

Exceptional Payments & Network Premium Payments

Policy & Process Document

POSTMASTER REMUNERATION

March - 2022



1 Additional Remuneration Overview

Exceptional Payments

- An Exceptional payment is a short- term monthly payment to normally “maintain service” in key locations and is a payment on top of normal remuneration.
- These payments are normally provided by POL in predominantly prime locations (High Streets etc.).
- An exceptional payment is a last resort and put in place whilst a permanent solution is actively sought.
- Occasionally, hardship requests are received from offices and these would be processed in the same way.

Network Premium Payments

- A Network Premium payment is paid monthly to offices who provide Outreach services and incur extra costs providing this service.
- Network Design Team (NDA) are contacted by the Network Provision Team (NPT) to assess if a Network Premium Payment is potentially needed for an outreach service as there may be additional travel time, mileage or venue rental costs.
- A monthly payment is calculated based on any additional travel or venue costs which are above the modelled assumptions.
- Postmaster Remuneration are informed once validated and a monthly payment will commence.
- If there are any changes to the arrangements, then the NPT contact NDA so the payment can be reassessed.

Exceptional Payment Process:

The current process that sits within Postmaster Remuneration relies quite heavily on making instant decisions based on Profit & Loss information received and having direct contact with the Temporary Postmaster team, the current Postmaster and Network Provision Team.

- A Postmaster defaults, resigns or is suspended/terminated and a Temporary Postmaster needs to be appointed. Network Provision Lead will contact Temporary Postmasters Team [REDACTED] in the first instance.
- Temp Team will contact Network Design Team to determine if a Temp Postmaster is needed at this branch or whether offices in the area can absorb the extra traffic if the branch remains closed.
- NDA assess if office needs to remain open and a possible Exceptional Payment needed and will inform the Temp Team. This will consider such factors as customer access to the surrounding network and those services offered, type of classification (Urban, Urban Deprived or Rural) and Network Blueprint.
- The Temp Team will look to appoint a Postmaster. An Estimate of Remuneration is requested, and a draft profit and loss statement is sent to Temp Postmaster to complete and return. (See embedded Draft P&L)
- Draft P&L completed and forwarded to Postmaster Remuneration team [REDACTED] assess.

How are they calculated: Any exceptional payment is calculated based upon various key performance indicators Firstly the Postmaster is expected to provide the latest profit and loss accounts that clearly show a breakdown of all income and expenditure for the complete business. Turnover would include Remuneration paid and all Retail Income. In most cases the Temp Postmaster would not take on the running of the Retail side of the business.

The P&L accounts are checked for robustness and accuracy and documentary evidence can be requested to support all Income and expenditure (e.g. copies of latest bills for utilities, lease agreement, etc.) and if needed the latest set of audited accounts. Not all expenditure is allowable when calculating a potential subsidy e.g. losses, hospitality, depreciation, motoring expenses, etc. would be excluded from the overall P&L. The P&L is clearly designed for the operational costs of the Post Office.

Postmaster Remuneration will assess the P&L provided and will re-calculate all Income less expenditure and show whether there is a deficit shown on the accounts. Remuneration is checked and agreed with the figures provided A final subsidy level is determined which either meets a basic agreed 'management fee' with a Temp or in the case of an individual operator a Net Profit Margin below 7%. Any amount below 7% Net Profit Margin would be considered for an Exceptional Payment.

NB. Management Fees are normally charged by companies who supply Temp Postmasters to run our branches at very short notice and tend to have most of the Temp run branches. The Management fee is the monthly charge they will claim for running the Post Office and ranges from £500 to £1,500 per month based on the average customer sessions per branch. If a Management fee is being claimed in the Profit & Loss statement, then an Exceptional Payment is calculated based on achieving a "zero" balance on the P&L.

The P&L also calculates what the percentage ratio is for staff costs to current Postmaster remuneration- the maximum would not expected to be above 70% Any ratio's above this would be investigated further to establish why staff costs are high at the office- what is the hourly rate paid-how many hours worked-number of staff etc.

A staff summary report is provided from the modelling team that captures expected hours this office requires to provide a service – this is compared to office hours provided by the Postmaster to ensure an efficient operation.

Moving – Forward: The reasoning behind an Exceptional Payment process being developed is to enable the Network Provision Team and Area Managers to have a more active role going forward and to be more involved in both the decision making and understanding of these extra payments. Also, it does allow for Area Managers to evaluate/make decisions based on the knowledge gained within their own area and expertise gained when assessing offices and local knowledge gained to offer advice on retail, location issues, staffing and potentially refinancing for additional capital at these offices and this would relate to the Area Managers only when assessing any possible Exceptional Payments

All branches need a good retail offer and the question of reviewing this to see if improvements can be made e.g. change of offer, local area competition, needs of the customers etc. will help Postmasters assess their own business and make any changes necessary rather than apply for these extra payments.

2. Network role –moving forward

The fundamental role of the Network Provision Team and Area Managers going forward will be to be actively own and be involved in the decision- making process for Temporary Postmasters looking to claim for an Exceptional Payment (See Appendix A) and Area Managers to assess whether a permanent Postmaster can claim for an Exceptional Payment based on the considerations listed below.

Appendix A - this document highlights the flowchart process that should be followed when a Temporary Postmaster is looking to be appointed and would relate to the Network Provision Team.

Appendix B - this document highlights the flowchart process that should be followed if a Postmaster is having extreme financial difficulties and has approached POL for help and relates to Area Managers.

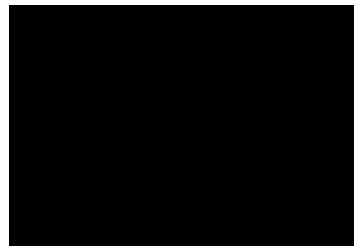
Items Network must consider:

- A Postmaster defaults or is suspended/terminated and a Temp Postmaster is appointed (appointment of Temp Postmaster agreed with @Temp Postmasters Team and communicated to the NPL)- details of this office should automatically flow through to the Network Design Team- (see contacts)
- It needs to be determined if the request is for an existing Exceptional Payment is to continue or the Postmaster has defaulted on his contract or has been terminated and a Temporary Postmaster needs to be appointed.
- Before an Exceptional Payment is assessed in all cases the following points should be considered.
 - Assess Staffing levels at office- both Post Office staff and Retail. Use the Network Design Team's staff summary sheet in Periscope that calculates for every office to show Post Office staffing hours needed.
 - Check Hourly rates being paid- are they too high
 - Has the Postmaster contacted his Landlord to possibly renegotiate his Rent?
 - Has the Postmaster looked to re-finance his office?

- If the office has a Retail Proposition has this been assessed. E.g. Is the Retail being offered in direct competition with local shops and Retail outlets.
- What is the standard of the retail offer: Poor/Average/good/excellent etc.
- Is the equipment in good condition, are the shelves and fridges fully stocked, well-presented and priced?
- Do any other retailers in the high street have the same offer as the Post Office?
- Can the retail offer be improved?
- Is the Postmaster maximising his retail space?
- Does the Postmaster have the right retail offer for the local area?
- What is the profit percentage split between the Post Office and the Retail offer? E.g. 30% Post Office 70% Retail

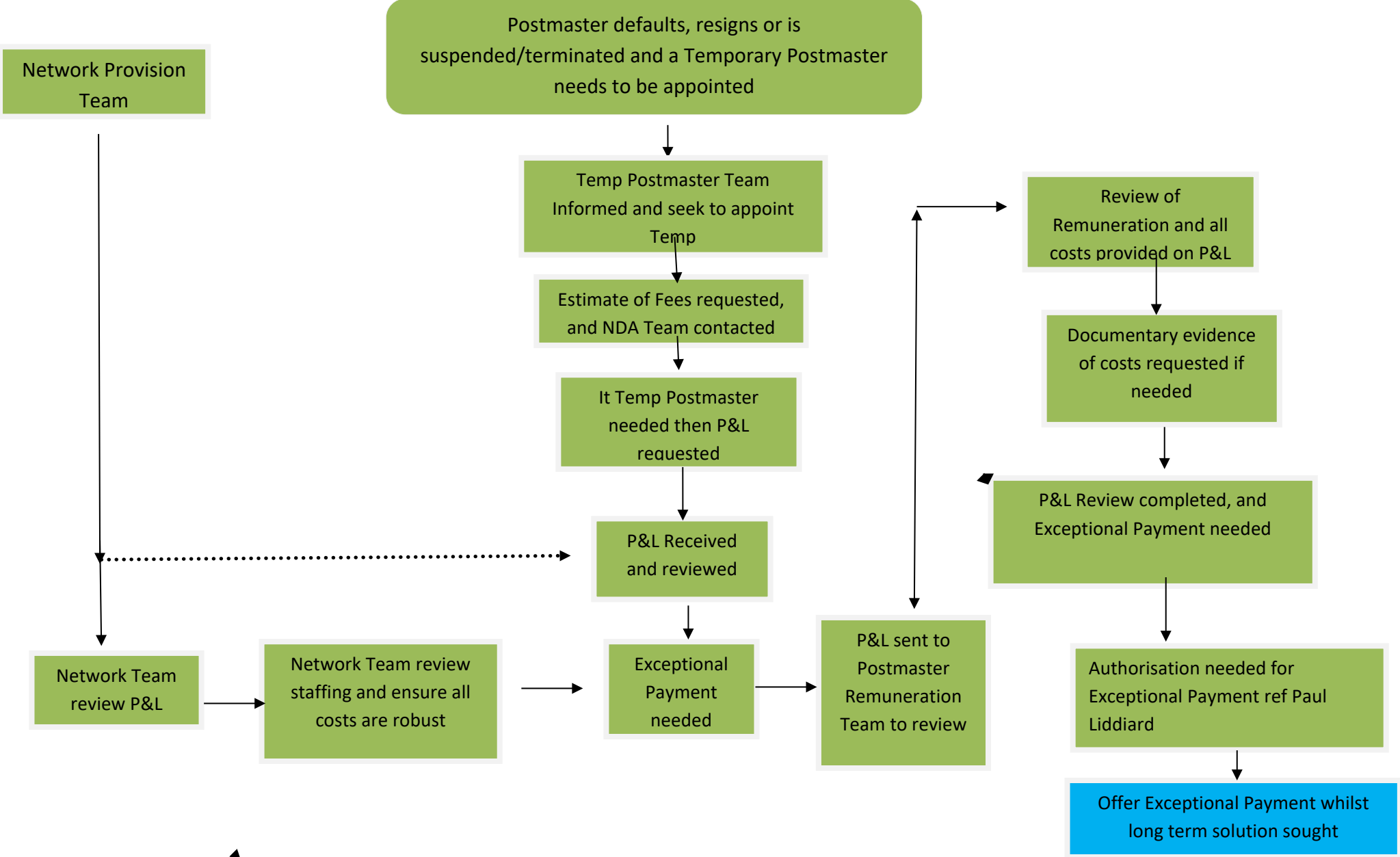
AUTHORISATION AND ASSESSMENT FOR EXCEPTIONAL PAYMENT

- In conjunction with Postmasters Remuneration, who will be completing the review of offices profit and loss accounts – Network Provision Team and Area Managers will need to be evaluating the office to determine the viability before any Exceptional Payment can be agreed and also need to evaluate if a Temp Postmaster is required here in discussion with Network Design Team
- Postmasters Remuneration will conduct a review of offices P&L Account - staff costs checked- are they overstaffed- see flowchart process- if “yes” then Temp Postmaster to reduce before subsidy considered.
- Offices with Retail- All branches need a good retail offer and the question of reviewing this to see if improvements can be made e.g. change of offer, local area competition, needs of the customers etc. Also, is the Postmaster able to re-finance rather than come to POL for financial subsistence.
- Exceptional Payment authorisation agreed once Network have exhausted any other areas of improve financing this office.



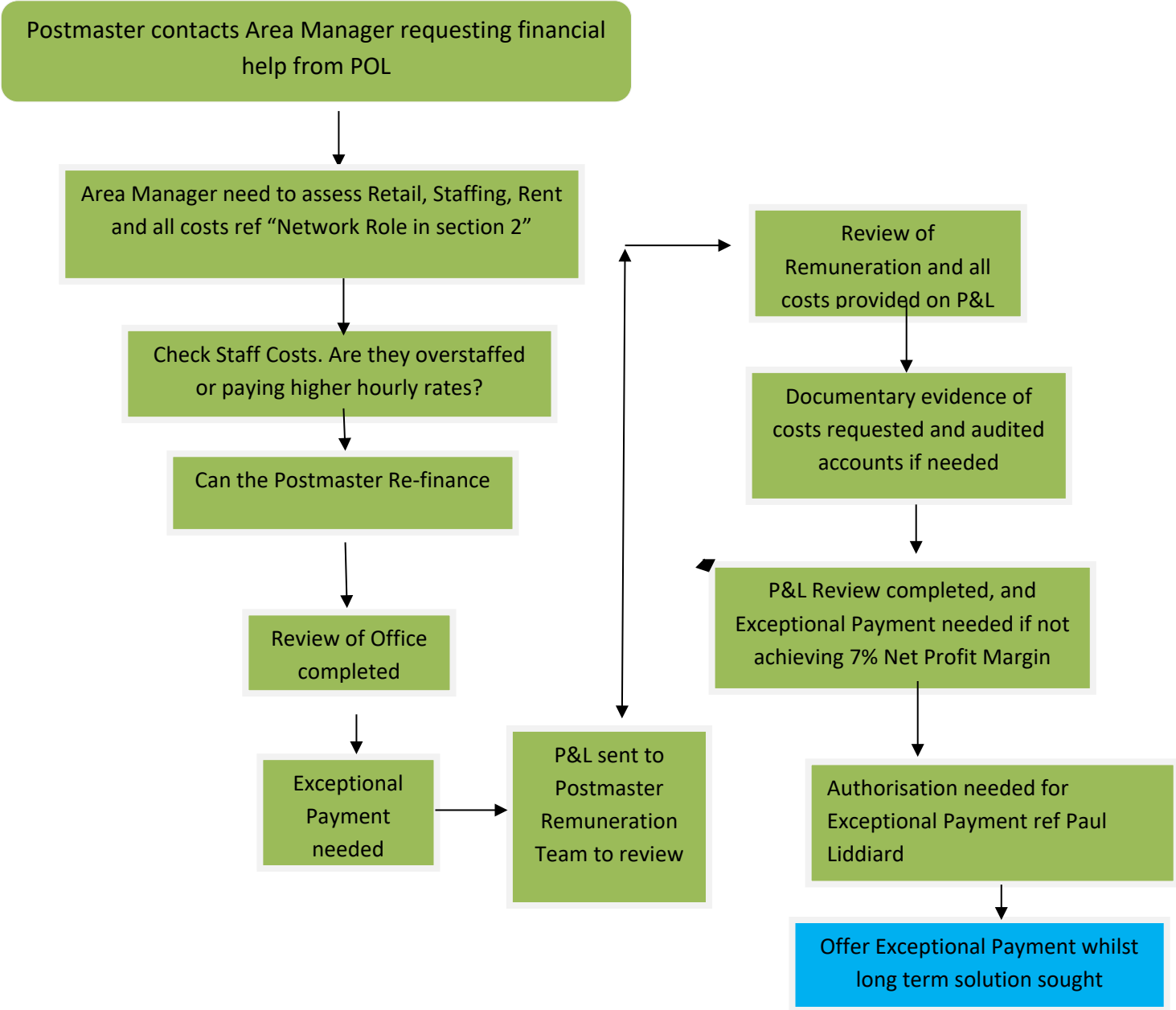
Assessment and Authority for Exceptional Payment for Temp Postmaster

Appendix A



Assessment and Authority for Exceptional Payment for Hardship Cases

Appendix B



Contact Points

- Network Design & Analysis Team- [REDACTED] [REDACTED]
- Temporary Postmasters Team- [REDACTED] [REDACTED]
- Postmaster Remuneration- [REDACTED] [REDACTED]

