

Post Office Board Agenda

Date	18 August 2022	Time	18:00 – 19:00 hrs	Location	Finsbury Dials, 20 Finsbury Street, London EC2Y 9AQ and via Microsoft Teams¹
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Present		Other Attendees		
• Tim Parker (Chairman)	• Brian Gaunt (NED) – Tentative	• Dean Brindley (Senior Assistant Company Secretary)	• Martin Edwards (Network Strategy & Delivery Director)	
• Nick Read (CEO)	• Carla Stent (NED)	• Martin Roberts (Group Chief Retail Officer)	• Tim McInnes (Strategy and Transformation Director)	
• Elliot Jacobs (NED)	• Saf Ismail (NED)	• Richard Taylor (Group Corporate Affairs, Brand and Communications Director)	• Tracy Marshall (Retail Engagement Director - Postmaster Effectiveness)	
• Lisa Harrington (NED)	• Zarin Patel (SID)	• Paul Liddiard (Head of Postmaster Remuneration Development)		
• Tom Cooper (NED)	• Alisdair Cameron (CFO)			
• Ben Tidswell (NED)				
Apologies: N/A				
Agenda Item		Action Needed	Lead	Timings
1.	Welcome and Conflicts of Interest²	Noting	Chairman	18:00 – 19:00 hrs
2.	Postmaster Remuneration	Discussion	Martin Roberts	
3.	Any Other Business	Noting and Input	Chairman	
4.	Date of next scheduled ordinary meeting: 27 th September 2022	Noting	Chairman	

¹ Participation in the meeting was entirely via Microsoft Teams from participants' personal addresses. In such circumstances the Company's Articles of Association (Article 64) require that the location of the meeting be deemed as the chairman's location. However, it was not deemed appropriate to record personal addresses on the Company record. As such, the Registered Office is recorded as the meeting location.

² This meeting is an addition to the scheduled meetings so standard items such as minutes and matters arising have been carried over to the meeting on 27th September 2022.



POST OFFICE LIMITED BOARD REPORT

Title:	Remuneration improvements	Meeting Date:	18 th August 2022
Author:	Martin Edwards, Network Strategy & Delivery Director	Sponsor:	Martin Roberts, Group Chief Retail Officer

Input Sought: Decision

The Board is asked to approve the proposed package of remuneration improvements for announcement on 23rd August.

Previous Governance Oversight

Remuneration improvements were discussed at the Board awaydays in both 2021 and 2022 and at successive 3 Year Plan (3YP) and budgeting discussions, including in March 2022.

Executive Summary

Given intensifying concerns from postmasters about the inflationary pressures impacting their branches, we are proposing to bring forward the announcement of a long-planned package of banking and other remuneration measures worth around [IRRELEVANT] pa.

Questions addressed

1. Why are we proposing to bring forward a remuneration announcement now?
2. What is our proposed package of remuneration improvements?
3. What other options were considered?
4. What are the financial impacts?
5. What are the plans for announcement?

Report

Why are we proposing to bring forward a remuneration announcement now?

1. Successive postmaster surveys have identified remuneration and profitability as the network's top concern and our own analysis (shared with the Board last July) highlighted that [IRRELEVANT] of branches are either unprofitable for our franchisees or provide a contribution of less than £5k pa. This clearly poses major risks to network stability.
2. We have therefore discussed the need for remuneration improvements at successive network strategy and 3YP Board sessions, and indeed the 2022/23 budget included a [IRRELEVANT] allocation for rate increases. We have been signalling to postmasters since last autumn that we would use BF3 as the opportunity to review banking remuneration, and we were planning to finalise a decision and announcement on this in September.
3. However, over the past month we have seen a marked increase in the levels of postmaster concern around the viability of their branches. While average remuneration per branch is growing at [IRRELEVANT] YOY since April, this compares against NLW growth of 6.6% and double-digit inflation in energy and other costs, resulting in a further deterioration in the already precarious position of many branches.
4. Alongside the increasingly vociferous feedback we are receiving from individual postmasters and the NFSP, at the end of July a new grouping called 'Voice of the Postmaster' mobilised via social media, growing to over 600 members with representation



from across the network. The group is calling for urgent action from the Post Office to address the cost-of-living crisis facing postmasters, with the threat of unofficial strikes or other symbolic acts such as non-segregation of mails.

5. Given this context, we believe it is right to bring forward an announcement on the banking increase alongside other targeted measures. Holding firm to our original late September timetable risks allowing the campaign to grow out of control, undermining our efforts to rebuild trust with postmasters and protect network stability.

What is our proposed package of remuneration improvements?

6. The core objective of our remuneration policy is to support our network strategy, maximising our ability to attract and retain the franchisees needed to deliver our commercial and social objectives. Outside of wholesale reform of remuneration (which we agreed last year should be deprioritised until after the Inquiry and NBIT migration), our focus is on prioritising our limited resources on increasing the product lines and areas which we believe will deliver best 'bang for buck' in stabilising the network. This judgement is based on two main inputs¹:
 - Quantitative analysis of the distributional impact, i.e. does the increase target the branches we are most concerned about commercially (which applies to a large proportion of the network, but especially larger Mains); and
 - Qualitative analysis of which areas are most impacting franchisee sentiment, drawn from a wide range of sources, including the postmaster NEDs & Director, the NFSP, the Regional Forums and our direct engagement with individual postmasters.
7. We have assessed the full range of product areas based on these considerations, arriving at a proposed package built around three main themes:
 - a. **Increases to banking remuneration**, the centrepiece of which is a doubling of deposit rates which delivers broad-based benefits across the network and recognises the additional workload, handling and security risks that come with growing volumes;
 - b. **The introduction of payments for certain transactions where we are paid by the client but do not currently pass this on to postmasters** – while modest in financial terms, clearly these payments are important from a fairness perspective;
 - c. **One-off or temporary additional payments which recognise the immediate financial pressures facing the network**, giving us the time to consider what longer-term increases may be needed from next April in the context of the wider 3YP.
8. The full package is set out in more detail in the table below. All measures will be implemented from September trading (October remuneration) unless otherwise stated.

¹ While benchmarks like share of income and the cost of serve of each transaction are also considered, we do not currently have a determinative policy around these metrics. If we did, we might have prioritised bill payments and cash withdrawals as the two key product lines to increase, because they both compare unfavourably against their associated *direct* labour costs. However, relative to the areas we are recommending, the level of postmaster 'noise' around these product lines is lower and the distributional impact is less useful (pound for pound, more of the benefit goes to Locals, which we are *relatively* less concerned about from a commercial viability perspective).



Measure	Cost in 22/23	Ongoing cost pa	Average £ per branch/month		
			Mains	Locals	SPSO
Banking deposits - double transaction-based rates, recognising the handling costs for branches of growing deposit volumes					
Cash withdrawals - introduce additional rate of [RELEVANT] per £100 for the value of withdrawals over £500, benefitting those branches with business customer doing large withdrawals					
Banking "unpaid work" - introduce payments for balance checks (5p) & various failed transactions (3p to 13p) which are currently unremunerated but we are paid by the banks					
Click & Drop letters under 100g - introduce 5p payment for processing these items purchased online, passing on 100% of the fee we receive from RMG					
Energy & Cash Payout – double rates, backdated from April 22 and running until end March 23, benefitting the surge in volumes this year from various Government support measures					
One-off payments in Sept based on [RELEVANT] of each branch's mails rem from April-August 22. Provides immediate boost for all branches, but especially those more weighted to mails than banking					
Total					

IRRELEVANT

9. Appendix 1 sets out further analysis on the distributional impact of this package across the network by size of branch.
10. We are also exploring with FRES the extension of a travel sales incentive for the remainder of the year, although this is unlikely to be a major earner for most branches.
11. While this package represents a material outlay for the business, we should be conscious that the average [RELEVANT] increase is likely to be viewed as insufficient by many postmasters, especially with inflation expected to exceed 13% in the coming months and the inevitable comparisons with other workforces (e.g. RMG staff striking over a 5.5% pay offer). While a package which decisively addresses postmasters' concerns is probably beyond our reach, we should debate whether we are striking the right balance between credibility and affordability.
12. We will also continue to provide a discretionary exceptional payments scheme for branches facing immediate viability challenges. Applications are referred by Area Managers and considered on a case-by-case basis, with a rigorous process to check all other mitigations have been exhausted. We have budgeted for a [IRRELEVANT] increase in payments this year, reflecting the challenges with both independent postmasters and Strategic Partners.
13. Beyond remuneration, we are also reintroducing the provision free-of-charge of certain consumable items related to cash handling (e.g. elastic bands and cash envelopes), costing c. [IRRELEVANT] pa, a measure of symbolic importance to the network.

What other options were considered?

14. There are several other options we considered as part of our long list but are not recommending at this stage, in particular:
 - **Additional lump sum payments worth [RELEVANT] for the 2k Community branches,** recognising that they stand to gain much less from the increases to variable



remuneration (as the table above shows). While this would be welcomed by this group and would help get the NFSP on board, the hard reality is that these branches are less important to our long-term commercial sustainability and we have spare capacity from a rural access criteria perspective.

- **A profit share mechanism** – this would align incentives between POL and postmasters and pose less financial risk compared with locking in fixed increases to remuneration. On the other hand, given that it would be months before we are able to confirm even an initial distribution, it would fail to address the urgency of the immediate pressures facing postmasters and may be cynically viewed as “jam tomorrow”. Nonetheless, we propose that this mechanism should be revisited as part of a potential autumn announcement, as a tangible sign of our commitment to genuine partnership with our franchisees.
- **Permanent mails remuneration increases instead of the lump sum payments**, in particular boosting the rates for pre-paid parcels which would support the longer-term sustainability of branches impacted by the shift to online mails. Subject to wider 3YP cost pressures, we propose reviewing this as part of a further round of remuneration increases in April 2023.

What are the financial impacts of this package?

15. The [IRRELEVANT] cost in 2022/23 represents an additional [IRRELEVANT] commitment beyond what we have budgeted for remuneration increases this year. This should be affordable within our expected profit upside, although of course anything we spend now reduces the amount we might have left to distribute in a future profit share arrangement.
16. For later years the increase to deposit rates was already included in the previous draft of the 3YP, so this package represents an additional [IRRELEVANT] pressure which has been incorporated into the latest draft.

What are the plans for announcement?

17. A special Postmaster Conference will be held on the evening of Tuesday 23rd August to announce these remuneration increases alongside providing branches with practical information on how to manage the impacts of the RMG strike commencing on Friday 26th August. The Conference will be held in London with local Postmasters in attendance and accessible to all via a livestream, including plenty of time for questions. After the conference there will be a series of communications to reinforce the headline messages and a programme of direct communications to postmasters, with Area Managers equipped to share the specific impacts of the remuneration increases on each branch.

Appendix 1: current remuneration growth rates and the impacts of the proposed package by size of branch

Rem Bracket	Rem Bracket	Number branches	Ave monthly rem	3 Year View (12m)	YTD vs LY	Ave Monthly Increase (£)	Ave Increase (%)	Mails & Payout Lump Sums
IRRELEVANT								