



POST OFFICE LIMITED BOARD REPORT

Title:	Postmaster Remuneration increases for 2023/24	Meeting Date:	28 th March 2023
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Input Sought: Noting

- The Board is asked to note the proposed package of remuneration increases for 2023/24, subject to its approval of the wider budget.

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Background

- The final 2023/24 budget submitted to the Board includes a £15m allocation for remuneration increases. This note outlines how we propose to deploy this money.
- The primary objective of our remuneration policy is to ensure we have sustainable, attractive propositions for our franchisees which enable us to deliver and maintain our target network. Focussing on this outcome is all the more important given that: a) we have limited resources to replace churning branches over the next two years, especially against the backdrop of NBIT; and b) postmaster profitability is set to fall by c.£29m in 23/24 because wage increases are outstripping remuneration growth. This equates to a c.£5k drop in margins for a typical Mains and c.£2k for a typical Local.

The lead proposal

- The GE reviewed the options on 22nd March and concluded that we should focus the majority of the £15m increase on **a 20% increase to banking deposit remuneration (both the *ad valorem* and volume-based rates), worth around £10.8m pa**. The rationale for this is as follows:
 - Generally we believe it is better to focus on one or two significant remuneration levers rather than small increases to dozens of individual product rates.
 - Mails remuneration would have been the other contender, but under MDA2 this now has in-built annual indexation mechanism, linked to either RMG tariffs or CPI. We have already announced this will deliver a £10.8m (6%) increase in mails remuneration (at *current* volumes) in 2023/24.
 - Increasing deposit remuneration has a good distributional impact from a network strategy perspective, with 94% of the increase going to commercial branches we wish to retain in our target network;
 - The medium-term growth prospects for banking deposits remain strong;
 - It continues to be one of the product lines most frequently requested by postmasters for further increases; and
 - Even with last September's increase to deposit remuneration, we currently only share c.31% of banking revenue with postmasters, compared with c.58% for mails.
- This increase will commence from April trading and will be worth c.£1.9k pa for an average Mains and c.£700 for an average Local.

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