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Department for
Business & Trade

To: Minister Thomas

Lead Official: Ed Baird

Clearing SCS: Carl Creswell

Date: 30 August 2024

FOR INFORMATION: NOTE ON POST OFFICE CHANGES SINCE 2010

Summary of the issue: This note provides background information on policy and market and changes to Post Office since 2010.

Recommendation:

- That you note the update.

Timing: routine. The note will provide useful background ahead of your meeting with officials on the Post Office on Tuesday 3 September.

Government policy for Post Office in 2010

1. The core of the Government's policy in 2010 was the separation of Post Office from Royal Mail, with the latter to be privatised and Post Office remaining in public ownership due its distinct social purpose. The
2. The Government also set out its policy intent for the Post Office in November 2010 in the policy document 'Securing The Post Office Network In A Digital Age'. The most notable commitments included:
 - a. That there would be no programme of closures under the coalition government.
 - b. Government would provide £1.34bn to modernise the network and safeguard its future.
 - c. Government wanted to see the network become a genuine 'front office for Government'.
 - d. Government supported the expansion of accessible and affordable personal financial services through the network.
 - e. Government supported greater involvement of local authorities in planning and delivering local post office provision.
3. The document also reaffirmed the geographical Access Criteria that were introduced under the previous Government in 2007. The paper also made clear that Government had asked Post Office to develop a commercial strategy to put the organisation on a path to financial sustainability.
4. The Postal Services Act 2011, which underpinned the restructuring of Royal Mail Group, also allowed for the potential mutualisation of the Post Office in the future.

Government policy for Post Office since 2010

5. Since 2010, Government has retained a firm commitment to a stable network of at least 11,500 branches that meets the geographical Access Criteria, and at various points has reaffirmed an ambition for Post Office to move towards a position of

OFFICIAL SENSITIVE

financial sustainability. Over the past ten years the Government spoke little of its earlier aims for Post Office to be a front office for Government, on the expansion of personal financial services and on Post Office's potential to work with local authorities.

6. While there has been no major policy change to the Post Office since 2010, there have been a number of important developments:
- a. In 2016, **Government carried out a consultation on the accessibility of post offices**, the services available and the role of communities in the future of the network. The consultation proposed no changes to the current arrangements but played a significant role in securing a new funding package for the Post Office network.
 - b. In 2019, **the Post Office signed its latest Banking Framework** with major high-street banks. This allowed for customers of the 30 major bank and building society brands to be able to use Post Offices to withdraw and deposit cash in their accounts and has become a major source of income for the Post Office, equalling its mails business for total revenue.
 - c. Also in 2019, Minister Tolhurst wrote to other Government departments to seek further ideas about what government services could be provided via the Post Office. This faced resistance from Crown Commercial Services, who emphasised that tendering of these services should go through proper commercial channels.
 - d. In 2020/21, **Government developed a purpose statement for Post Office** to provide the Department with a clear focus regarding its policy position. The statement was short and stated that Post Office was a 'HMG-owned, commercially-focused business with a strong social purpose... [it] delivers essential services that are hugely valuable – to both individuals and SMEs – in urban and rural areas across the UK [and]... The Post Office must continue to grow a thriving commercial business together with delivery of its social purpose.' It then went on to set out the building blocks of Post Office's social purpose. The statement is included at Annex A.
 - e. In 2021, the Post Office's **ten-year exclusivity arrangement with Royal Mail** came to an end, allowing the Post Office to work with other networks such as Evri, Amazon and DPD.
 - f. In April 2021, **Government introduced changes to the definition of a post office branch and service requirements** across the network, in agreement with Post Office. These changes were agreed across Government and were intended to give Post Office greater flexibility to keep pace with the evolving needs of customers by offering new, flexible, branch formats known as 'Drop & Collect' branches.
 - g. In 2022, **Government gave Post Office more flexibility in managing the branch network** within the current policy requirements, including dropping the requirement for Post Office to use best endeavours to replace closing branches with full-service branches and changing Post Office's formal network reporting requirements from monthly to yearly. This helped to reduce some of the cost pressures of running the network.
 - h. **Government funding to the Post Office** peaked at £415m for financial year 2013-14. It steadily decreased until 2020-21 but has since increased to cover investment costs, the Horizon replacement IT and remediation costs. Since 2019-20 the network subsidy element of government funding, designed to cover the cost of running unprofitable post offices, has remained flat, at £50m per annum, despite increasing costs and inflationary pressures on Post Office Ltd and on postmasters.

OFFICIAL SENSITIVE

- i. **The Horizon scandal has had a major impact on the Post Office's finances.** The Government asked the company to consider selling its telecoms business (subsequently delivered) to cover the early costs relating to redress payments made through the Horizon Shortfall Scheme. It also asked the company to pay its own costs in relation to the Inquiry and administration of the redress schemes, up until the point in 2023 where this became unaffordable. The Government subsequently committed to funding over £200m so far to enable the Post Office to continue to fulfil its Inquiry and redress obligations.

Market changes

7. Over the last decade, **the retail sector has seen steeply rising labour costs, increased automation and falling staffing levels, alongside changing customer expectations** of in-branch experience (e.g. more self-service). The impact of these challenges is pressure on Post Office's partnerships model, which relies on sharing labour with host retailers.
8. Since 2010 there has been a **significant shift by individuals and businesses towards conducting activities online**, including shopping, communication and interacting with government. This is illustrated by the 40% rise in daily, or almost daily, internet users in Great Britain between 2012 and 2020.¹ The value of UK online retail sales tripled (to £106bn) between 2012 and 2022², online messaging volumes rose 13-fold over the same period³, and similar growth has been seen in online banking. In addition, the number of individuals using the internet to interact with public authorities to obtain information and submit forms have also increased. Likewise, the Government is increasingly moving the provision of services online and has signalled an intent to make accessing public services online quicker and simple. While many retailers (including banks and building societies) have responded to this trend by reducing their physical footprint, the Post Office network has remained at around 11,500 branches since 2010.
9. Since 2013/14 **letter volumes have nearly halved⁴ while parcel volumes have roughly doubled⁵**, driven by e-commerce and online communication. The growth of online shopping and the arrival of new carriers has also created demand for new parcels services, which has increased competition for Post Office as rival networks have arisen to serve the market. Post Office had an exclusive relationship with Royal Mail for most of the period since 2012, until 2021 when it agreed its second 'Mails Distribution Agreement' with Royal Mail which allowed both businesses to forge new partnerships with other carriers.
10. Meanwhile, use of **cash and demand for in-person banking services have declined** due to the rise of digital payments (transactions made with cash fell from 52% in 2013 to 19% in 2022⁶). In light of declining demand, there has been a reduction in provision of access to both cash and in-person banking, with a 25% reduction in the number of ATMs across the UK between 2018 and 2023 and a 40% fall in the number of bank and building society branches between 2012 and 2022⁷.

¹ ONS, 'Internet access - households and individuals, Great Britain: 2020'.

² Statista (2024), 'Value of online retail sales in the United Kingdom from 2012 to 2022'.

³ Ofcom (2023), 'Personal online communication services'.

⁴ Statista (2021), 'Total addressed letter volume in the United Kingdom (UK) between 2011 and 2021'.

⁵ Statista (2023), 'Annual volume of packages shipped in the United Kingdom (UK) from 2013 to 2023'.

⁶ BRC (2023), 'Payments survey 2023'.

⁷ Commons Library Research Briefing (2023), 'Statistics on access to cash, bank branches and ATMs'.

OFFICIAL SENSITIVE

Nevertheless, both cash and in-person banking remain important to a sizeable minority, especially among vulnerable groups.

How Post Office has evolved since 2010

11. While Post Office's revenue has remained broadly flat, **the composition of its sales mix has changed markedly**:

- a. While **mails** remain a key part of the business (35% of overall revenue), it is smaller in terms of value and overall proportion of revenue than in 2011/12.
- b. **Cash and banking** has grown considerably since 2010, facilitated by the major Banking Framework Agreement from 2017 onwards which aligned various existing bi-lateral contracts with individual banks. As such, cash, banking and financial services grew by 89% between 2011/12 and 2022/23 and contributes more than half of Post Office's total revenue.
- c. **Government services** revenue has declined substantially (by c.80%) since 2011/12 as Government departments have moved services online (while making significant savings to the taxpayer). Particular drivers of this decline have been the reduction in demand for and eventual closure of Post Office Card account and customers increasingly using online channels for motor vehicle payments.

12. Although the overall number of branches has remained stable, **the composition of the network has changed considerably**. Far more branches are now operated as franchises and co-located within wider retail premises than in 2010, with fewer 'standalone' formats. The number of **outreach branches** (typically non-permanent branches that might operate out of a village hall or a mobile van) rose considerably between 2010 and 2023 however the overall number has started to fall as Post Office has taken action to close under-used outreach branches more recently. New branches known as '**Drop & Collect**' have been rapidly rolled out by Post Office to serve the growing parcels market with over 650 of these branches introduced since 2021. **Banking Hubs** have also been introduced during this period with nearly 70 operated by Post Office since 2021.

13. **Total postmaster remuneration has fallen** from £483m in 2011/12 to £402m 2022/23, a 31% decrease in real terms. This has been driven by various factors including falling customers sessions (down 17% across the network between 2013 and 2022) and the shift to variable remuneration. At the same time the costs of running a post office have risen, placing significant pressure on branch profitability from the perspective of postmasters.

Clearance list

Team	Clearance necessary?	Named lead who has cleared
SCS	Mandatory	Carl Creswell
Perm Sec	No	< Name >
Second Perm Sec	No	< Name >
Communications (inc named Press Officer)	No	< Name >
Finance / Fiscal Events	No	< Name >
HR	No	< Name >
Legal	No	< Name >
Parliamentary Unit	No	< Name >
Devolution	No	< Name >

OFFICIAL SENSITIVE

Analysis	Yes	Monique Ebell
HMTC	No	< Name >
Other	No	< Name >

Annex A: The Government's Vision for the Post Office [February 2020]

Post Office Ltd is a Government-owned, commercially-focused business with a strong social purpose.

Through its extensive and accessible network of branches the Post Office delivers essential services that are hugely valuable - to both individuals and SME businesses – in urban and rural areas across the UK. These include mail, parcels, cash, basic banking, utility bill payment facilities and Government and public services.

The Post Office must continue to grow a thriving commercial business together with delivery of its social purpose. The building blocks of the Post Office's social purpose are:

- **Delivering a convenient and trusted local service offer that meets customers' needs**, working closely with Postmasters who play an important role in their local communities.
- **Ensuring its services continue to be easily accessible to all consumers, but particularly vulnerable groups who rely on them the most.**
- **Supporting the Government's access to cash and financial inclusion agenda** by ensuring that basic cash and banking services are available throughout the network to meet the needs of individual customers and SMEs.

Delivering these services enables the Post Office to also contribute to the Government's broader social and economic priorities, locally and nationally. The Post Office has a key role to play in high streets across the UK, helping keep town centres vibrant and playing a role in levelling up communities throughout the country.

Consumer use has and will continue to change over time. The Post Office will need to continually adapt its services so that these meet the needs of its diverse customer base.

The Government assesses the Post Office's delivery of its Social Purpose through its ongoing role as the company's sole shareholder.