive (30% target, 45% maximum)	£124,500 (target) £186,750 (maximum)
Long-term incentive (30% target, 45% maximum)	£124,500 (target) £186,750 (maximum)
Total on-target compensation	£664,000
Total maximum compensation	£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) – meaning that the “true” base salary is closer to c£330-£350,000 p.a. as benefits account for an additional 20% - 25% of base salary.*

Since his appointment in September 2019, Nick has not had a salary increase.



Market Positioning

We have taken advice from our compensation advisors, Willis Towers Watson (WTW), who are a leading provider in this field, as to the appropriate benchmark range for this role. Using a comparator group comprising mails & retail, social purpose organisations and challenger banks/mutuals, data provided in 2021 showed the following:

	Lower Quartile	Median	Upper Quartile
Base Salary	£465,000	£545,000	£625,000
Total Cash (Salary plus annual bonus)	£740,000	£900,000	£1,090,000
Total Compensation (Total cash plus long-term incentives)	£1,065,000	£1,300,000	£1,550,000
Annual incentive target opportunity	50%	65%	85%
Long-term incentive: annual target opportunity	60%	75%	85%

Please note that we are working on establishing 2022 benchmarks. 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. For example, the initial 2022 data indicates a lower quartile annual incentive target of 75% of salary (2021 data is 50%) and a lower quartile long-term incentive target of 120% (2021 data is 60%).

The 2021 data places Nick at 51% against the median for Total Compensation, and at 62% of the lower quartile. We understand that HMG policy for roles which need to be benchmarked against private sector comparators is to compare against the lower quartile position. Notwithstanding this policy, the current package falls short of lower quartile market levels not only in base pay positioning (noting that Nick's base also has to cover the cost of benefits), but also in respect of the opportunities within the incentive plans, particularly given the indications from the 2022 data that incentive plan opportunities have increased significantly.

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 adequately compensate for the substantial exposure and scrutiny of the role as well as the ongoing challenges associated with the Inquiry and of delivering against the current funding model. This would mean paying at least 50% more than the on-target package Nick receives.

The Risks

We have outlined the risks in previous letters: namely the lack of any suitable internal replacement; the value of Nick's leadership, executive and commercial retail skills; the heightened flight risk of other key talent; the instability and uncertainty caused by a six-month hiatus while a replacement is found, the threat to the ongoing business/ culture transformation programme and the political and reputational risk.



Since we raised this issue with your predecessors, these risks have increased. The business environment has become more challenging, talent markets are more competitive (making Nick a prime target for other prospective roles not constrained by the public sector influence) and the external socio-political environment has become more charged.

With specific reference to the Inquiry, to date, Nick has been exemplary in his navigation through the sensitivities and demands of the process. I am deeply concerned about the impact that losing our Chief Executive Officer will have on Sir Wyn William's confidence that Post Office has the required capability to sustain these required changes. I think 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.

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. Once this has materialised it may be difficult to retrieve and remedy.

Proposed Action

With your support, I seek to the following, in order to deliver lower quartile, target total cash to Nick:

1. increase base salary to **£535,800** (this includes an adjusted pension allowance of 12% of the lower quartile benchmark base salary of £465,000 to align with the "all employee" Post Office pension scheme eligibility and reduced from the 25% pension eligibility previously included in the benefits allowance); car allowance at £10,000 and healthcare benefits at £5,000 giving a total of £70,800 (reduced from c.£85,000 previously included in Nick's base pay).
2. increase the pay-out opportunity for the annual incentive to the lower quartile benchmark of **50% at target** and long-term incentive to **60% at target**, again to align more closely with the market. This would be amended for the current 2022/23 STIP and the 2022/25 LTIP.
3. increase the maximum payout 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.

These changes would result in total compensation of £1,125,180 at target performance. This places Nick at around lower quartile of target total cash once the cost of benefits are factored in.

As part of developing these proposals we have considered any possible knock-on impact on the broader organisation. We see Nick's case as a unique case at a critical time for the Post Office and, given the profile of the Executive team now includes a number of recent recruits or promotes, where the package has been set at an appropriate market level, we do not envisage any requirement to increase pay above any company-wide negotiated increases that may be required.

I believe that, as long as we act in this calendar year (2022), I can regain a level of confidence from the CEO that his contribution is recognised. Based on reasonable expectations of what we would likely need to pay a suitable replacement, this represents a very good opportunity to secure Nick at the earliest opportunity.



Summary

Minister, I hope that the information provided in this letter demonstrates the seriousness of the situation and the urgent requirement for Post Office to take action to retain Nick Read as Chief Executive; mitigate the immediate risk of him accepting another better remunerated role and ensure the reputation of Post Office can continue to build confidence within the context of Inquiry and the wider challenges it faces. I know this reward challenge can only be solved with your support.

We understand that pay decisions of this nature are difficult for Ministers, however, these are exceptional circumstances, and we believe this proposal is not only justified, by reference to HMG policy, but also necessary due to the extraordinary circumstances being faced by POL today. We hope you agree with our analysis and share our very significant concerns for the company.

We also hope you will not reject the proposals in this letter as your predecessors have done. In the, hopefully, unlikely event that you do not feel able to approve the proposal in full, we would urge you to deliver as much of the proposal as possible.

I would be happy to arrange a meeting with you to discuss the details and provide you with any further background or context you require.

Yours sincerely

A large, bold, black signature "GRO" enclosed in a dashed rectangular box.

Henry Staunton
Chairman Post Office Ltd