

**Question for Short Debate**

**Thursday 30<sup>th</sup> March 2017 – 4pm – 5pm**

**Location: TBC**

**Lord Hain:**

**To ask Her Majesty's Government about the future of local post offices.**

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## 1. SPEAKING NOTE

### Closing remarks

- I am very grateful for the Honourable Lord for bringing this debate today. I would like to start by reiterating the Government's commitment to the Post Office.
- The Government recognises the important role that Post Offices play in communities across the country. We have said so time and again, and we mean it.
- Local post offices are an important option for customers and small businesses to access a range of mails, financial and Government services, particularly to its more vulnerable and remote customers.
- That's why the Government has committed to securing the future of 3,000 rural post offices in its manifesto – typically those branches that are the last shop in a community.
- Between 2010 and 2018 the Government will have provided nearly £2 billion to maintain, modernise and protect a network of at least 11,500 branches across the country.
- The Government sets the strategic direction for the Post Office, which means we ask it maintain a national network of post offices that is accessible to all, and to do so more sustainably with less need for taxpayer subsidy.
- Post Office Limited delivers this strategy as an independent business. We do not interfere in its day to day operations, such as the provision and location of branches.

- Today there are over 11,600 post office branches in the UK and the network across the UK is at its most stable for decades.
- This is because the Post Office is transforming and modernising its network, thanks to the investment Government has made.
- Support from Government has enabled–
  - Over 7000 branches to be modernised across the UK - offering a better experience for customers and more sustainable retail propositions for postmasters.
  - Customers to benefit from almost a million extra opening hours each month and the largest Sunday retail network in the country.
  - The subsidy needed to sustain the network drop from a peak of £210m in 2012 to £80m last year and this should continue to fall.
  - The business to reduce its losses - from a loss of £120m in 2012/13 to just £24m in 2015/16.
- And customer satisfaction has quite rightly remained high, at over 95%.
- In short: the business is offering more for customers, doing so more efficiently for the taxpayer and ensuring that Post Office services remain on our high streets throughout the country. We are therefore confident that we have addressed the Noble Lord Hain's concerns about protecting local branches

## **Post Office in crisis / union criticism of business**

- Far from being in “crisis”, the Post Office is following a successful course to commercial sustainability under the leadership of its management team.
- This Government disagrees with the unions’ view that the Post Office is failing, as it is reducing its losses, reducing its need for subsidy and continuing to offer a high quality service to customers with longer and more convenient opening hours.
- The business already engages with its stakeholders, such as the National Federation of Subpostmasters and its unions, and I would encourage them to continue their dialogue with the Post Office.
- Whilst significant challenges remain to completing the goal of securing its future, the Government believes the business is on the right path.

### **Creation of a Post Bank**

- The case for creating a state-backed Post Bank was considered in 2010.
- It was decided that the Government investment then available would be better used to modernise the network. The success of this approach has been seen over 7000 modernised branches and a network at its most stable for decades.
- While Post Office did not create its own bank, it has a successful financial services business offering current accounts, mortgages and personal savings as well as foreign currency. These are delivered through its partnership with the Bank of Ireland and offer all the key benefits of a Post Bank. Post Office has also developed its insurance offer by building its in house capability.

- Moreover Post Office has been working with the Banks and the British Banking Association to create a standardised framework for access to third party banking services.
- The framework was launched in January and offers simplified access to those holding accounts with other banks across the UK.
- This is both a fantastic opportunity for the business and for the communities they serve – many of which have been badly affected by bank closures.
- It is therefore hard to see what a Post Bank offers to customers which is not already offered already.

### **Changes to Crown Network**

- The Post Office's proposals for franchising and hosting some of its Crown branches are part of its plans to ensure the network is sustainable and profitable in the long term.
- The change from a Crown to a franchise or host branch has been undertaken previously in many locations across the UK and is a successful way of sustaining Post Office services in these locations as Post Office shares staff and property costs with a successful retailer.
- These on-going plans have to date meant Post Office Crown branches have moved from a £46m annual loss in 2012 to breaking even today.
- But more work needs to be done. There continue to be Crown branches which are loss making.

- And that's why these changes are important. By making all branches more sustainable, including the Crowns, we will help to keep Post Office services on our high streets throughout the country, whilst reducing the funding burden on the taxpayer.

## **Government funding of Post Office**

- The current funding agreement for Post Office expires in March 2018.
- The Government has said publically that it considers that Post Office will likely continue to require some funding, to sustain the nationwide network and to meet our manifesto commitment to secure 3000 rural branches.
- Funding discussions with the Post Office have opened and discussions continue.

## **Network Consultation**

- The Government conducted a consultation exercise on the Post Office network before the end of last year.
- The aim of the consultation was to help us to understand what the public and businesses expect from the Post Office and to understand more fully what subsidy is needed and what it should be used for.

- I want to stress that this consultation did not propose any changes to the network, but sought views on how to make the network stronger, sustainable and better for its customers.
- The Government expects Post Office to require funding over the coming years, and the feedback we received will help test how that funding may best support the network.
- The Government will publish its response to the consultation in due course.

### **Government services at Post Office [If raised]**

- The Post Office is the largest provider of counter-based Government services in the UK and has key contracts with the DVLA and the Passport Office for a number of transactions.
- Its extensive geographic reach and key role in the heart of communities means that it is well-placed to bid for and win important contracts.
- The Post Office is continuing to work with both local and national government to look at opportunities for delivering more government services through the network.
- But it's important to remember that Government cannot simply award contracts to the Post Office. It is right that services must be procured competitively to ensure value for taxpayers' money.
- Furthermore, Government has an important role to play in ensuring people can access Government services in the ways that best suit their needs.

- Increasingly, many of us prefer to access Government services online, which can be more convenient for people. Whilst this has an unfortunate impact on Post Office, we cannot ignore people's desire to transact with Government digitally from the convenience of their own homes.
- But it is for that reason that Post Office continues to develop its online presence. For example it is one of the largest providers of identity verification through the Government's "Verify" service.

### Restructuring at Post Office HQ *[If raised]*

- As part of Post Office's ongoing transformation to make it more commercially sustainable, there will be a 20% reduction in the 1100 people in its HQ function, largely based at Finsbury Dials in central London.
- A more efficient and lean central support team will mean that there is greater scope to share benefits from contracts Post Office wins with the agents who run the branch network.
- This will make the 50,000 jobs in the agency network more secure.
- There will be no reduction in the service the public will see.

### Conclusion

- As we know all too well, it is a difficult time for the high street. Some key presences like BHS have gone and others are having to make tough decisions to survive.

- We recognise that the Post Office is a key presence on British high streets and a key part of local communities.
- This is why we have supported it to transform – to keep Post Offices at the heart of their communities.
- This has involved significant change. Many stand-alone post offices have moved into other retailers where Post Office and the retailer can operate better together –sharing staff and property costs and where post office business is a big driver of increased footfall for the host retailer.

- I appreciate changes like these are not easy. Especially where it involves staff who may be leaving the business. But it is essential that the business gets a grip on its costs to ensure it can meet the challenges it faces now and those it will face as the way we shop and access services continues to change.
- A more efficient Post Office is better able to support and supplement the thousands of small businesses which provide the network and makes the future of the over 50,000 employed in them more secure.
- The Government's investment since 2010 has, along with the hard work of Post Office employees and postmasters, delivered real improvements. It has enabled the business to offer more for customers, to do so more efficiently and is ensuring that Post Office services remain on our high streets.
- To conclude, I would encourage Noble Lords to look objectively at the results achieved by the business in recent years: the most

stable network for decades, a £100m reduction of annual losses, 7,000 branches modernised and transformed, more than a million additional opening hours per month, and over 4,000 branches now open on a Sunday.

- While significant challenges remain to completing the goal of securing the future of the Post Office the Government believes the business is on the right path, which will protect local post offices for the long term.

**[Closing remarks end. Word count = 1688 ]**

**[Insert pages / notes in response to issues or question raised  
during the debate]**

## **2. FORMAT OF DEBATE**

- The questioner (Lord Hain) is scheduled to speak first for up to 10 minutes.
- The following speakers may then also speak for up to 10 minutes (with no guaranteed time for opposition frontbench)
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- You then wrap up the debate, responding to the earlier speakers, and may speak for up to 12 minutes including interventions.

### **3. SUPPLEMENTARY QUESTIONS**

#### **Calls to create a Post Bank and banking services at the Post Office**

##### ***Lines to take***

- The Coalition government looked at the case for creating a state-backed Post Bank and decided that the Government investment then available would be better used to modernise the network.
- The success of this approach has been seen in the over 7,000 modernised branches and the stability of the network.
- While Post Office did not create its own bank it has delivered almost all of the benefits of a Post Bank through its partnership with the Bank of Ireland or directly. This has enabled it to offer current accounts, mortgages and personal savings and insurance, to drive growth in this part of its business.
- Over the last few years Post Office has firmly established itself as one of the leading challengers to the High Street banks, offering a wide range of financial services across its nationwide network of more than 11,600 branches. This helps to make financial services products including available to people in all corners of the UK, even as High Street banks are closing their branches.
- Post Office has provided access to the majority of bank accounts at its branches since before 2010.
- In January, the Post Office announced the launch of an industry-wide agreement with UK banks. This means that 99% of UK personal bank customers and over 75% of business customers can now do their day-to-day banking at the Post Office.

- This is the biggest expansion in face-to-face banking access in a generation and a fantastic opportunity for the Post Office and for the communities they serve.

## Q&A

***Professor Griggs independent report on access to banking protocol was critical of Post Office's capability? What has Post Office done to address this?***

- Service delivery and performance are the operational responsibility of the Post Office.
- It will be for the banks and the Post Office to work together to try and overcome some of these perceived issues.
- The Post Office recognises that it is important for customers to feel safe and secure when undertaking personal transactions and is committed to ensuring adequate privacy and security for any of the services it delivers.
- The Post Office is also committed to ensuring all its staff and postmasters receive the necessary training to successfully deliver all of its products and services.
- On average queue times at Post Offices are less than 2 minutes.

***What banking services does the Post office Offer at its branches? Do they replicate what customers expect at a traditional bank?***

**Q: Whats the difference between the new banking framework and the old**

**A: It's a more uniform service for customers – previously the service available depended on who you banked with. Banks are also now quite rightly paying to access the POL network.**

**Q: If POL can provide insurance directly, why can't it provide banking services?**

**A: Greater regulatory burden (Tim will have a better answer)**

**Q: Isn't a Post Bank better for POL than using lots of different partners?**

**A: Comes with lots of regulatory burdens and risk too (again, liaise with Tim)**

[Need more Post Bank / banking framework Qs!!]

## **Background**

### ***Post Office becoming a Bank***

- There would be a significant cost to creating a state-backed Post Bank, in 2010 this was estimated at more than the 1.34 Bn needed to fund the modernisation of the network. In addition, having significant assets and liabilities on Post Office's balance sheet would impact Government's own balance sheet.
- Post Office instead put in place arrangements with the Bank of Ireland (BOI) to offer financial products. While this has been successful, over time the objectives of the BOI and POL have diverged. POL has engaged Macquarie to support it in a reengagement with the BOI to refresh the joint venture and better align both businesses [Confidential].
- Beyond offering its own financial services in partnership with BOI the Post Office offers to access to third party banking facilities at post offices.
- At present virtually all UK Debit Card holders are able to access basic banking services of their provider at any Post Office branch (cash deposit and withdrawal). The Post Office has worked hard to achieve this over many years through individual agreements reached with each of the banks.

- The ability to access these services at post offices is significant in terms of customers being able to access cash (without charge) even in the most remote areas - particularly when bank branches close.
- In March 2015 the major high street banks, consumer groups and government signed up to an industry wide agreement (Access to Banking Protocol) to minimise the impact of bank branch closures on communities and put in place alternative access to banking services. It was recognised that the Post Office had a role to play in providing access to banking services.
- The framework was launched in January 2017 and now 99% of UK personal bank customers and over 75% of business customers can now do their day-to-day banking at the Post Office.
- The British Banking Association appointed Professor Russell Griggs OBE to carry out an independent review of the Protocol and he reported with his findings early in November with – ‘Access to Banking Protocol – One Year on Review’.
- His review showed that the banks are following the guidelines set out in the Protocol when deciding to shut branches but that lenders could offer more support and advice to customers – outlining a number of recommended improvements to lessen the impact of bank closures on customers. The banks will work with Professor Griggs on an updated version of the Protocol.
- Additionally the report contained some concerns – driven by some feedback from customers – around security/privacy, queue times, workload and competence at Post Offices in connection with provision of banking services.

- A survey undertaken for the report showed that around 11% of customers surveyed have carried out more banking at post offices since closure of their local bank branch.

#### **4. FURTHER Q&A**

##### **Industrial Relations (CWU and Unite campaign – “Post Office in Crisis”) and campaign for a summit**

###### **Lines to take**

- There is no need for a summit to reflect on strategy as the business is not in crisis.
- Rather, it is on a successful course to sustainability with decreased losses, decreased reliance on subsidy and the most stable network in years.

###### **Q&A**

###### ***Why isn't POL growing the business?***

- While Post Office operates in a difficult high street retail environment, it is successfully getting a grip on costs while trying wherever it can to grow – and has had success with financial services and online identity.
- But we must be clear that even growth areas like banking are very competitive and can have very tight margins. There is no magic bullet in financial services or any other service that can totally mitigate the effect of the changes we are seeing on British high streets or prevent the changes POL needs to make to adapt to them.

###### ***Why won't POL engage meaningfully with its staff?***

- Post Office consults thoroughly with its staff and their unions on both the general direction of the business and specific changes.
- The business continues to offer the unions every chance to put any proposals it may have to boost the business to its senior management team and the Board.
- In addition to these opportunities we have run a consultation on the Post Office network to refresh our understanding of what the public expects from the network. The Post Office's unions, as key stakeholders of the business, provided contributions as part of that consultation.

### ***Will the union call for more strike action? Will the Government intervene?***

- No one wants to see further strikes, but the business is well equipped to cope with a repeat of last year's strikes. These had a negligible impact on the public with over 99% of branches open as usual.
- Given Post Office's continually improving performance, we do not consider there to be a need to intervene in industrial disputes between the company and the unions. I would encourage the unions and the company to continue with their dialogue to continue making the Post Office a success.

### **Background**

#### **Strikes**

- The strikes held last year were in protest at job losses in the Crowns, supply chain and some other central functions, and also the proposed closure of the pension scheme.
- Turnout for the strikes, and voting, was low.
- Of the approximately 300 Crown branches, 73% were open for business as usual during the last strike (31 October), up from 62% from the strike action in September.
- All bar one supply chain sites were open and all of POL's priority branches were open.

- Turnout for the action in Crown branches was 56% in September and down to 47% in October.
- In addition to the strike actions, each strike was accompanied by a political demonstration – a small protest on Westminster green on 15<sup>th</sup> September and a similarly sized protest on 31<sup>st</sup> October outside BEIS offices and POL’s central support office with a hearse to symbolise their view of the death of the Post Office. [update]

## **Job losses at the Post Office**

### **Lines to take**

- I appreciate that the changes at the Post Office have been difficult, especially for staff where these involve job losses.
- However we should remember that Post Office is a good employer and it has consulted thoroughly with staff on each change. Where it can, Post Office seeks to secure preferred options for its staff from a change – be it to transfer to a new employer or to leave the business with compensation.
- We should also remember that many Post Office changes will create new jobs in other businesses – such as in a newly franchised WHSmith.
- We should also remember that while staff reductions always are difficult, a more efficient business secures it for the longer term. This means the business is better able to compete for new business and retain current business such as preserving POL’s position as the preeminent mails service.
- Importantly this will make more secure the c50,000 jobs created in local post offices up and down the country, and help to secure Post Office’s continual presence on the high street.

### **Q&A**

***How many staff will be employed by the Post Office once the transformation is complete?***

- The Post Office will have reduced from 6,500 to 4800 by the end of March.

***Are there plans to introduce more job losses at the Post Office?***

- A 20% reduction in the c 1100 people at Post Office HQ has also been announced.

***Are people losing their jobs because the Government putting too much pressure on the Post Office to reduce its costs?***

- The Government will have committed nearly £2 billion during the period 2010 to 2018 to modernise and sustain the network.
- We have asked the Post Office to operate efficiently and as an independent commercial organisation, providing value for money to taxpayers.
- It has managed to reduce losses by £100m p.a. over the last 5 years, whilst keeping the network at its most stable for decades.

[Needs work]

**Background**

- Job losses have predominantly been in the cash supply chain, crowns, and headquarters.
- The number of jobs will go from 6,500 to 4800 by March next year.
- The majority of people working for POL are either independent self employed subpostmasters [insert number] and *their* employees (c50,000).

## **Changes to Crown Network**

### ***Lines to take***

- The Post Office's proposals for franchising and hosting some of its Crown branches are part of its plans to ensure its branch network is sustainable and profitable in the long term and fits the future needs of the business and its customers.
- The proposals to franchise or host further Crown branches are part of an on-going improvement plan which has shifted its Crown branches from a £46m loss in 2012 to breaking even today. But more work needs to be done.
- This will help keep Post Office services on our local high streets throughout the country and bring further investment for customers.
- The change from a Crown to a franchise or host branch has been undertaken previously in many locations across the UK and is a successful way of sustaining Post Office services in these locations.
- It is worth remembering that 97% of all Post Office branches are already franchises, operated by independent business people.

### **Q&A**

***These changes have resulted in a drop in quality of service in franchised Crowns***

- The Post Office is committed to ensuring all branches across its network offer excellent customer service and has a strong history of working with its many franchise partners and agents to achieve it.
- Independent research shows customers are happy, with satisfaction levels consistently high at over 95%. Mystery shopping of Crowns and former Crowns show they offer comparable quality.
- It should also be remembered that the Post Office's franchise partners, such as WHSmith or McColls, are very experienced retailers who are focussed on delivering good customer service. The success of their businesses depend on it.
- There is also the opportunity to retain staff from the existing branch also have the opportunity to transfer to the franchise branch if they wish and some do so.
- 97% of all Post Office branches are already franchises, operated by independent business people.

***Do franchised Crowns offer less services than traditional Crowns?***

- When it creates a new franchise to replace a Crown branch Post Office will usually offer the same set of services as the existing Crown branch.
- There may be some occasions where local factors might affect this – as the provision of Post Office services is the operational responsibility of the company these are for the business to resolve.

***Post Office is replacing good jobs with minimum wage or zero hours contracts.***

- Post Offices run on an agency branch basis comply with UK law on staff pay. Those on the National Living Wage will benefit from increases in that wage over the coming years.
- Zero hours contracts are not widely used in Post Offices. For example, WHSmith has only used zero hour contracts for about 20 students who requested this approach to fit in with studies.

***Criticism of previous investment in Crowns that are now subsequently being franchised or hosted***

- The Post Office regularly invests in all of its branches to ensure they are in modern and secure retail environments.
- Investment made will have benefitted customers and staff and some of that investment will be transferable, for example such as with re-use of equipment and IT.

***Why not use the host model exclusively rather than franchise?***

- While the hosted model allows staff to remain Post Office employees, sited within a retail premises like WH Smiths, the decision on whether to host or franchise will vary depending on the balance of costs and revenue at each branch.
- Decisions on which model to adopt are the operational responsibility of the Post Office which seeks to get the best long term solution for each location.

***This is privatisation by the back door.***

- Over 97% of the UK's post office network is already operated successfully on a franchise or agency basis. This has been the case for many years.
- Post Office Limited, which remains wholly owned by the public, will continue to manage and oversee the national network.

***Why does Post Office refuse to meet or consult on changes?***

- Post Office **does** consult on every planned change to the location of a branch.
- The business runs a 6 week local consultation to make customers and the local community aware of the detail of its plans and to seek feedback. The Post Office takes into account all feedback received before reaching its final decision and often runs local meetings where needed to explore local concerns.
- [If required: However, where Post Office is asked to meet before it has a viable proposal it will usually decline to meet until there is a clear proposal to discuss as part of its standard engagement.]

***Criticism of Post Office or franchise partners undertaking recruitment or planning process in parallel with consultation, before decision made***

- It is normal for potential franchise partners to undertake planning activities and start recruitment processes prior to the end of the consultation period in order to be ready to proceed as quickly as possible.
- This is in the interest of the host business and the Post Office to be ready to move quickly on something which will benefit both businesses and benefits the community who will have a greater idea of the type of branch being proposed (e.g. from more formalised branch layout plans etc).
- However, all activity is undertaken on the condition that it is subject to the outcome of the formal consultation. This includes any offers of employment which are only formalised if the consultation process stage is passed. Therefore this in no way affects the consideration of the feedback or pre-judges the decision of the Post Office.

## **Background information**

- There are currently just under 300 directly managed and run 'Crown' branches within the network which makes up less than 3% of the overall network
- Despite investment in these locations, these branches can still be loss making or are not as profitable as they could be. Often the best way to make sure that customers continue to have a main Post Office into the future is to seek to franchise these branches or provide a hosting solution (hosting is where the Post Office occupies the space in the branch and continues to directly operate the post office and employ post office staff).
- This puts them on a more sustainable basis as Post Office effectively shares staff and property costs with a successful High Street retailer, often, but not always, WHSmith. More often than not it also puts the new branch in a better location on the high street for customers. Often the high street has moved away from the old Crown office building.
- Over the past year, the Post Office has been seeking franchise partners for a number of its Crown Post Office branches and has closed 3 branches.
- There are currently XX projects underway (3 closures, XX franchises and XX hosts). XX decisions have been announced and of those 24 changes have been completed. There are CC live consultation and X closed pending a decision. *[update]*
- Many of these changes have involved WHSmith. Just under a year ago, the Post Office announced that it had entered into a new agreement with WHSmith to relocate up to 61 branches into WHSmith stores over the following 12

months, including a number of franchises and hosted concessions. WHSmith currently operates XXX post offices.

- Relocating more Post Office branches into the UK retailer's modernised stores has helped keep services on high streets throughout the country and bring further investment for customers.

### ***Definition of 'Franchising' and 'Hosting'***

#### Franchise

- Where the Crown post office moves to be run and managed by another local retailer within that retailer's store – e.g. WHSmith or Tesco – so moves to an agency arrangement with the retail partner chosen and the Post Office is staffed and operated by employees of that retail partner.
- It is no longer run and managed direct by the Post Office. The existing Crown will close and the Post Office staff will have opportunity to transfer for the new franchisee under TUPE employment protections, redeploy elsewhere within the business, or leave with compensation. Typically a franchised branch will provide the same set of Post Office services as the Crown branch did.

#### Host

- The Crown post office moves into another local retailer – e.g. WHSmith/Tesco, occupying space within their store but still run and managed direct by the Post Office and staffed by Post Office employees.

- Typically offers the same services as Crown branch did at original location and staff move with branch. Post Office and host retailer benefit from associated footfall and shared overheads.
- The type of solution the Post Office seeks to deploy will depend on the individual circumstances in each case and will be what the Post Office considers can deliver the best outcome for the business and its customers in each circumstance.

### ***Info on POL's Local consultation Process***

- Before it makes any changes the Post Office consults locally to let customers and interested stakeholders know what the detail and plans for the change proposal are and to seek feedback.
- The six week local consultations will be when there is a proposed relocation, franchise etc. (i.e. significant change off-site) – as opposed to changes to an existing branch involving the current postmaster (e.g. an on-site modernisation with the existing postmaster).
- The decision on any change is for the Post Office – the local consultation does not seek a mandate for change, it merely helps inform the Post Office before it finalises its plans.
- The Post Office carefully considers all feedback received during the consultation process before reaching a final decision and the Post Office has made changes to a number of its plans following on from consultation feedback (this can range from not proceeding, to making additional arrangements for

parking, changing the proposed branch layout, inclusion of some additional services, changes to opening hours etc.).

*Consultations that occur prior to a final decision by the Post Office.*

- More often than not when people refer to a post office closing – this will have involved a relocation to another site – so the original site closes but services going forward are provided from a nearby shop, WHSmith etc. (actual impact is a site change rather than loss of service)
- There will be occasions where a post office has closed due to reasons beyond the control of the post office (i.e. postmaster retires due to ill health, experiences financial difficulty due to personal circumstances) and that closure is not planned and **not** a result of the Post Office's transformation and modernisation programmes.
- In such situations the Post Office works hard to restore the service as soon as possible to the community – and when it has a potential new operator on board or proposal to reinstate service provision then it will consult locally – again to inform stakeholders of plans and to seek feedback.
- This is the very limited circumstance where a consultation would occur - after an unplanned closure.

## **Closure of the Defined Benefit Pension Scheme**

### ***Lines to take***

- The independent trustees have agreed that the Post Office's defined benefit pension scheme will be closed on 31st March 2017.
- Closure will prevent the Post Office having to increase its annual contributions by £30m p.a. just to keep the pension open.
- Closure will also assure pension benefits earned by staff up to that time.
- Post Office has acted prudently before the scheme could fall into deficit and ran a thorough consultation and extended it twice to allow sufficient time for discussion.
- In 2012 the Government relieved the combined Royal Mail and Post Office pension scheme's deficit to the tune of £10bn. The current scheme was unsustainable, and the scheme's trustees agreed.

## Q&A

### ***The Government should have bailed out the pension/it created the problem in 2012 with separation from Royal Mail?***

- Government already relieved the Royal Mail and Post Office pension scheme of £10Bn of unfunded deficit back in 2012.
- This left the scheme fully funded on the planning assumptions available at the time, but given the generous terms of the scheme combined with factors like increasing longevity, the scheme was increasingly unsustainable.
- With all the other calls on Government funding no further help can be provided to the Post Office for the pension.

### ***Why is POL closing the pension while it is still in surplus? Isn't this stealing member's money?***

- The decision to close the defined benefit pension was taken by the independent trustees of the pension. Therefore they agreed that without this action the scheme would soon fall into deficit. Closing it has assured the benefits built up before 31<sup>st</sup> March.
- While closure should prevent a deficit occurring, should market conditions mean that there is still a small surplus in the scheme then this will be used to fund other member benefits as agreed between the trustees and the business.

### ***What will happen to staff now the pension has closed?***

- The 3,500 staff affected by closure of the defined benefit scheme will now join the Post Office's Defined Contribution scheme. This has been the standard for new Post Office joiners since 2008.
- The defined benefit scheme it is better than many market comparators e.g. those for staff in the general retail sector.

### ***Where has the surplus gone?***

- The defined benefit pension is in surplus at the moment, but as agreed with the trustees the surplus has been used to keep the scheme open for longer, by making the business's contributions affordable..
- The contributions that were needed by Post Office to keep the pension open were expected to rise by around £30m p.a. once that surplus had gone, caused by increasing longevity and the low interest rate environment, for example.
- While the business has been making huge strides towards operating sustainably it is still loss making and cannot afford contributions at this level.

### **Background**

- The Defined Benefit (DB) pension closed to new members in 2008. Employees who joined after 2008 are part of the Post Office's Defined Contribution (DC) scheme.
- The 3,500 members of the DB scheme will now move to the DC scheme.
- Royal Mail has c 90,000 staff in its DB scheme and has given an undertaking that no changes will be made to this pension until March 2018.
- However, Royal Mail's pension is in the same position as POL's and RM has written to staff to start the discussion about what changes may be needed after 2018. *[Check latest position]*

## Government Funding

### Lines to take

- Government accepts that the Post Office network will require funding in the future, to enable it to continue making important services available to people in all corners of the United Kingdom.
- Government is in discussions with Post Office about future funding for the post office network. It is important that this is appropriate, affordable and proportionate, and that it delivers Value for Money

### Q&A

*How much funding does the Government expect to give the Post Office in the future? A: We are in discussions and can't say anything further at this stage*

*What will the Post Office use this funding for? A: Will be used to continue to support our manifesto commitment to protect 3000 rural branches. We have always said we envisage POL will continue to need funding*

*When will the Government announce the new funding package for the Post Office? A: Still in discussions, announce in coming months.*

### Background

- Government has committed almost £2 billion to the Post Office network between 2011/12 and 2017/18 to maintain and transform the network, and this funding has made it possible to modernise over 7,000 branches, extend weekday and weekend opening hours, reduce the network's losses and bring down the need for taxpayer subsidy.
- However as Government requires Post Office to maintain a network that is larger than commercially viable, we think the business will continue to require funding in the future. Government's existing funding agreement with Post Office comes to an end in March 2018 and as such a new agreement will be required for the period that comes after this.
- Discussions between Government and Post Office have started on this funding and we expect to be in a position to make an announcement on new funding towards the end of May (confidential). This will be aimed at making sure Post Office can continue to operate its network, and depending on HMG's affordability constraints, to supporting investments in the business to help it become more commercially sustainable.

## Front Office for Government / Government Services

### ***Lines to take***

- The Post Office is the largest provider of counter-based Government services in the UK.
- In 2013 it won a cross-Government framework contract which allows all Government Departments and their Executive Agencies to contract with the Post Office easily and cheaply.
- Times are changing etc – people want to transact differently....

### **Q&A**

#### ***Why isn't the Government delivering on its commitment to make the Post Office a front office for Government?***

- Key contracts with the DVLA and the Passport Office have been moved onto the cross government framework that POL won in 2013, as has the Post Office Card Account contract which has been extended to at least 2021.
- However, Government cannot simply award contracts to the Post Office: services must be procured competitively to ensure value for taxpayers' money. Customers are increasingly wanting to transact with Government digitally.
- The Post Office is still well-placed to bid for and win important contracts, with its extensive geographic reach and key role in the heart of communities.
- The Post Office is also a provider of identity verification services online, as part of the Government's "Verify" service. This means people can choose the Post Office's trusted brand to verify their identity when accessing government services online.

## Background

- Post Office has an important role to play in ensuring people can access Government services in the ways that best suit their needs. But increasingly, many of us prefer to access Government services online, which can be more convenient for people. Post Office is one of the largest providers of identity verification through the Government’s “Verify” service.
- Post Office continues to work with both local and national government to look at opportunities for delivering government services through the post office network. But contracts cannot simply be awarded to the Post Office – they must be procured competitively to ensure value for taxpayers’ money.
- The Coalition government made a commitment to support the Post Office *in its ambition* to become a front office for Government. It did not commit to make it a front office for Government.

## Network Transformation

### ***Lines to take***

- The Government will have invested nearly £1Bn in Network Transformation between 2012 and 2018 when the programme closes.
- This has helped Post Office shift many post offices from small standalone branches (which had become unviable without fixed subsidy) into successful shops, usually convenience stores.
- Where an existing postmaster could not convert their branch, the programme helped the transition by allowing them to leave with compensation when a replacement host was found in their community.
- Network Transformation has been the key plank in reducing subsidy, vastly increasing the hours operated, improving retail performance for hosts (by improving retail environments and increasing footfall), securing the Post Office's long term future by getting agency branches onto a sustainable footing.
- Over XXXX agency branches have been transformed with around XXX more signed up to convert. Post Office expects to modernise around XXXX agency branches before the programme closes.

## Q&A

***Where did £1Bn go? That's £130k per branch but actual branch modernisations are a fraction of that.***

- The NT programme has covered in store fit outs, compensation for departing postmasters, programme run costs, property specialists, commercial experts to help postmasters properly pass long term business planning tests and programme close out costs.
- One of the largest elements of these has been compensation where a postmaster can depart with up to 26 months of remuneration (capped at £200k). This has been an essential part of managing the process as fairly as possible and ensuring take up in a voluntary programme has been as high as it has.
- Around a quarter of eligible postmasters have left under this approach – the majority converted on site or at a new location.

***What about those stranded by the programme – those who signed up to leave but couldn't because no other retailer could be found in their community***

- Network transformation was not a guarantee of compensation. Whilst I appreciate that those who have made the decision to go would like to go we cannot sanction using tax payer money to leave a community without a post office.
- As we move to the end of the programme, the Government is seeking proposals from Post Office on how best to address this issue going forward for this cohort of postmasters.

***If the network is so stable why has my local branch closed/been closed for months?***

- The Post Office is made up of small businesses and like any other is subject to the same problems, such as subpostmasters deciding to retire or move on, or the loss of access to buildings due to lease arrangements expiring.
- Post Office does have contingency plans in place for maintaining service provision when this is disrupted but each site has its own unique challenges and it not always possible to do so.
- Post Office is often able to maintain service provision even in the worst cases (such as death of a postmaster) but alas not always.
- The reasons for a temporary closure of a branch are normally outside the control of the Post Office, but in such instances the Post Office works hard to restore service to the community as soon as possible
- The time this can take will vary depending on the individual local circumstances in each case, and for some cases this will take longer than others.

***While there may be over 200,000 extra hours overall, what about my local community where the bricks and mortar branch has been replaced with a part time outreach service?***

- Modernised branches are now offering over 200,000 additional opening hours every week. This is the equivalent of c.4,700 additional Post Offices operating on traditional core hours. This is a step change in access to the network.
- Nevertheless, where a small community post office closes for whatever reason, Post Office seeks to ensure continued service and will put in a mobile service—an outreach. While there is a reduction in hours it ensures continued access in the community.
- Any decision on the provision and location of post offices is the operational responsibility of the Post Office.

**Background**

- Since 2012 the Post Office has been transforming and modernising its national network through Network Transformation (NT), bringing benefits for customers and postmasters and securing its long term future. The programme is due to conclude by March 2018.
- There were over 8,000 eligible branches for NT (note NT does not include the c.3,000 Community Branches, or the Crowns).
- NT involves the introduction of new operating models into the network (Mains and Locals) designed to offer a more efficient and optimised operation for postmasters and franchisees

*Main Branch* - A high-volume model offering customers an effectively complete range of post office services. A majority of these are standalone although some are co-located with a retail business. In converting from a Traditional Branch these post offices benefit from investment that refreshes branch environments and extends opening hours.

*Local Branch*- A lower-volume model co-located with a retail business that offers customers an extensive range of post office services. In converting from a Traditional Branch these post offices benefit from investment that refreshes branch environments and extends opening hours. Co-location of the retail till also frees up space for retail use by removing the old “fortress position”, and frees up employee time which delivers efficiency and cost-savings for postmasters.

- Transformed branches do not receive fixed remuneration – all payments for post office services are linked to transaction volumes.

- The move to a variable cost and more efficient operational models for these agency branches has helped reduce the Post Office's losses. NT has significantly reduced the reliance of the network on public subsidy and will continue to do so.
- Every branch eligible for the programme is assessed by the Post Office and each will have a range of local circumstances that apply. These specific factors create a range of various options for the branch, from securing investment into the branch to convert, to attracting a suitable retailer nearby to integrate the service into their retail (relocation).

## Post Office Network Consultation

### ***Top Lines***

- Before Christmas, the Department for Business, Energy and Industrial Strategy ran a consultation exercise to understand more fully what subsidy was needed by the Post Office and what it should be used for.
- This consultation was an important step in determining support for the network in the future, once government's existing funding agreement with Post Office Limited comes to an end in 2018.
- No changes to the network were proposed through this consultation, we were seeking to re-affirm that view with stakeholders.
- The consultation ran for 6 weeks and we received over 30,000 responses from members of the public, businesses and stakeholders.
- The Government will provide a response to the consultation in due course.

### **Background**

- The funding agreement between Government and the Post Office expires in March 2018 and to sustain the network of social branches, i.e. those that cannot operate commercially, we expect there will continue to be a need for some government funding in future.
- To understand what stakeholders/customers want out of the post office network and the taxpayer funding that supports it, Government launched a public consultation (the last one being held in 2007).

- Aside from this representing best practice to establish the value money case for such support, any funding provided by the Government must be approved by the European Commission.
- During the last Commission approval process, Government agreed to undertake a consultation to refresh the data from 2007 in relation to the social need associated with the Post Office, which more easily allows the Commission to approve any state aid provided.
- Since 2010, Government's £2bn investment in to Post Office has stabilised and modernised the network, while reducing its need for subsidy and keeping customer satisfaction high. The nature of the consultation reflected this - for the most part it sought an endorsement of the current approach to managing the network, such that its post office policy will continue in a similar vein, with no changes to that policy proposed. On future services there were questions seeking input on possible new products and whether there can be a greater role for communities in the delivery of Post Office services.
- The consultation ran for 6 weeks and closed on the 16<sup>th</sup> December 2016. We received over 30,000 responses

## Separation from Royal Mail

### ***Lines to take***

- The Post Office and Royal Mail are very different companies and since separation in 2012, as a separate company with its own Board, the Post Office has had the commercial independence to be able to focus on what is best for the business and to adapt and change to best meet the challenges it faces.
- There is a long term commercial agreement in place between the two parties and they have been working together successfully since separation.

### **Q&A**

#### ***It was a mistake to separate – this has not worked***

- Since separation the Post Office has become increasingly sustainable, with its transformation programme delivering over 200,000 extra opening hours a week across the country and more than 4,200 branches are open on Sundays – directly benefitting customers.
- Over the last four years losses in the business have declined from £120m to £24m.
- The Post Office is following a successful course to commercial sustainability under the leadership of CEO Paula Vennells and its Chair, Tim Parker.

#### ***Has separation has led to Post Office closures?***

- There are over 11,600 post office branches in the UK. Since separation, the Post Office network has been at its most stable for decades.

## **Background**

- The Post Office and Royal Mail were separated in April 2012, as part of the restructuring of the Royal Mail Group of companies in preparation for the Coalition Government's sale of Royal Mail plc shares in 2013 via IPO.
- On separation the Post Office and Royal Mail entered into a long term commercial agreement (the Mails Distribution Agreement - MDA) which runs for a period of 10 years (to 2022) – the longest period permissible under law. The MDA is due for a mid-point review by both parties this year – which is sensible, to allow them to refresh and renew their working relationship and take account of any changes in the market and service delivery since 2012 to the benefit of both parties.
- Under current legislation the Post Office must remain in public ownership, except in the case of conversion to a mutual structure of ownership.

## 5. RELATED TOPICS

### **- Changes to Post Office's Supply chain**

#### Background

- Post Office has the third largest cash distribution network in the UK (armoured vans etc), to deal with the c£60bn of cash that flows through the network each year. The supply chain is highly unionised and inefficient.
- Post Office had previously adopted a strategy of selling services to third parties (e.g. Primark) to attempt to recover the cost of the operation. However, in such a competitive environment for the supply of cash (and the decreasing use of cash by retail customers), POL are now adopting a strategy of focusing on their own networks cash needs, and withdrawing from third party contracts which had varying degrees of profitability.
- Post Office have therefore closed 9 cash handling facilities (out of 25) and reduced headcount by c600 (out of c1350 posts).
- These changes will save the business c£10 million each year.

#### ***Top Lines***

- The changes to the Post Office's cash supply chain mean that the business can now deliver the same service to its branches for less overall cost.
- Post Office cannot realistically compete for external business against competitors who have lower pay and more flexible working conditions.
- It is also difficult to make a case to invest in what is a declining market for cash with the rise of electronic payments like contactless.

- Post Office believes it will only be able to deliver the expected savings by adopting a clear and consistent policy of completely exiting the external market, and focus on delivering cash to their own network.

- **Horizon**

**Background**

- Following complaints from a small number of sub-postmasters regarding the POL's Horizon IT (point of sale) system, an investigation was undertaken by an independent firm, Second Sight, over two years. Whilst this received relatively high profile press attention, no systemic issue with Horizon has been found.
- However, affected sub-postmasters continue to put pressure on POL, the Criminal Cases Review Commission (CCRC) are considering some cases where individuals have received criminal convictions, and group civil litigation is being launched against POL in the High Court.
- The Court system represents the best place for this sort of dispute to be resolved.

***Top lines***

- I understand that civil proceedings have been issued against the Post Office on the matter of the Horizon IT system. This is a matter for the courts and I am unable to comment further.

- I understand that a number of individuals have raised cases with the Criminal Cases Review Commission (CCRC). This process is independent of Government and I will not comment further.

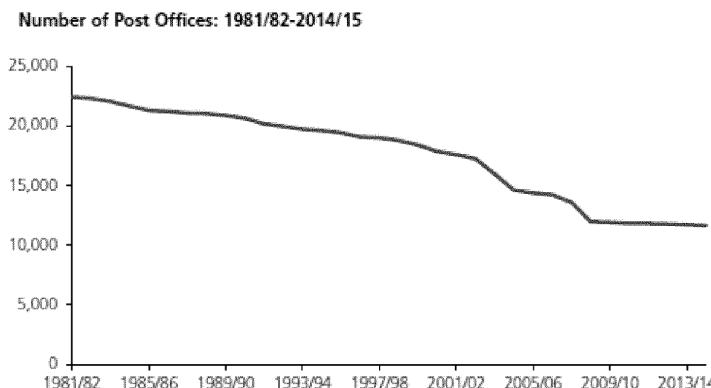
## **Mutualisation**

### ***Top Lines***

- Post Office has made significant progress in recent years towards commercial sustainability, which is a key precondition to any mutualisation.
- Decisions about Post Office's future ownership cannot be considered until that commercial sustainability has been achieved.
-

## **6. Brief History of the Post Office**

- Post Office was originally part of the General Post Office, a Government department (which also contained Royal Mail and British Telecom)
- Post Office Counters Ltd was created as a wholly owned subsidiary of Royal Mail in 1986, becoming Post Office Ltd in 2001. It separated from Royal Mail in 2012 using powers in the Postal Services Act 2011.
- The number of Post Office branches in the UK peaked in the 1970s at around 25,000. It has more than halved since then as uneconomical branches have closed down.
- Between 2003 and 2009, 5000 post office branches (28% of the network) were closed under two closure programmes. These saw the network decrease in size from approximately 17,000 to just under 12,000
- The network has been at its most stable now for decades, as the graph below shows.



Source: Post Office Limited Network Report 2015 & Access to Post Office Services: Time to Act, POSTCOMM, 30 Sep 2002

- There is however always some churn in the network as subpostmasters retire or leave the network. In such cases POL seeks to find a replacement subpostmaster at the same or alternative premises. Some branches remain temporarily closed whilst new subpostmasters or premises are found, which can often cause frustration at the local level.

### Network numbers since 2009

	UK Wide	Variance
End March 2016	11643	9
End March 2015	11634	-62
End March 2014	11696	-84
End March 2013	11780	-38
End March 2012	11818	-2
End March	11820	-85
		50

2011		
End March 2010	11905	-47

## 7. KEY FACTS

There are **over 11,600** post office branches in the UK, the **largest retail network** in the country. The Post Office network is at its most stable in decades.

Government recognises the important role that post offices play in communities across the country. Government will have provided **nearly £2 billion** during the period 2010 to 2018 to maintain and invest in a network that meets nationwide access criteria and to invest in transformation of the business.

Our investment has led to the most stable network for decades, with over 11,600 branches. These new branches are **offering almost a million extra opening hours every month.**

There are more than **4,200** branches open on Sunday making Post Office the country's **largest Sunday retail network**.

Government committed in its manifesto to secure the future of **3,000 rural post offices**, recognising the important role post offices play in service their communities.

While the Post Office is publicly owned, it is a commercial business operating in competitive markets. The Government sets the strategic direction for the Post Office – to maintain a national network accessible to all and to do so more sustainably for the taxpayer – and allows the company the commercial freedom to deliver this strategy as an independent business.

**93%** of the national population (and over 95% in urban areas) live within **one mile** of their nearest post office branch.

Around **18 million** customers & a third of SMEs visit post offices every week.

## 8. HAIN: PAST PARLIAMENTARY DEBATES / ORAL QUESTIONS

- Lord Hain Labour (item an date)

Text

## 9. BACKGROUND ON PEERS

**Title:**

**Name:**

**Joined the Lords:**

**Party:**

**Policy Interests:**

- 

**Other Information:**

- 

**Professional Life:**

- 

**UK Parliament:**

- 

**Expected position on Post Office:**

-

**Title:**

Other speakers



~~Title:~~

**Title:**

**Title:**

**Title:**