

BIS | Department for Business
Innovation & Skills

**SECURING THE POST OFFICE
NETWORK IN THE DIGITAL AGE**

NOVEMBER 2010

KEY GOVERNMENT COMMITMENTS

- We recognise that the Post Office is more than a commercial entity and serves a distinct social purpose.
- We will ensure that post offices remain a valuable social and economic asset for our communities and businesses.
- There will be no programme of post office closures under this Government.
- The Post Office is not for sale.
- We will provide £1.34 billion for the Post Office to modernise the network and to safeguard its future, making it a stronger partner for Royal Mail.
- We want to see the Post Office become a genuine Front Office for Government at both the national and local level.
- We will support the expansion of accessible and affordable personal financial services available through the Post Office.
- We will support greater involvement of local authorities in planning and delivering local post office provision.
- We will create the opportunity for a mutually owned Post Office.

Foreword

The Post Office network of around 11,500 branches plays a unique and valued role in communities up and down the country. Post Offices are vitally important for the future of communities, both rural and urban. The Government is committed to the long term future of the Post Office. We have carried out a fundamental rethink of Government policy towards the Post Office, designed to break the cycle of decline into which the network has been allowed to fall.

The last Government's two closure programmes saw the loss of 5,000 post offices, losses which are still felt keenly by the communities they affected. As well as causing real damage, we believe that the theory behind the closure programmes was misguided. Closing post offices to cut losses failed to address the real economic challenges the network faces. We will not make the same mistakes.

We will provide the clear direction and money that the Post Office management needs to refresh and modernise the network. We have committed funding of £1.34 billion over the next four years to support this transformation. This demonstrates the importance that we place on the Post Office network, and represents a significant increase in support – the subsidy for the Post Office this year is £150 million. That is why we can be so adamant: there will be no programme of closures on our watch.

Instead, the Post Office will be reaching out to new customers and winning back those who have drifted away, refurbishing its branches, extending its opening hours, reducing queues, and developing its presence online. This will mean a major modernisation to address the underlying economics of the network.

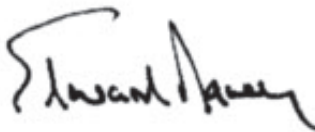
We will also support the Post Office as it builds new sources of revenue and develops products, as well as improving its key mails services. We believe that the Post Office can become a genuine Front Office for Government, acting as a natural home for the delivery of face-to-face government services and helping citizens interact with Government online. The Post Office can and should also play a much bigger role in financial services, making full use of its unparalleled network.

We believe in a Post Office with a public mission, and the Post Office will not be for sale. But we do not think that the current ownership arrangements, where Government acts as ultimate 100% shareholder, always serve the best interests of the Post Office. So we have put forward proposals in the Postal Services Bill that would, in time, allow the Post Office to be converted to a mutual. I want to empower those that know the Post Office best – the sub postmasters, the employees, and even communities – to have more of a stake in the future of the services that they value.

In this policy statement we set out our plans for how we will bring the Post Office back from the brink and give it the prospect of a vibrant future.



Vince Cable
Secretary of State for Business,
Innovation and Skills



Edward Davey
Minister for Employment Relations,
Consumer and Postal Affairs

A UNIQUE NATIONAL ASSET

1. The Post Office is unique. It is part of the fabric of the country, as well as being the country's largest retail network with over 11,500 branches right across the UK. 93% of the total population (and 99% of those living in towns and cities) live within one mile of a post office. And for many rural communities the post office is the only retail outlet.

Fact Box:

- There are around 11,500 post offices in the UK.
- The total number of all high street banks branches is around 10,000.
- The four largest supermarket chains put together have around 4,000 outlets.

2. The typical post office branch offers around 170 products and services, from foreign currency to fishing rod licences; parcels to the Post Office card account; bill payment to broadband internet; stamps to saving accounts. Over half of all small businesses and almost 20 million customers visit a post office each week.

3. Post offices remain highly valued and are the focal point for many communities. Research conducted in 2009 which asked people and businesses how much they valued the Post Office network and the services that it provides found that its social value is at least £2.3 billion per year¹. The research found that irrespective of how much people earn or where they live, they value and use post offices, particularly the convenience of accessing a wide range of services. Around 3.5 million people signed petitions against branch closures.

4. This policy statement sets out the Coalition Government's vision for the future of the Post Office: how the network will be modernised to make it more relevant for consumers and more financially viable; areas in which Post Office Ltd will build future revenue; and the potential for the Post Office to convert into a mutual.

¹The Social Value of the Post Office Network: Report for Postcomm (NERA Economic Research, 2009)

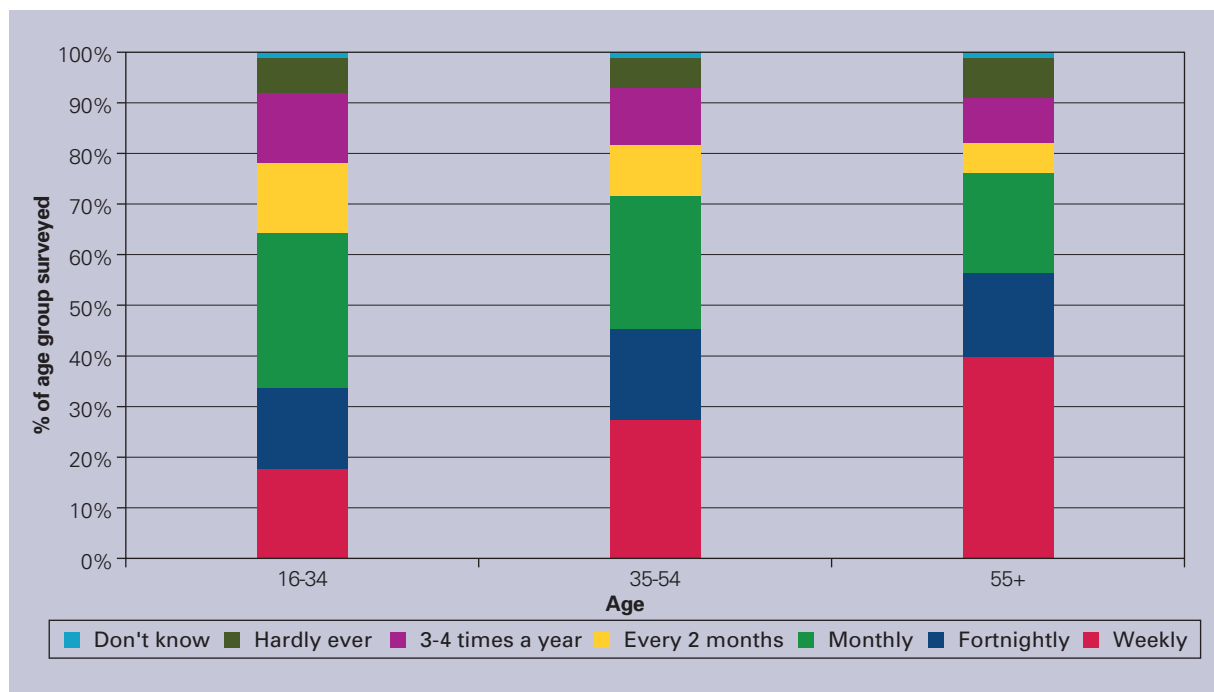
FACING CHALLENGES

5. The Post Office faces some significant demographic, commercial and technological challenges that senior management must address.

Falling customer numbers

6. Over the last decade the number of customer visits has fallen at an accelerating rate. In 2000 the Post Office had around 28 million customer visits each week. By 2006 this had fallen to 25 million and now stands at just under 20 million. Looking at the demographics of the Post Office's customers, there is a general rule that the older the customer, the more likely he or she is to use the Post Office regularly. 40% of over-55s use the Post Office weekly, whereas under 20% of 16-34 year olds do (see chart 1).

Chart 1 – Frequency of Post Office Visits

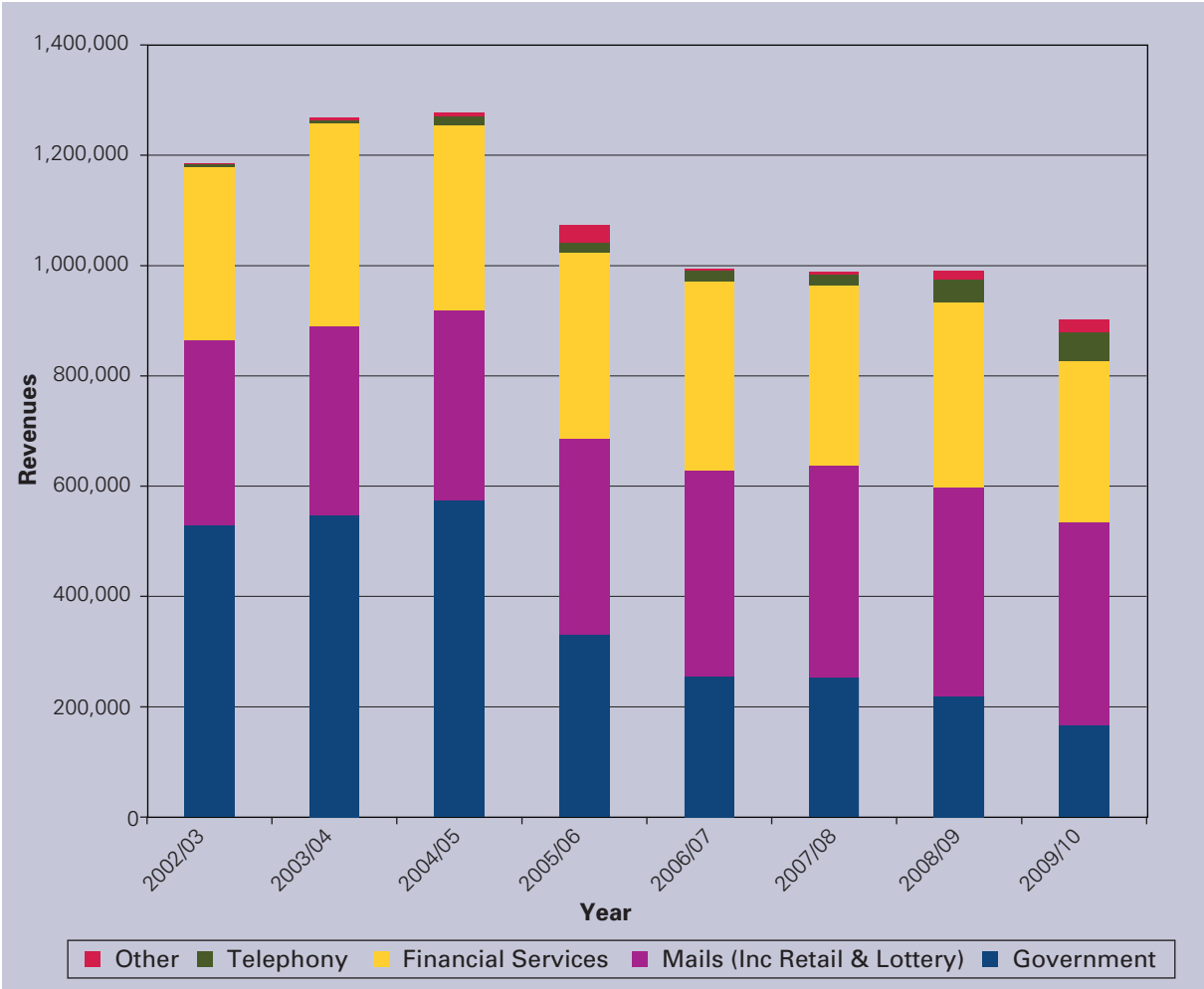


7. Well over 60% of 16-34 year olds visit a branch at least once a month, and a recent qualitative study amongst 18-25 year olds found high levels of trust and positive associations with the Post Office. But the Post Office must build on this and faces a challenge to ensure it remains relevant to younger customers.

Falling revenues

8. Post Office Ltd has been facing falling revenues, a major reason why the Post Office has been loss-making since 2000. Many services traditionally delivered exclusively by the post office are now also available through alternative channels. People can now choose to have their pension or benefit paid directly into a bank account, to renew their vehicle tax online, or to pay their bills by direct debit rather than visiting their local post office.

Chart 2 – Post Office Revenues by Product Area

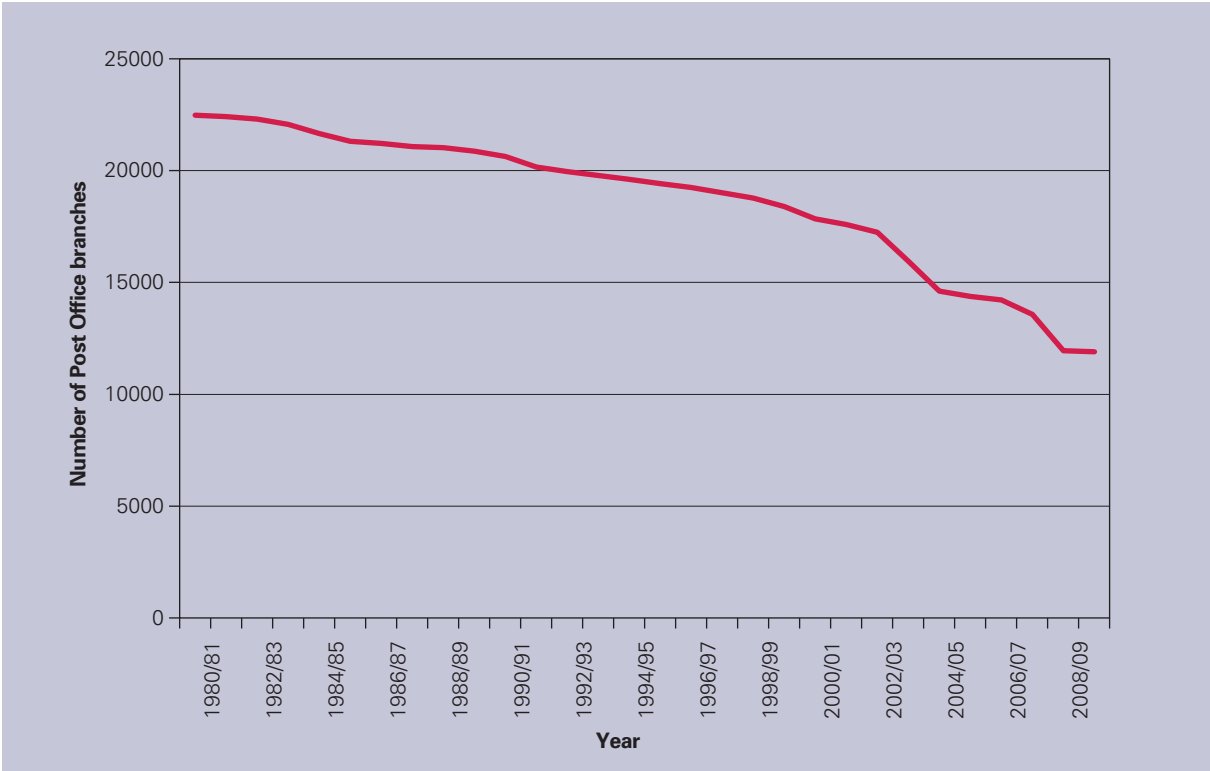


9. In particular, revenue from government services fell sharply from £576 million in 2004/05, to £167 million in 2009/10 (see chart 2), mainly due to moves to direct payment of benefits and increased online substitution. Although the Post Office has been successful in developing other revenue streams, such as its telephony business and personal financial services, it has not been able to fully replace the revenues lost.

Fewer branches

10. The number of post office branches has fallen over the last decade from over 18,000 in 2001 to around 11,500 now (see chart 3). Between 2003 and 2009, 5,000 branches, or 28% of the network, were shut under closure programmes. The analysis behind the closure programmes was that falling customer numbers and revenues should be addressed by removing capacity from the Post Office network.

Chart 3 – Number of Post Office Branches



11. We have asked Post Office Ltd to develop a commercial strategy to address these challenges, making the network more relevant for customers and putting it on the path to financial sustainability. Senior management at Post Office Ltd have said that there is a pressing need to make changes to the branch model, to break out from a cycle of falling customer numbers and an ever-increasing reliance on subsidy from taxpayers. They estimate that without action and modernisation, keeping the network operating at its current size would result in the annual subsidy required from taxpayers rising from £150 million this year to £400 million by 2016 – and would carry on climbing.

12. We will adopt a different approach to the network from the previous Government. We will maintain the network at around its current size, making sure that communities do not face further mass closures. Alongside this we will provide support for Post Office management to address the fundamental economic and customer service challenges at the heart of the current Post Office network models.

A REFRESHED AND RENEWED NETWORK

13. The Post Office operates on a huge scale. Its network still consists of around 11,500 branches. There are over 50,000 Post Office staff, agents and assistants directly involved in serving the Post Office's 20 million weekly customers.

The elements of the network

- Large post offices are typically located in town centres. 373 are 'Crown' offices, directly owned and operated by Post Office Ltd, employing around 5,000 staff. Many other large post offices are operated through a franchise arrangement with another retailer such as WH Smith, the Co-op or Spar. These branches offer the full range of post office services over multiple counters.
- Sub post offices make up the majority of the network. They are independent businesses run by sub postmasters. They can be self standing post offices in their own right; the local village shop; or housed inside another, larger shop. There are over 9,000 sub postmasters running over 10,000 post offices.
- There are over 750 Outreach services, which ensure that communities are still able to access post office products and services where a traditional post office is not viable or practical. They take a variety of forms, including mobile post office vans and hosted services in pubs and village halls.
- The Post Office network also has a unique geographical reach: over half of post offices (55%) are in rural areas, one third in urban areas and one tenth in urban deprived areas.
- The Post Office is one of the country's largest cash handlers, processing around £70 billion of cash and £636 million of coinage every year.

14. We are rightly proud of the Post Office network but we cannot be sentimental about it. We all know that it is far from perfect and that part of the reason for falling customer numbers is down to changing customer needs and the network's inability to respond to them. We stand in queues for too long. The short opening hours at many branches feel like something from a different era. And talking to a sub postmaster through thick security glass seems out of place when in the bank next door you can talk to staff openly across a counter. To reverse this trend we will need a more convenient network, one where people can post parcels at the same time as picking up a coffee or newspaper on the way to work, or collect foreign currency for a family holiday in the evening when popping out for a pint of milk.

15. To compete effectively in today's fast-changing retail environment, the Post Office network needs to change and its renewal must be driven by what customers really want. It needs to offer greater convenience through longer opening hours, quicker service and high retail standards in well positioned and readily accessible locations.

16. It will also be essential that modernisation can create a sustainable financial future for Post Office Ltd, sub postmasters, and other post office agents, and one in which they can use their skills and experience to realise the potential of the network. To ensure this, the current economics, high legacy costs and lack of flexibility that exist within the current network structure must be addressed. The new network will see refreshed branches, sometimes in new locations, and agents rewarded for focussing on the customer, with new contractual arrangements gradually phased in across the network.

17. In this section we focus on two elements of network renewal: the development of around 4,000 Main Post Offices and the final testing and nationwide introduction of the Post Office Local model.

Main Post Offices

18. Other than a recent limited modernisation and improvement programme for the small network of 373 Crown Post Offices, there has been no structured investment in the larger end of the network for the past 13 years. Many of the existing Main post offices are no longer fit-for-purpose, and do not deliver the standard of service that the public expect. Post Office Ltd will make significant investments in Main post offices in partnership with those who own the businesses to bring them up-to-date, and to meet these higher standards of service.

19. As part of this programme of improvement there will be some cases where the existing premises are unsuitable (for example, for accessibility reasons), in which case the post office will need to relocate to better premises nearby, or work with a local retailer with the capacity to accommodate post office services alongside their current business. Post Office Ltd will hold local public consultations where necessary.

20. The Crown network is currently loss making, and this is not acceptable. Post Office Ltd is committed to eradicating these losses over the next four years.

Post Office Local

21. In the last two years, Post Office Ltd has been conducting pilot trials of a new operating model – called Post Office Local² – for providing Post Office services. There are now over 50 pilots across the country, showing very positive results (Post Office Local analysis). The Government thinks that the new model will play a critical role in securing the long term future of the network.

² Post Office Local has in some pilots been called 'Post Office Essentials'

Post Office Local analysis

Geographical distribution of pilots

| | Rural | Urban | Urban Deprived | Grand Total |
|--------------------------|-------|-------|----------------|-------------|
| East Midlands | 1 | | | 1 |
| East of England | 2 | 2 | | 4 |
| London | | 3 | | 3 |
| Northern Ireland | 2 | 1 | | 3 |
| North East | 2 | | | 2 |
| North West | 2 | 2 | | 4 |
| Scotland | 7 | 1 | 1 | 9 |
| South East | 2 | 3 | | 5 |
| South West | 10 | 2 | | 12 |
| Wales | 2 | 1 | 1 | 4 |
| West Midlands | 2 | 4 | | 6 |
| Yorkshire and the Humber | | 1 | | 1 |
| Grand Total | 32 | 20 | 2 | 54 |

Updated independent research into the views of customers of the pilot Post Office Local branches completed for Post Office Ltd in October 2010 shows:

- 94% (2009 90%) of customers are extremely or very satisfied with their overall experience;
- 64% (2009 54%) of customers are using their branch once a week or more often;
- 81% (2009 67%) of customers greatly appreciate the longer opening hours, with 23% using the branch on weekday early mornings, 12% on Saturdays and 5% on weekday late evenings;
- 87% (2009 84%) of customers greatly appreciate the convenient location;
- 87% (2009 74%) of customers completely or strongly agree that staff seem well trained in post office transactions;
- 68% (2009 68%) of customers are seen immediately without queuing;
- When there is a need to queue 85% (2009 67%) consider the queuing system to be fair; and
- 82% (2009 76%) of customers are completely or very satisfied with range of post office services offered.

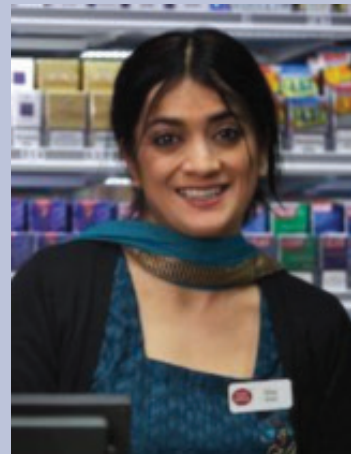
22. We believe this model is appropriate for many smaller sub post offices across suburban and rural Britain, the very locations where many sub postmasters are currently struggling to make a living. We believe that it will ensure that everyone – including the elderly, vulnerable and the disadvantaged – in our communities and small businesses throughout the country can continue to rely on the post office. This process will clearly involve changes, but it offers the only realistic prospect of maintaining a post office for thousands of communities across our country.

23. The Post Office Local concept is designed with the consumer in mind. Post Office Local branches are able to offer longer opening hours and quicker service. Initial findings from the pilot locations show that, on average, post office services provided through a 'Local' branch have been available for more than six hours extra per day than previously. This flexibility has been valued by customers, with 30% of them conducting transactions outside traditional post office opening hours.

24. All core products will be offered but the less frequently used services (such as specialist stamps), or more complex and time consuming paper-based transactions will be channelled through Main post offices with multiple counter positions. A customer of a Post Office Local branch will be able to access 86% of post office services. This will include posting letters and parcels, paying bills, collecting a pension, benefits or cash, picking up pre-ordered travel money and other core services. In research 82% of customers have been very or extremely satisfied with the range of products and services available at Post Office Local – with only 1% dissatisfied.

Case study 1: Cumnock, Ayrshire

- Rifiat Bibi operates a Post Office Local branch in Craigens Road, Cumnock, Ayrshire.
- The office has been operating in an independent convenience store since February 2010.
- Serves 450 post office customers per week.
- Most popular services: benefits and mail transactions.
- Open 7 days a week, 10 hours a day Monday to Saturday and 6 hours on a Sunday.



“Customers think it’s great, bigger basket spend, Commission is a bonus. Post Office is great to work with.”

“Post Office Local in your store can help increase profit, footfall and community spirit. You’ll be paid for every Post Office transaction you make.”

25. Pilots of the Post Office Local model have now been established in a variety of circumstances and locations. Some have been on site conversions from the traditional sub post office model. Some have replaced nearby branches which had closed or been temporarily closed for an extended period. Some have been set up as new post offices, on sites where there was previously no post office branch in the vicinity. Overall customer satisfaction with Post Office Local has been very high, with 94% very or extremely satisfied, and only 1% dissatisfied.

26. The Local model does away with the impersonal, screened-off 'fortress' post office counter that requires separate staff, and instead provides access to post office services in an open plan arrangement alongside the retail till for all the hours the shop is open. These changes provide a more flexible and lower cost operating model for the retailer. The health, safety and security of staff are some of the many issues that have been tested by the pilots. With new approaches to security and training, both retailers and staff have responded favourably to the new model.

Case study 2: Dagenham, Essex

- Prakash Patel, operates a Post Office Local branch at Lodge Avenue, Dagenham, Essex.
- The office has been operating within a Costcutter store since January 2010.
- Serves 500 post office customers per week.
- Most popular services: benefits and mail transactions.
- Open 7 days a week, 10½ hours a day Monday to Saturday and 3½ hours Sunday.



"I now get an extra 30 to 50 customers a day; most of the customers have never used the store before."

"The customers gather in my shop and have a chat, especially the older people. It's really made it a part of the community. I think that helps to increase the footfall as well; customers enjoy coming back."

27. Among retailers operating the Local pilots, views have been positive and satisfaction levels high (see case studies). Retailers have valued the format of the model and the beneficial impact that offering post office services has on their retail business in attracting new customers, leading to additional footfall and increased retail sales.

28. The pilots have demonstrated the potential of the Local model to contribute to the viability and financial sustainability of post office service provision at the smaller end of the network. Under Post Office Ltd's commercial strategy the Local model will become the mainstay of the smaller post offices over time.

Over the next four years, around 2,000 small sub post offices will transfer to the Local model either onsite or at neighbouring premises, with the major roll-out starting in 2014 following further piloting. This will give Post Office Ltd the necessary time to plan the modernisation and fine-tune the Local model.

Online

29. It would be a mistake to think of the Post Office network purely in terms of bricks and mortar. Through its broadband packages the Post Office has played a role in extending access to the internet, and customers are increasingly seeking to do business online. The Post Office must grasp this opportunity by ensuring that its online services complement and reach the same high standard of service that customers expect in their local branch. This will enable customers to access post office services how and when they want. The Post Office will develop its online presence, ensuring that customers are better able to access services virtually, and can easily find out information about their local branch.

Partnership with local authorities

30. As part of the move towards the creation of a refreshed network, we shall be exploring the scope for greater local authority involvement in the planning, delivery and level of post office service provision. This recognises the importance we attach in the context of our Big Society policies to local communities and their representatives being able to express their views on public and other essential service needs and provision, particularly where changes are planned.

31. Against this background, and following a Sustainable Communities Act application in 2009, Sheffield City Council and Post Office Ltd have agreed to pilot an innovative project whereby they will work in partnership with sub postmasters and local people to develop a sustainable and thriving Post Office network in the city. Using their unique expertise, the partners will work to deliver a Post Office network which is commercially sustainable by shaping post office services around the needs of local people, businesses and sub postmasters.

32. The pilot will bring together Sheffield City Council, Post Office Ltd and the National Federation of Sub Postmasters, engaging with local communities, including Sheffield's seven Community Assemblies. It will be driven by the principle that by working together, the partnership can deliver a sustainable network that can reflect local need.

33. Sheffield City Council and Post Office Ltd aim to make post offices the Front Office for Government and public sector services in Sheffield – making better use of post offices across the city and enabling local people and businesses to access a range of public services in their local community. To take one example, local people from across Sheffield will be able to pay their council tax and rent through any one of the 78 Post Offices in the city rather than using a single cash

office in the city centre. This innovation will save taxpayers £240,000 a year by making better use of the cash counters already present in post office branches and will put extra business and revenue into Sheffield's post office network.

34. The pilot work will continue over the next 12 months and will build on the Government's strategy to modernise the post office and put it on a stable financial footing. It will also test the best approaches to implementing the Government's wider Big Society objectives reforms at the local level. The Government will follow its innovations with interest, particularly the potential to develop the relationships between Post Offices, local authorities and other public services throughout the country.

Welsh Assembly

In 2009, the Welsh Assembly Government sponsored a trial of the Post Office Validate service with two local authorities in Wales: Cardiff Council and Conwy County Borough Council.

Validate was used as a housing benefit error and fraud detection and prevention service for local authorities. The service used targeted mailshots to encourage customers to report changes in circumstances via local post office branches (as well as presenting other options, including mail).

In Cardiff a network of 15 branches took part and 2,500 mailings were dispatched to target claimants over a period of five months. Cardiff Council was particularly keen to see as many customers as possible come to the Post Office branch network as there was considerable pressure on their area offices, with the main office in the centre of Cardiff experiencing significantly high waiting times.

Cardiff Council has seen this as a successful trial: "The pilot has been very successful. 67% of customers opted to use the Post Office rather than visit the council's offices and satisfaction rates with the service have been very high. Changes to benefit amounting to £85,000 per week have been identified."

Wandsworth

Wandsworth Council wanted to transform their cashiering service into a modern service and release efficiency savings. The Cash Office Closure programme was conceived as a way of saving the council money in terms of resources, real estate, transaction costs and process efficiency.

Post Office (in conjunction with the Co-Operative Bank) worked with Wandsworth Council to enable them to manage a range of bill payments and the associated cash processing in an effective and efficient manner. As the result of a review, Wandsworth Council decided to close three cash offices over a period of time.

Payments of council bills can be made at Post Office branches across Wandsworth. Through enabling more outlets for customers to pay their council bills, Wandsworth have been able to significantly reduce costs per transaction – from £3 to 40p per transaction, as well as making payment easier.

The feedback from users of the system has been very positive and council tax payers and rent payers have benefited from savings of over £400,000 per annum.

NEW GOVERNMENT SUPPORT

35. We have already committed to a subsidy for the Post Office of £180 million in 2011/12. As part of the Spending Review, Government has made the decision to make sure that Post Office Ltd will have the money it needs to modernise, and we have committed £1.34 billion of funding over the four years of the Spending Review period to March 2015. This package averages out at over £330 million a year, which is more than double the subsidy paid to the Post Office for the past two years³.

| Funding by year | | | |
|-----------------|--------------|--------------|--------------|
| 2011-12 | 2012-13 | 2013-14 | 2014-15 |
| £180 million | £410 million | £415 million | £330 million |

36. The Government is committed to act as a responsible owner of Post Office Ltd. We have heard loud and clear how much the public values a large branch network that offers a wide range of products. In return for this funding Post Office Ltd is committed to investing in the network, maintaining a network of around 11,500 branches, and meeting the Access Criteria to ensure fair access for all (see Access Criteria box). There will be no further programme of closures on our watch.

The same five Access Criteria as before will continue to apply at the national level:

1. **99%** of the UK population to be within three miles of their nearest post office outlet;
2. **90%** of the UK population to be within one mile of their nearest post office outlet;
3. **99%** of the total population in deprived urban areas across the UK to be within one mile of their nearest post office outlet;
4. **95%** of the total urban population across the UK to be within one mile of their nearest post office outlet;
5. **95%** of the total rural population across the UK to be within three miles of their nearest post office outlet.

In addition, the following criterion will apply at a local level to ensure a minimum level of access for customers living in remote rural areas:

6. **95%** of the population of every postcode district to be within six miles of their nearest post office outlet.

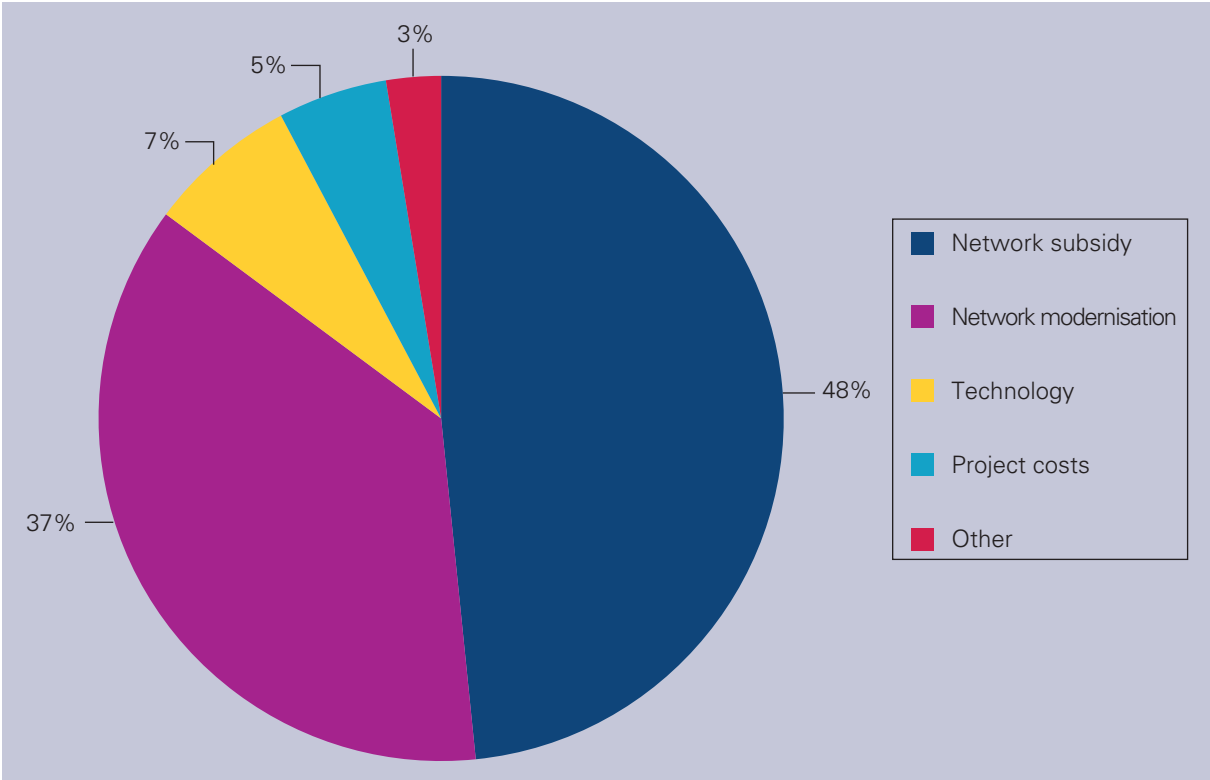
³ All funding is subject to State Aid approval

37. The funding will enable Post Office Ltd to do much more than simply maintain the status quo. By the end of this Parliament, we have asked Post Office Ltd to have:

- About 4,000 Main Post Offices in town and city centres across the country – this alone is a larger network than that of Tesco;
- Converted about 2,000 sub post offices to the new 'Post Office Local' model, ensuring the longer opening hours demanded by mail and bill payment customers;
- Expanded online and introduced a range of IT improvements to make transactions quicker and simpler; and
- Eradicated the losses made by its directly managed Crown post office network.

Chart 4 provides a breakdown of the costs associated with this strategy.

Chart 4 – Breakdown of Post Office Investment



38. As these investments will be used to transform the underlying economics of the Post Office network rather than closing branches, we believe that the network can become financially stable. Post Office Ltd project that the government subsidy will reduce substantially over time. However, there will almost certainly remain a need for a residual level of subsidy in the future to maintain those branches which could never be profitable, such as those in remote rural areas, but which provide a valuable social purpose.

39. Parliament will need to approve all of these payments. We will seek in the coming weeks to raise the ceiling for the level of subsidy the Government can pay to Post Office Ltd in any one year from £160 million to £500 million to provide flexibility in how the Government can support the network. We will also seek the necessary State Aid approval from the European Commission.

NEW OPPORTUNITIES

40. The Post Office has three main sources of revenue – postal services, government services and financial services – which each contribute around a third of the Post Office’s total income. The Government has encouraged Post Office Ltd to focus on how it will grow revenues. A more flexible, lower cost network (as described in the preceding pages) will be a significant asset to the Post Office, making it much more competitive.

41. Revenues from postal services will remain a mainstay of the Post Office. Proposed network changes, when allied with investments in technology such as fast self-service machines, will make the Post Office more convenient and an even stronger retail partner for the Royal Mail. But as the number of letters that we send continues to decline, postal services will not be a growth area for the Post Office. This section focuses on the two areas with real growth potential: the Post Office acting as a Front Office for Government and boosting financial services revenues.

Front Office for Government

42. The Post Office is already a trusted partner delivering a wide range of services for central and local government. But the wide distribution and unparalleled national coverage of the Post Office network makes it ideally suited to go further and act as a front office for both local and central government.

43. Post offices are a natural place for citizens to access face-to-face government services such as identity verification (see Opportunity One). They can also play an important role in supporting the growth of e-government. By enabling and supporting the move to get more people online, the Post Office will be harnessing the potential of the internet rather than, as has often been the case over the past decade, being its victim. As Martha Lane Fox’s Manifesto for a Networked Nation⁴ noted, Post Offices can “play a part in supporting those without internet access at home.”

Opportunity One “Identity Verification”

As the state increasingly interacts with citizens through online channels there will be more of a need to check people’s identity. The Post Office has a strong tradition of this type of service, and identity verification could open into a wide range of applications – whether through document verification and scanning, photos or signature recognition. This could also develop into services for helping Government manage information on changes of circumstances more efficiently, with the Post Office acting as a trusted channel for data collection and dissemination.

⁴ Manifesto For a Networked Nation (Race Online 2012, July 2010 – <http://raceonline2012.org/manifesto>)

Opportunity Two “Processing”

There is also scope to substantially increase the number of assisted applications that the Post Office carries out, building on the current ‘check and send’ capabilities. This has the potential to support the move to ‘paperless’ back offices, where government departments receive electronic information from multi-channel inputs. This will provide an opportunity for the Post Office to support and encourage citizens to make greater use of online government services, and to maintain a delivery channel for those citizens who are currently unable to access government services in this way.

Opportunity Three “Payment”

There is the potential to increase the number of cashless payments that people can make at the Post Office (for example parents making payments for school trips or meals), and use of the Post Office’s ‘payout’ service, where customers receive a unique identifier that allows them to claim a payment from central or local government. This service has been used to good effect previously – for example Leeds City Council have used payout services for payments of school uniform.

Pilot Projects

Pension verification

The Department for Work and Pensions and Post Office Ltd are considering a pilot that would see the Post Office supporting customers of the Pension Service, by verifying supporting documents.

Print on demand

Post Office Ltd have agreed a pilot, due to begin this month, where Directgov government forms will be available on a ‘print on demand’ basis from kiosks in a small number of branches.

44. The reappraisal by central and local government of what they should and should not do, often driven by the need to find savings, will also play to the Post Office’s strengths. Government departments and local authorities are considering how they can deliver the services, and obtain the information that they require, in new more efficient ways, and the Post Office is at the centre of these discussions (see Opportunities Two and Three).

45. Ministers from both the Department for Business, Innovation and Skills and Cabinet Office have been working with government departments to identify new opportunities where the Post Office will be able to compete for future government business – providing improved access and more choice to citizens as to how they access government services. A number of pilots have already been agreed and other opportunities are under development. These are the first steps towards a new generation of government services that will complement

and build on the existing strengths of the Post Office in an increasingly digital world.

46. The Post Office is exploring a number of other opportunities. A few examples are:

- The provision of identity verification and registration services that will enable public sector employees to access multiple government systems in a safe and secure way. This has the potential to offer the flexibility for people to register near to where they live or work. By offering an alternative, trusted channel with expertise in identity verification, it has potential to reduce the costs to local authorities and central departments of delivering this service.
- The role the Post Office could play in supporting Jobcentre Plus in the National Insurance Number application process (in straightforward cases).
- The potential for the Post Office to become an umbrella organisation to provide an end to end electronic Criminal Records Bureau (CRB) application service.

Case study

Driver and Vehicle Licensing Agency (DVLA) – people are able to renew their driving licences in Post Offices, using technology which can capture data (including people’s photos) and send it electronically to the DVLA. This makes life easier for customers, and less expensive for the DVLA.

Financial services

47. An important part of the future sustainability of the Post Office will be the continued growth of revenue from financial services. With over two million customers, the Post Office is one of the fastest growing providers of personal financial services in the UK. It offers a wide range of financial services including personal loans, credit cards, insurance and savings products. This year Post Office Ltd has introduced an expanded range of mortgages.

48. We were clear in the Coalition Agreement that we would look at the case for developing new sources of revenue, including the creation of a Post Office Bank. We have looked at the different options very carefully, concentrating on three main approaches:

- Post Office Ltd continuing to expand into financial services under its Joint Venture with the Bank of Ireland
- Post Office Ltd working with a different banking partner
- Government creating a state-backed bank

49. Despite the arguments made for creating a state-backed Post Bank we have concluded that now would not be the right time to do so. Setting up and capitalising a new bank would be time-consuming and expensive. It would

involve Post Office Ltd having to develop a new set of skills, creating a much more volatile and risky balance sheet for the company and the requirement to build significant market share fast in a competitive market. We believe that funding for the Post Office will be better spent modernising and maintaining the Post Office network.

50. We have concluded that Post Office Ltd should build on its relationship with the Bank of Ireland. The Bank of Ireland is committed to making a success of its tie-up with the Post Office and has major plans to expand in Britain. Post Office Ltd's relationship with the Bank of Ireland has been strengthened considerably by the Bank of Ireland's recent creation of a separate subsidiary in the UK with depositors covered by the UK Financial Services Compensation Scheme.

51. We will support the Post Office as it expands further into financial services. There will be two main elements to the expansion. First, the development of new products with the Bank of Ireland, such as the children's saving account being launched in the next five months. Second, pushing forward our ambition that all UK current accounts will be accessible through the post office network, making post offices the convenient place for people to access their cash.

52. Royal Bank of Scotland (RBS) and the Post Office have this month reached an agreement to allow RBS – including Natwest – customers access to their current and business accounts at post offices. This means that the holders of almost 80% of all UK current accounts will be able to withdraw money free of charge at the Post Office, and many can also pay money in and check their balances. Of the major banks, only Santander and HSBC have yet to reach agreement with Post Office Ltd to provide access to all of their current accounts. Alongside this, all of the UK's major banks, together with the Nationwide Building Society, provide at least one basic bank account that is accessible at post offices. The Post Office is also in discussions with the Building Societies Association to explore how building societies' customers could also use post offices as a convenient place to withdraw and deposit cash. Paypal and the Post Office are in advanced negotiations so that from summer 2011 Paypal account holders will also be able to top up their accounts as well as having their identity verified at post offices.

53. We are firmly supportive of a stronger link up between Post Office and credit unions and are actively looking into ways the two can work more closely together. Credit union current accounts holders can already access their accounts at post offices through arrangements with the Co-operative Bank, and it is estimated that in the last six months almost 80,000 Credit Union transactions have been carried out in post office branches. A service has recently been introduced in Glasgow and South Lanarkshire that will allow people to collect their credit union loans at a local post office branch using Post Office's 'Payout' technology. The Post Office plans to build on this and is already in discussions with other credit unions about extending these services.

THE FUTURE OF THE POST OFFICE

54. We all recognise that the Post Office network is something more than a purely commercial entity. It operates in places where other retailers do not, including many deprived urban communities and isolated rural areas. It offers services that other retailers do not. It is often a social hub of communities. Precisely because the Post Office has this distinct social purpose, we need to treat it differently from the Royal Mail.

Separation

55. We believe that the Post Office and Royal Mail will prosper apart. As Nigel Stapleton, Chairman of the regulator Postcomm, says in a recent report on the Post Office network⁵, “a demerger would enable each organisation to focus more effectively on its own challenges – post offices are part of a retail network with a social role recognised with State Aid and competing in markets other than mail”. We agree with this.

56. The Postal Services Bill⁶ that we introduced in October this year will lift restrictions on the sale of shares in Royal Mail, in order to allow the company to seek the private sector investment it needs. We are clear that the Post Office will not be part of any transaction to bring private capital into the Royal Mail and the two companies will be separated.

57. But the two businesses will continue to work closely with one another. The Post Office carried out over three billion transactions on behalf of Royal Mail last year and the Royal Mail relies on the Post Office to provide access to its services for the public. Plainly the two businesses – which are closely entwined in the public mind – will continue to rely on one another. As Moya Greene, the Chief Executive of Royal Mail has said, “it is unthinkable that there won’t always be a very strong relationship between the Post Office and Royal Mail – both are of crucial importance to each other”. That is why there will continue to be a long term commercial contract in place between them. It’s in the interests of both companies.

58. A separated Post Office will benefit from a strengthened Board giving increased levels of oversight and challenge. This will have non-executive directors to provide greater expertise and challenge – for example in the critical areas of financial services, telecoms or retail sales.

Mutualisation

59. The Government currently holds all the shares in Post Office Ltd. But in practice the Post Office network is a mix of the public and private sectors, with 97% of post offices privately owned and run. We want to encourage fresh thinking on whether the best model for running the Post Office in the future is

⁵ <http://www.psc.gov.uk/documents/1072.pdf>

⁶ <http://www.bis.gov.uk/policies/business-sectors/postal-services/postal-services-bill-2010>

still to have the Government performing the role of shareholder while Post Office Ltd operates commercially at arm's length, bound by contractual relationship to the sub postmasters who carry out the majority of the network's transactions.

60. We believe that the current model holds the Post Office network back in important respects. It aligns poorly the interests of its different stakeholders. To take two examples: sub postmasters are often pitted directly against Post Office Ltd in pay discussions; and the necessary expansion of post office services online has had only limited support from sub postmasters because they fear a diversion of revenue from local branches.

61. We propose that, in time, Post Office Ltd could be converted into a mutual structure, with the ownership and running of the Post Office handed over to employees, sub postmasters and communities. We believe that a mutually-owned Post Office Ltd could be ideally suited for the economic and social role that the Post Office network provides in communities up and down the country. The experience of an increasing number of community-run post offices has shown how well the mutual model can work at a local level, allowing communities to tailor the services to their needs. Such a change at the national level relating to the ownership of Post Office Ltd would be a vivid example of the Big Society: empowering those that know the Post Office best and giving communities more of a stake in the future of assets they value. Sub postmasters would continue to be under contract to a mutually owned Post Office Ltd, staff would continue to be employed by it, and customers would continue to do business with it. But, depending on the structure ultimately adopted, each could play a greater role in setting how the Post Office best delivers the public benefit so many rely upon it to provide.

Experts in the area of mutual ownership agree with us. For example, Peter Hunt, the Chief Executive of Mutuo, a not-for-profit society which seeks to promote a better understanding of mutuals, recently said that mutual ownership of the Post Office "could help to secure the future of the Post Office for the public benefit. As a mutual, the Post Office will be able to harness the experience and goodwill of its employees, business partners and its customers. Together they will be part of a practical partnership that uses all of their skills to design a Post Office for the years ahead."

62. We are clear that any move to mutual ownership must put the views of sub postmasters, employees, business partners and customers first. It will not be imposed on the Post Office from the top down.

63. As a first step we have asked Co-operatives UK – the national trade body for cooperatives – to look at this proposal. After seeking the views of the Post Office's major stakeholders, as well as those of a range of experts, Co-operatives UK will report back to Ministers in spring next year with an outline of the options they have identified. We would like the work led by Co-operatives UK to make suggestions on important issues – for instance

who the members of a Post Office mutual should be and their relationship to the mutual. But before making any final decision on whether to move to a mutual structure, we will conduct a public consultation so that the British public can have their say, as both customers and taxpayers. We believe that the Post Office could be a mutual by the end of this Parliament.

64. We are also clear that for a mutual to be successful it must be able to build from solid foundations. Nobody would want to take on responsibility for an enterprise without a viable future, so mutualisation is only an option when the network is financially viable. We believe that the financial support and policies we have laid out in this statement provide the needed reassurance about the future of the network.

TO CONCLUDE

65. We are committed to the future of the Post Office network. It is uniquely important to communities across the country but is on a worrying trajectory of decline. As we have set out in this policy statement, we are dedicated to turning the Post Office around. This will involve a major refresh of the network and its products, and the Post Office turning the size of its network to its advantage. We believe that our programme means that the Post Office network is on the cusp of an exciting new era.



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