

**Question for Short Debate**

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

**Location: Moses Room**

**Lord Hain:**

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

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## 1. SPEAKING NOTE

- I am very grateful for the Noble 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–
  - More than 7,000 branches modernised
  - More than 4,200 branches open on Sundays
  - More than 200,000 weekly opening hours added to the network
  - Losses reduced from more than £120m to £24m
  - Subsidy reduced more than 60% from its peak in 2012/13
  - The most stable network in more than a generation

And customer satisfaction has quite rightly remained high, at over 95%.

- The best future for the post office network is a sustainable future, and that is what this government is making possible through significant investment and reducing the network's reliance on taxpayer support.
- 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**

- There has been a lot assertions made by unions [and Noble Lords today] about the Post Office being “in crisis”.
- 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.
- This is not the sign of Post Office lacking a strategy, but a clear signal that Post Office management do have a goal, of a secure network and increased financial sustainability. Post Office is working hard to achieve this.
- 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, opening hours extended during the week and at the weekend and a network at its most stable for decades.
- While Post Office did not create its own bank, it has built a successful financial services business offering loans, mortgages and 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.
- These services are available across Post Office's nationwide network and online, offering reach that no other bank in the UK can match
- 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 means that more than 99% of personal account holders and more than 75% of small business can access basic banking services early in the morning, late at night and throughout the weekend.

- 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.
- The Post Office network therefore not only already provides a breadth of financial services that rivals the High Street banks, but with the newly launched banking framework it can also offer customers of other banks access to important basic banking services.
- 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.
- This is not about closing branches. It about moving a branch to a lower cost model and a better location for customers, securing and improving delivery of Post Office services in a given area.
- 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.
- It's worth remembering that 97% of the Post Office's branch network is already franchised, being run by independent subpostmasters.

## **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 make sure that where government is required to comply with any obligations, such as to the European Union, it is able to do so.
- 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**

- 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

- 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.

**[Word count = 1962]**

## 2. Speaking Note (Supplementary)

### Financial Inclusion

- The recent Select Committee report on tackling financial exclusion highlighted the important role that Post Offices play in all areas of the UK, to make basic banking services available to everyone.
- The report made a number of recommendations, including around whether Post Office can better publicise what it offers. Post Office will be working with its partners to explore what it can do to implement the report's recommendations.

### POL's Pension

- Post Office's defined benefit scheme will close on 31st March 2017. The existing arrangements were not affordable; annual contributions would have had to increase by £30m to keep the scheme open.
- Post Office acted prudently before the scheme could fall into deficit. It ran a thorough and lengthy consultation with staff impacted by the change.

### Crown Branch Franchises and Mergers (Examples)

- **Beckenham (Franchise):** Relocated from the end of the high street in a less accessible location (due to roads and traffic) to the WHSmith in the middle of the high street.

- **Islington (Merger):** Merged an old branch, unsuitable for disabled access or conversion, and a temporary branch that had been in place for more than 10 years. New branch is bright, welcoming and better located at the centre of the high street (and not at either end).

### 3. 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)
  - Lord Young of Norwood Green
  - Lord Lisvane
- You then wrap up the debate, responding to the earlier speakers, and may speak for up to 12 minutes including interventions.

#### **4. SUPPLEMENTARY QUESTIONS**

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

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

- 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.

#### **Q&A**

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

- The Post Office offers unrivalled access to day-today banking through its 11,600 branches offering longer hours than traditional banks and Sunday opening.

- 110 million banking transactions were carried out at post offices last year - a six per cent increase on the previous year and more than 200 every minute

***What's the difference between the new banking framework and the old one?***

- 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.

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

- While Post Office does provide insurance products under its own brand, it is only able to do so by working with a number of third parties. Post Office also works with third parties to provide banking services. However as these third parties are the high street banks, where people and small businesses hold their accounts, it would be confusing for customers if Post Office used its own brand.  
*[Note: The distinction here is in insurance POL is selling products whereas in banking services it is providing access to an existing product.]*

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

- The banking services that POL provides today mean that more than 99% of retail account holders and 75% of small business account holders can undertake everyday banking services at their local Post Office. This is a real strength of the current arrangements which would be lost if Post Office only provided its own services.

***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.

## 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.
- *[CONFIDENTIAL: POL has engaged Macquarie to support it in a reengagement with the BOI to refresh the joint venture and better align both businesses.]*
- 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.

## 5. FURTHER Q&A

### **Lords Report on Financial Inclusion**

*Lines to Take*

- The Government recognises the important role that post offices across the country play in financial inclusion by providing access cash and basic banking services, particularly for more vulnerable or remote customers.
- Post Office has worked 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.
- Public awareness of the Post Office's banking services is increasing. In 2016 the Post Office processed around 110 million banking transactions – a 6% increase on the previous year.
- Additionally, the Professor Griggs report last year on the Access to Banking Protocol identified that around 11% of customers surveyed had carried out more banking at post offices since closure of their local bank branch.
- As part of the 2015 Access to Banking Protocol signed up between the high street banks and Government, banks have committed to notify customers of alternative access to services, including local Post Office provision, when they are closing a bank branch.
- Government appreciates that the report made a number of recommendations, including around whether Post Office can better publicise what it offers. Post Office will be working with its partners to explore what it can do to implement the report's recommendations.
- The Post Office is committed to ensuring all its staff and postmasters receive the necessary training to successfully and effectively deliver all of its products and services. The success of its business depends on this. But any service the Post Office offers must provide a realistic and viable commercial rate of return for the business.

## ***Background***

- On 25 March 2017 the HoL Lords published a paper on financial inclusion – ‘Tackling financial inclusion: A country that works for everyone’: <https://www.publications.parliament.uk/pa/ld201617/ldselect/ldfinexcl/132/132.pdf>
- The report is wide ranging and recognises that the increasing reliance on digital services and ongoing bank closures pose a number of challenges for customers, particularly the more vulnerable. It recognises that the Post Office has role to play in mitigating this given the wide range of banking and financial services Post Office provides through its extensive network.
- The Report’s main finding in connection with the Post Office is that too many customers are not aware that these services exist at the Post Office. It recommends that Government works with the banks and Post Office to launch an extensive public information campaign on services that are available at the Post Office. The Report also recommends that Post Office ensures it provides adequate training for staff so that they can carry out banking services with confidence and competence.
- On the publicity point, the Post Office is in a difficult position. Quite a number of the banks that it provides this service for do not want the Post Office to proactively make customers aware of the services it offers because a) it serves to pull footfall away from bank branches which are already struggling, thereby exacerbating the problem of bank branch closures, and b) it further serves to highlight the difficulties banks are having in keeping their own branches open.

- The report also references that several witnesses suggested innovative ways in which Post Office branches could support access to financial services. These included: video terminals through which bank customers could talk over more complex financial matters with staff from their own bank; providing an access platform for either commercial or not-for-profit personal loans; “pop-up” branches could be set up in empty units in rural areas; and it was also suggested that the Post Office could follow the example of the New Zealand Post Office’s Kiwibank (similar to the CWU’s call for a Postbank). On the face of it is difficult to see how many of these would provide a viable commercial rate of return for the Post Office or not involve additional financial commitment via public subsidy. The Report indicates that it was repeatedly noted that, for the Post Office to be able and willing to provide such services, these would have to represent a realistic income stream for the business, with additional financial support possibly provided by the banking sector or via the Government.
- Beyond offering its own financial services in partnership with BOI the Post Office offers 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.

## Industrial Relations

## (CWU and Unite campaign – “Post Office in Crisis”)

### Lines to take

- The changes the business is undergoing are all aimed at ensuring a sustainable Post Office network for the future
- The Post Office is following a successful course to commercial sustainability under the leadership of its management team; reducing its losses, reducing the need for subsidy to maintain the social element of the network, and continuing to offer a high quality service with longer more convenient opening hours.
- Government does not agree with the unions’ view that the business is in decline.
- 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.

### 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.
- For example during the pre-Christmas strikes, over 99% of the 11,600 post offices in the network were open as usual up from 73% during the October strikes. Turnout for the strike was below 40% and the Christmas post was unaffected.

- In addition to the strike action, political demonstrations have been held – 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.
- There was also a demonstration outside BEIS offices during the pre-Christmas strikes where the union delivered ‘Santa Sacks’ of campaign postcard replies to the network consultation - complete with an appearance from Santa, a sleigh and some reindeer.

## **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 to 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**

- 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 67 projects underway or completed (3 closures, 30 franchises, 33 hosts and 1 relocation). 62 decisions have been announced and of those 52 changes have been completed. There are 2 live consultations and 3 consultations that are pending a decision.
- 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 131 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).
- These local consultations are separate from the national consultation that was recently run by the Government.
- 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.

## 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.

**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 (c7,800) and *their* employees (c50,000).

## Post Office Network Report

### **Lines to take**

- The Post Office Network report for 2015-16 shows that the Government's policy is working.
- It shows that the network actually grew last year, from 11,634 branches to 11,643 in 2015-16 the first time it has done so in many years.
- The report also proves that the network is at its most stable in decades.
- It is so stable because the Government's investment in the network.
- This investment has both stabilised branch numbers and improved them - with over 7,000 modernised post offices, offering over 200,000 extra opening hours a week. There are over 4,200 branches now open on Sundays making Post Office the nation's largest Sunday retailer. Customer satisfaction is high.
- This has all been achieved whilst reducing the losses at the business and reducing its need for subsidy.

### **Q&A**

#### ***Why was there a delay in publishing the report?***

- Post Office must report annually on the network
- There is no set date by which Post Office must report, providing it is within the year after which the report relates.

***The figures include outreach branches. Outreaches are not post offices. A few hours a week from the back of a van or in the village hall are no substitute for a bricks and mortar office offering a full range of services.***

- Outreaches are a way for Post Office to maintain service when a branch closes and a replacement postmaster cannot be found for it.
- Usually this is because the branch was not commercially sustainable and providing an outreach is part of POL's social purpose and for which it will likely always need subsidy.

- Based on feedback to the consultation many people value the ability to get access to services in their village.

***The much trumpeted numbers on extra hours isn't the truth – many bricks and mortars branches have closed and been replaced with part time mobile vans***

- There are an extra 200,000 extra opening hours every week. This figure is net of the lost hours when a community branch is replaced with a part time outreach service and also net of the hours lost when a branch is temporarily closed.
- These extra hours represent a step change in public access to the network. They are equivalent to over 4,000 new branches opening on the old core hours (which for example did not include Sunday working). Post Office now has the largest open Sunday trading network in the UK.

***The network seems stable but it is a shell – as part of the modernisation programme many branches got 3 year income guarantees – when these expire so will those branches***

- Network Transformation has been running since 2012 and many branches modernised under the programme have already come out of the 3 year cover on postmaster income.
- The failure rate for new model businesses is less than 1% and we do not expect to see any significant increase in this as the rest of the network complete their transition to the new terms.

### **Background**

- On 20 February 2017, the Post Office published its annual network report covering the year from 1st April 2015 to 31st March 2016.
- The report showed that the network had increased slightly to 11,643 branches, from 11,634 in the preceding year. Publishing a report on the network is a requirement of the 2011 Postal Services Act.

- The report shows that the total number of outlets in the network continues to be stable, and since 2010 it has been at its most stable in decades. The slight increase in branch numbers last year is the first year on year rise since 1964 (note that there are some data issues when tracking that far back).
- While it does include outreach branches (the part time post offices often provided from mobile vans) these have been part of the reporting of the network since they were introduced in 2001. Overall, even taking account of those part time branches, post offices across the country offer over 200,000 additional opening hours per week compared to 2012 (the equivalent of c4000 extra branches offering “traditional hours”).
- We experienced a delay in publishing this report because it was waiting on clearance from Government to do so. Normally it is published in the summer after the year it covers but this was delayed by Brexit, Ministerial reshuffles and perceived sensitivities over industrial action.

## 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.

## 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?***

- We are in discussions and can't say anything further at this stage

#### ***What will the Post Office use this funding for?***

- The funding 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?***

- Discussions are and ongoing and we expect to be able to announce in the 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.
- But times are changing and 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.

### **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 7140 agency branches have been transformed with around 350 more signed up to convert. Post Office expects to modernise further agency branches in the next financial year 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 help us understand consumers' and businesses' expectations for what the network should look like and how it should be operated and help support the Government's future work on the post office network.
- In addition, the consultation was to make sure that where government is required to comply with any obligations, such as to the European Union, it is able to do so.
- 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 views 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.

## 6. RELATED TOPICS

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

#### ***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.

#### **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.

- **Horizon**

***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.

**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.

- **Effect of Business Rates and National Living Wage on Post Offices**

## **Top Lines**

- The Government and the Post Office are mindful of the pressures faced by operators.
- Postmasters are self-employed business people or companies who hold a contract to provide post office services and will typically have a post office as a category within their own retail business.
- All retailers in the competitive high street will continuously be taking into account the impact of changes of legislation on their business, including the national living wage, business rates, pensions and the apprenticeship levy as well as taking into account changes in the national and local markets in which they operate to ensure that their businesses are competitive and financially sustainable.
- The Post Office is confident that the remuneration fees offered within the remuneration package for operators is fair and reflects the competitive commercial environment in which it operates.
- But Post Office is a commercial business like any other, and we cannot make special arrangements on matters like the National Living Wage or Business rates.

## **Q&A**

### ***How does the Post Office ensure that its employees are paid the national living wage (NLW)?***

- The Government is committed to delivering a higher wage, lower tax and lower welfare society.
- The NLW impacts on every retail company and employer in the UK, and the Post Office, its agents and its various competitors will need to find ways of meeting the NLW whilst at the same time remaining competitive and meeting current and future market conditions.
- It is right that we ensure the lowest paid are fairly rewarded for their contribution to the economy. The National Living Wage is vital to achieving this.

If pressed:

- Whilst postmaster remuneration overall will vary depending on the specific branch (i.e. whether it has converted to a new model, what its retail offer/business mix is, the surrounding competition etc.), the Post Office advises that postmaster remuneration is at a stable rate, which reflects the Post Office revenue position overall against a backdrop of an increasingly competitive high street.

***How will the rise in business rates affect local post offices? What can the Government do to help?***

- The Government is committed to backing small and medium size enterprises – which includes post office branches.
  - The next business rates revaluation takes effect from 1 April and will update rateable values. This will ensure business rate bills more closely reflect the property market
  - Nearly three quarters of businesses will see no change or a fall in their bills from April thanks to the business rates revaluation with 600,000 businesses set to pay no business rates at all.
  - And a £3.6bn transitional relief scheme will provide support for the minority who do face an increase
  - The 2016 Budget announcement the biggest ever cut in business rates – worth over £6.7bn across the next five years
  - Small businesses will benefit from the doubling of small business rate relief thresholds and a property with a rateable value of £12,000 and below will receive 100% small business rate relief from April
  - The Government is also doubling rural rate relief to 100% from 1 April 2017 which will benefit many eligible post offices in designated rural areas.
- National Savings and Investments (NS&I) ending relationship with Post Office**

**Top Lines**

- NS&I had a long and successful relationship with the Post Office, but the NS&I long-term strategy has been to serve all of its customers directly through telephone, postal and internet channels.
- NS&I's core remit is to provide cost effective financing for the Government.
- Over the past few years, NS&I has been moving its business to direct only channels producing significant savings for the taxpayer.
- The end of Premium Bond sales and wider NS&I services at the Post Office was a commercial decision made by NS&I. This decision reflects the way that their customers are choosing to do business with NS&I and also the growth of the Post Office's own range of savings products.
- The change followed the success of 65+ Pensioner Bonds, which saw over one million pensioners from around the country invest via direct only channels.

## **Q&A**

### ***How successful is NS&I at raising funding for the government via its direct channels?***

- NS&I has a track record of delivering large scale government financing via its direct channels. Over the last five years it has delivered £33.6 billion of sales via its website and £13.81 billion of sales via its telephone service.
- This included over £13 billion worth of 'Pensioner Bonds' (65+ Bonds) to over one million savers exclusively through its direct channels. NS&I's website was the most popular channel to invest through (by customer numbers).
- In 2006, half of NS&I's sales came through the Post Office. Today, NS&I is 100% direct with customers able to transact 24 hours a day via NS&I's UK contact centres, nsandi.com or via post.

### ***Why did NS&I end its relationship with the Post Office?***

- NS&I had a long and successful relationship with the Post Office, but its long-term strategy has been to serve all of its customers directly. This reflects the way customers are choosing to do business with NS&I and also means it is delivering savings for the taxpayer.

***How much money was saved by withdrawing NS&I products from sale at the Post Office?***

- Put simply, NS&I paid twice when a customer transacted at the Post Office – once to the Post Office and a second time to its outsource partner who process transactions for NS&I.
- Direct sales to NS&I mean NS&I is now only paying once for transactions.
- Under the final contract with the Post Office, which commenced on 1 April 2014, the Post Office were paid £11.6 million to deliver Premium Bonds sales.
- Ten years ago, in 2006-07, NS&I paid the Post Office £28.9 million.

**- 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.

### ***Background***

- Mutualisation was a coalition policy and it is the only other form of ownership under available current legislation.
- But since 2015 the new Government has not really specified whether it supports the idea of mutualisation or not, keeping its options open around future ownership.

### **7. 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 2011	11820	-85
End March 2010	11905	-47

## **8. 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.

## Access Criteria

In 2007 government set out a range of criteria to define what a nationwide network of post office branches should look like, recognising the social role many branches play.

The current criteria are:

- Nationally, 99% of the UK population to be within three miles and 90% of the population to be within one mile of their nearest post office.
- In deprived urban areas, 99% of the total population across the UK to be within one mile of their nearest post office.
- In urban areas, 95% of the total population across the UK to be within one mile of their nearest post office.
- In rural areas, 95% of the total population across the UK to be within three miles of their nearest post office.

Post Office Limited is also required to make sure that 95% of the population of every postcode district(2) is within six miles of their nearest outlet, to make sure that even the most remote communities continue to have access to post office services.

## 9. BACKGROUND ON PEERS

**Name:** Peter Hain

**Title:** The Rt.Hon the Lord Hain

**GRO**

**Name:** Robert James Rogers

**Title:** The Lord Lisvane KCB DL

**Joined the Lords:** 11 December 2014

**Party:** Crossbench

**GRO**

**UK Parliament:**

Served as Clerk of the House of Commons from October 2011 until August 2014

Following his elevation as a Life Peer in 2014, Lord Lisvane became a parliamentarian sitting on the crossbenches in the House of Lords.

He is a member of the:

- Ecclesiastical Committee (Joint Committee) (2015 – present);
- Delegated Powers and Regulatory Reform Committee (2015 – present)

**Expected Position on Post Office:**

Lord Lisvane has not previously raised anything on post offices however he is affiliated with the Countryside Alliance which works to promote and protect rural life; and the Local Government Association. Both organisations have an interest in the protection of rural post offices.

**Name:** Anthony Ian Young

**Title:** The Lord Young of Norwood Green

**Joined the Lords:** 25 June 2004

**Party:** Labour

**GRO**

**UK Parliament:**

- Shadow Spokesperson (Business, Innovation and Skills) (2010 – 2015)
- Parliamentary Under-Secretary of State (Department for Business, Innovation and Skills) (Postal Affairs and Employment Relations) (also Lord in Waiting) (2009 – 2010)
- Lords in Waiting (HM Household) (2008 – 2010)
- Parliamentary Under-Secretary (Department for Innovation, Universities and Skills) (Skills & Apprenticeships) (2008 – 2009)

**Expected Position on Post Office:**

Lord Young has previously held the position of Deputy General Secretary to the CWU. He was also the Lords Minister with responsibility for Postal Affairs for the Department for Business, Innovation and Skills under the last Labour Government. We expect Lord Young to support Lord Hain's expected approach of criticism of the Post Office and Government policy. We would also expect Lord Young to have a good working knowledge of how the Post Office works and is run because of his previous Ministerial role.

