CABINET
OFFICE

Counter Revolution

Modernising the Post Office Network

A PERFORMANCE AND INNOVATION UNIT REPORT JUNE 2000

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FOREWORD BY THE PRIME MINISTER

Britain's post offices are a vital part of the fabric of our country. While 28 million people are served every week at Post Office counters, post offices are more – much more – than just businesses. Especially in rural areas, and in disadvantaged parts of our towns and cities, post offices play an important role in communities across the country: keeping services going, supporting the vulnerable, acting as a focal point. The Government values the Post Office network. We want to see it thrive.

But there are also challenges. The trend towards a cashless society, including the payment of benefits directly into bank accounts, as well as increased use of direct debit, the internet and e-mail, means that the traditional work of the Post Office needs to change and respond to the service requirements of increasingly sophisticated customers in a changing world.

That's why I asked the Performance and Innovation Unit (PIU) to look ahead: to pinpoint the challenges, and to draw up a strategy for the future of Britain's Post Office network. What this report shows is a network which has become over-reliant on a few lines of business. And a network that has not kept pace with technological change and which is in need of modernisation.

But the PIU has also found a network with real strengths: post offices rightly enjoy high levels of trust with their customers, and local communities; they reach into every urban area and every sizeable rural settlement; and they represent a unique partnership between the Post Office and the private business people who own and run local post offices up and down the country, and who do so much for those they serve and the areas in which they live and work.

I welcome this report which the Government fully accepts. Its conclusions set out a programme of action both for the Government and the Post Office. I am confident that by working together with sub-postmasters and the private sector we can deliver a network of post offices fit for the 21st century. A network which continues to occupy the special place it has in Britain – in all our lives.

1. EXECUTIVE SUMMARY

Key Points

- **Post offices contribute a great deal to their communities over and above their role as a place to conduct transactions.**
- **The Post Office has been slow to modernise the network in the face of a rapidly changing business environment. There are opportunities to diversify into new lines of business, including:**
  - **a new Post Office-based Universal Bank to tackle financial exclusion, and other banking opportunities;**
  - **e-commerce;**
  - **one-stop shops for Government information and transactions; and**
  - **internet learning and access.**
- **The Post Office needs to improve the efficient running of the network – for example, to minimise the losses of Crown or branch offices.**
- **The Post Office needs to take advantage of the renaissance in neighbourhood retailing in urban areas to build a network of bigger and brighter post offices. This provides an opportunity to transform the quality of service offered to customers.**
- **A fund should be established to help sustain and improve post offices and retail facilities in deprived urban areas.**
- **Rural post offices should be protected. The Government should require the Post Office to maintain the rural network and to prevent any avoidable closures of rural post offices.**
- **This should apply – in the first instance – until 2006. The Government may need to provide financial support for a period to the rural network. There is a power in the Postal Services Bill to do this.**
- **The Postal Services Commission should:**
  - **monitor trends in the size and shape of the network;**
  - **advise the Government on the appropriate framework to ensure continued convenient access to post offices after 2006; and**
  - **carry out a review of the best way to channel any support necessary to sustain the rural network before then.**

The Post Office network is a unique and trusted British institution

The Post Office has the largest retail network in Europe. It has enormous reach, with over 18,000 post offices throughout the United Kingdom. 94% of the population lives within one mile of a post office. In urban areas, people are on average a quarter of a mile from their nearest post office. Two thirds of urban residents live within half a mile of two or more post offices.

The network represents a particularly early example of a Public Private Partnership in the UK. 97% of post offices, accounting for 80% of Post Office turnover, are run by private business people – sub-postmasters – often alongside another retail business.

Post offices offer a range of 170 different postal, government and commercial services. And they are used by nearly everyone in the country. 28 million customers make 45 million visits to post offices every week.

These customers hold the network in high esteem – surveys show that sub-postmasters and the Post Office brand enjoy high levels of public trust.

Post offices are valued not only for the business they do but for the wider social role they play

In rural areas and some deprived urban areas, post offices play a crucial role in sustaining local communities. In many areas, they help to keep open the only village shop or other retail outlets. They regularly provide support and advice to vulnerable people. Indeed, post offices can often act as a focal point for the whole community.

The importance of this social role of post offices – alongside their commercial function – is emphasised by many local communities across the country. Appreciating it is crucial to developing policies for the network.

The Post Office has been slow to modernise the network in the face of a rapidly changing business environment

The Post Office network, like other industries, needs to adapt to its rapidly changing business environment. The lifestyles and preferences of its customers have changed enormously in recent years and will continue to do so. Consumers expect high standards of service and modern facilities. And technological and other innovations (ranging from direct debit to telephone call centres to the internet) are opening up completely new ways of doing business and leading to a further transformation in lifestyles and customer preferences.

The Post Office has been slow to modernise the network in the face of this changing business environment and to reduce its dependence on declining traditional lines of business.

The network has become increasingly reliant on relatively few lines of business for the majority of its revenues – for example, the payment of social security benefits accounts for 35% of network income. The people who most use post offices tend to be older and less well-off.

The Post Office's Government clients are modernising the way they provide services to their clients. This is why the Benefits Agency has decided to shift to the direct payment of social security benefits into bank accounts from 2003 and why, for example, the Driver

and Vehicle Licence Agency is looking at innovative ways of allowing people to renew their vehicle licence tax.

Such change is inevitable. Increasing numbers of people have, for example, been opting, voluntarily, to have their benefits paid directly into their bank accounts for many years.

Now is the time to modernise

The Post Office has recently been given new commercial freedoms which it has lacked in the past.

This opens up new opportunities. Many of these are made possible by the Horizon project, which will ensure that every post office in the country is fully automated by Summer 2001. This project – of around £1 billion – represents a major commitment to modernise the network.

Now is the time for the Post Office to grasp every opportunity to maximise the potential of the network, whilst at the same time ensuring that the network operates as efficiently as possible.

The Post Office needs to maximise the potential of the network, seizing opportunities for new lines of business ...

Working in partnership with sub-postmasters and the private sector, the Post Office needs urgently to seize opportunities for new lines of business, including:

A Universal Bank

Over 15% of the adult population do not have a bank account. Such financial exclusion denies people access to other financial services; causes difficulties where employers insist on paying salaries into bank accounts; and denies people discounts offered by utilities and others when they pay their bills by direct debit.

A new Post Office-based bank, which specialised in providing banking services to those on low incomes, could be highly effective in tackling such financial exclusion.

It would also offer a cost-effective means of ensuring all benefit claimants continued to be able to access benefits in cash at post offices after the change in the way benefits are paid from 2003.

Such a bank – possibly to be called the *Universal Bank* – would be jointly owned by the Post Office, the High Street banks and other financial institutions. Feasibility work on this proposition is already being undertaken by the Post Office and it needs to take forward rapidly more detailed work. But the concept has enormous potential and the Government should indicate its strong, in principle, support.

Other banking opportunities

The Post Office has agreements with a number of High Street banks to provide banking services on their behalf. The advent of Horizon will allow the Post Office to strengthen these relationships further.

E-commerce

The e-commerce revolution opens up a host of other new possibilities, exploiting the unique nationwide reach and trusted brand of the Post Office network. As the sale of goods bought over the internet grows, new distribution systems are going to be needed to get goods to consumers. The Post Office has been slow to react to this new opportunity.

Post offices would be extremely well placed to act as e-commerce distribution centres and pick-up points for goods purchased over the internet. The Post Office needs to make rapid progress in exploiting these opportunities with private sector partners, as part of the modernisation of the network.

One-stop shops for Government information and transactions

Post offices offer tremendous scope to play a role as one-stop shops for central and local Government information and transactions. Most sub-postmasters already provide many of their customers with information and advice of different kinds.

Working with partners in central and local government and the private sector, the Post Office needs to bring forward early plans to pilot different options.

Internet learning and access

Post offices are also well placed to help their customers by acting as internet learning and access points. Sub-postmasters could help those unfamiliar with the new technology to use the internet and/or to carry out internet transactions on their behalf, including e-commerce.

Such a role would require investment in new technology, building on the Horizon infrastructure currently being installed, and in the training of sub-postmasters. The Post Office needs to work up a business case, in partnership with the private sector, for piloting this idea as soon as possible.

… modernising the network …

Many local post offices are in poor premises, face declining traditional lines of business and show the signs of years of under-investment.

In urban areas, the renaissance in neighbourhood retailing offers the Post Office and sub-postmasters the opportunity to transform the quality of service offered to customers and to generate new sources of revenue. In many cases this would involve actively re-locating post offices with convenience stores. In other cases it would involve modernising existing outlets. These larger and better quality offices would offer a broader range of both post office and other retail products and services; could be open longer hours; and thus attract a broader range of customers.

As well as helping to secure the commercial viability of the network, these new offices might reduce the need for such a large number of outlets in urban areas. The responsibility for modernising the network clearly rests with the Post Office. But the Government may have a role to play in ensuring that the Post Office has the necessary resources to carry through the changes.

… and improving the efficient running of the network

As well as maximising revenues from new business opportunities, the Post Office needs to improve the efficient running of the network.

In particular it needs to address the poor profitability of branch offices, which currently lose around £50 million annually.

The Post Office needs to proceed with further conversions to franchise offices in line with last year's White Paper commitment. It must also drive up the efficiency of the remaining branch offices.

Convenient access for all to post offices should be maintained

While it is essential that the Post Office places the network on the strongest possible commercial footing, it is also essential that everyone in Britain continues to enjoy convenient access to a post office.

In urban areas, placing the network on a sound commercial footing as outlined above, would improve the quality of service provided to customers whilst still providing convenient access to post offices.

Post offices contribute most to their communities in rural and some deprived urban areas. A purely commercial Post Office would probably seek to close down many of these outlets. The Government therefore needs to set a framework which recognises and protects the social role played by these post offices.

Rural post offices must be protected

The social role of post offices is most important in rural areas. In many rural areas, while other services have been withdrawn, post offices have remained.

The Government should require the Post Office to maintain the rural network and to prevent any avoidable closures of rural post offices.

Historically, this has been possible because the rural network has been cross-subsidised by the urban network.

Declining traditional lines of business might make it more difficult to provide these cross-subsidies in future, though ultimately new lines of business should replace most if not all of the lost revenues. The Government may, therefore, need to provide financial support for a period if the rural network is to be maintained. The Postal Services Bill provides the power for such support should it be necessary.

Special measures are also required for deprived urban areas

In general, in urban areas, there will be no divergence between the commercial aims of the Post Office and the social role played by post offices. The modernisation of the network will benefit local communities by creating higher quality offices offering better services. These bigger, brighter offices should ensure convenient access for all in urban areas to post offices.

There is therefore no case for constraining the Post Office's commercial freedom in urban areas. On the contrary, such constraints could hold back the essential modernisation the network needs.

However, in some cases, there may be adverse consequences – for example, where the closure of the post office leads to the closure of the only decent shop in an area.

This situation is only likely to occur in a few isolated and deprived estates. To deal with this, there is a case for establishing a small fund for deprived urban areas to help sustain and improve post offices and retail facilities.

The Postal Services Commission should advise the Government on developments affecting the network

The framework proposed in this report should apply, in the first instance, until 2006. During this period, and beyond, the Government will need a sound source

of advice on developments affecting the network.

The Postal Services Commission should be responsible for:

- monitoring what is happening to the size and shape of the network and with what impact on local communities;
- advising the Government on the appropriate framework after 2006; and
- advising the Government on the best way to channel any support that has to be provided to sustain the network before then.

2. INTRODUCTION

Summary

- **The Post Office is the largest retail network of its kind in Europe, with over 18,000 outlets.**
- **The size of the network and its brand name means that there are significant new business opportunities for the Post Office to seize. Particularly with the switch to direct payment of social security benefits into claimants bank accounts, from 2003, the Post Office must start now to move away from its traditional business and respond positively to the new challenges it faces.**
- **The aims of this study are to review the challenges facing the Post Office network; to assess the opportunities for new lines of business; to analyse the contribution of post offices to local communities; and to draw conclusions for future Government policy.**

2.1 What this report is about

With over 18,000 outlets, the Post Office is the largest network of its kind in Europe. A product of nearly four hundred years of history, post offices enjoy a special place in the hearts and minds of British people.

However, the Post Office has not kept pace with technological developments and changing preferences and lifestyles. Consumers are demanding better services and modern facilities. The Post Office network has become too reliant on a relatively small number of lines of business. The most important of these is the payment of social security benefits over post office counters.

The Government announced in May 1999 that, from 2003, it planned to change the normal method of benefit payment to direct payment into claimants' bank accounts. Order books and girocheques would be phased out over a two year period, and replaced by a purely electronic system. However, Ministers said that all those who wished to use post offices to access their benefits in cash after the change would continue to be able to do so.

Changes in the way benefits are paid are one of a series of challenges to traditional lines of Post Office business. But, no less important, there are opportunities for the Post Office and sub-postmasters to seize, particularly in banking, e-commerce and the provision of Government services.

This report:

- considers the potential impact of the challenges to traditional lines of business for the Post Office network;
- examines to what extent new lines of business could replace declining revenues from traditional lines of business;
- proposes Government objectives for the network; and
- draws conclusions for future Government policy.

2.2 The origin and remit of the study

On 21 October 1999 the Prime Minister announced to the House of Commons that he had asked the Performance and Innovation Unit (see Annex 1) to undertake a project on the Post Office network.

The project team was asked:

- to identify the contribution made by post offices to the vitality of local communities;
- to consider how the Post Office network could best contribute to the Government's objectives in the future; and
- to formulate objectives for the Post Office network.

2.3 How the project was carried out

A multi-disciplinary team, comprising a mix of civil servants and secondees from outside Whitehall, was assembled in October 1999 (details at Annex 2).

There were 5 phases to the project:

- developing a clear understanding of the operation of the Post Office network;
- reviewing the contribution made by post offices to the vitality of local communities;
- analysing how the network might change in the future under different scenarios;
- considering what products or services the network could offer in the future to maximise its potential; and
- formulating Government objectives for the network, and analysing policy options for safeguarding it.

In carrying out the study, the project team have drawn on the expertise of the project's Advisory Group, made up of representatives and stakeholders from inside and outside Government. This group was chaired by Charles Clarke MP, Minister of State at the Home Office who was also the sponsor Minister for the project (see Annex 2).

Assistance, advice and support from the Post Office has been invaluable. From the outset, the project team worked closely with Post Office staff. Particularly important was the willingness of the Post Office to share detailed data on the transactions done in every post office in the UK. This allowed the team to develop an analytical model of the impact of changes in Post Office revenues on the size and shape of the network under a range of scenarios (see Annex 3).

The project team visited post offices throughout the United Kingdom (including Scotland, Wales and Northern Ireland). Talking to sub-postmasters about how they saw their business was crucial to developing an understanding of the economics of running a sub-post office and of the contribution that post offices make to the vitality of their local communities.

The project team also consulted a wide variety of other experts and stakeholders – from the trade unions to the UK Passport Agency, from the Countryside Agency to the Association of Convenience Stores, from

banks to parcel delivery companies – in both the UK and overseas.

Each of these meetings and visits helped the project team to understand the economic, social and technological environment within which the network operates.

Annex 3 gives a comprehensive list of all the individuals and organisations consulted by the project team.

2.4 Structure of the report

The rest of this report is structured as follows:

- chapter 3 gives an overview of the Post Office network (the number of post offices, what services they offer, the people who use them etc);
- chapter 4 explains how the Post Office network is financed;
- chapter 5 looks at rural post offices and their contribution to the vitality of rural communities;
- chapter 6 looks at the ubiquity of the network of urban post offices and the retailing environment in which they operate;
- chapter 7 looks at how the Post Office network's current business is changing and the future opportunities open to it; and
- chapter 8 sets out Government objectives and future Government policy towards the network.

Annexes summarise the role of the PIU; give details of the project team, sponsor Minister and Advisory Group; set out the methodology underpinning this report; summarise the main findings from a review of post offices overseas; and review the pros and cons of numerical access criteria.

3. AN OVERVIEW OF THE POST OFFICE NETWORK

Summary

- **The UK has more post offices per head than all but a handful of small island countries.**
- **97% of post offices (sub-post offices) are run by private business people (sub-postmasters), who run their business alongside another retail business.**
- **Post offices offer a range of 170 different services and products. These are dominated by benefit payments and other Government services.**
- **Older and poorer people tend to use post offices more often than others.**
- **The network has been slow to adapt to the changing social and economic environment in which it operates. It has become increasingly dependent on a few lines of business and needs to diversify the products it offers to respond more effectively to changing needs and preferences.**

3.1 The business of the Post Office network

The Post Office network, which comprises the physical network of post office counters, is part of the Post Office[1] Group. The other main businesses of the Group are mail and parcel delivery and collection, through Royal Mail and Parcelforce Worldwide. The Group also has a call centre business – SSL – which provides licensing and subscription services (e.g. for the BBC). Figure 3.1 shows how Group revenue breaks down between the main areas of businesses.

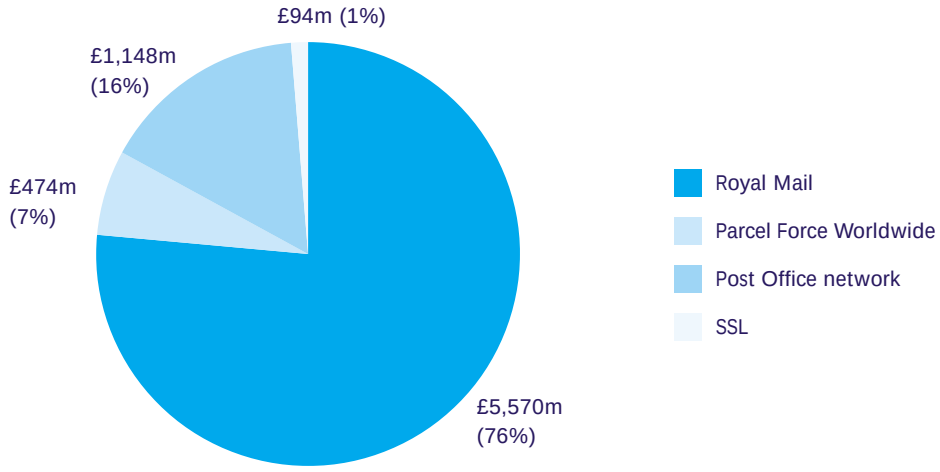
The Post Office network receives income from its clients (e.g. the Benefits Agency and Royal Mail) to provide services or products to its customers over counters in post offices. The Post Office network's customers are mostly private individuals and small businesses. Services range from the sale of stamps, to handing out leaflets, to checking passport applications have been completed correctly, to cashing benefit entitlements.

The vast majority (97%) of post offices are run by private business people (sub-postmasters or mistresses[2]) under a variety of agency arrangements. These outlets are known as sub-post offices. The remainder of the outlets – branch or Crown offices – are staffed and managed by Post Office employees.

[1] In this report the term 'Post Office' refers to the organisation as a whole, while 'post office' is used to describe an individual outlet.

[2] In the remainder of this report the term 'sub-postmaster' is used to describe both sub-postmasters and sub-postmistresses.

Figure 3.1: Post Office Group income by main business area, 1998/99



Source: Post Office report and accounts 1998/99

The Post Office network has a long history summarised in Box 3.1. It can be traced as far back as 1635 and because of its reliance on private business people to deliver services and products can be thought of as a particularly early example of a Public Private Partnership.

Box 3.1: A potted history of the Post Office and its counters' network

- King Charles I issued a proclamation in 1635 allowing the public to use his Royal Mail. The mail was carried by mounted post-boys between inns which acted as staging posts. Selected innkeepers also acted as postmasters taking the mail from one post-boy and handing it on to the next. The postmaster also accepted mail brought in for posting by local residents.
- In 1680 William Dockwra, a London Merchant, introduced a penny post to collect and deliver letters and parcels in London. He used over 400 receiving houses at shops, taverns and other small businesses to take in the mail. The service was forced to stop in 1682 as it infringed the Post Office monopoly, but was re-opened shortly afterwards as an official Post Office service. Many of the receiving houses were retained as they offered a convenient place for people to post their letters.
- An Act was passed in 1765 allowing local penny post networks in key towns outside London. It took a while for towns to adopt the scheme, but when they did many letter receiving houses sprang up. Inns were seen as less desirable locations, particularly by women, so reputable shops or even the local schoolmaster would take on the task of offering facilities for people to post and collect their mail.
- A money order service was introduced in 1792 allowing people to transmit money safely. An order could be purchased from a post office, sent to the recipient who would then take it to a designated post office to exchange it for cash.
- The introduction of a uniform penny postage and postage stamps, in 1840, greatly increased the numbers of letters posted, and more and more sub-post offices were established to meet demand.

Box 3.1: continued

- The Post Office Savings Bank began in 1861, offering savings facilities for ordinary wage earners. At that time there were few banks outside major towns. Initially 700 post offices provided a place to save money, but within 2 years this had risen to 2,500 offices. By 1901 there were over $8\frac{11}{42}$ million accounts with deposits of over £140 million.
- The monopoly of running the telegraph service was given to the Post Office in 1870 and post offices were set up throughout the country to allow people to send and receive telegrams.
- The introduction of the parcel post service in 1883 meant that 15,000 post offices had to be enlarged.
- The National Federation of Sub-Postmasters was formed in 1897.
- In 1900 there were 906 head post offices, 255 branch offices, 4,964 town sub-offices and 15,815 country sub-offices. A total of 21,940 offices.
- From 1 January 1909, Old Age Pensions became payable at post offices.
- The Post Office took over the National Telephone Company in 1912 to offer a unified telephone system throughout most of Britain.
- During both World Wars, post offices played a vital role displaying general notices and instructions, issuing forms and ration books.
- After the Second World War, state benefits (e.g. family allowance etc) became payable nationwide via the Post Office counters network.
- The Post Office's new banking service, National Giro, (later called National Girobank) began in 1968.
- On 1 October 1969, the Post Office ceased to be a Government department and became a nationalised industry. Control of National Savings Bank was lost when it became a separate Government Department, but post offices continued to act as an agent on its behalf.
- The Post Office was reorganised in 1986 into 3 separate businesses – Royal Mail Letters, Royal Mail Parcels and Post Office Counters.
- Post Office Counters Limited was formed as a wholly owned subsidiary of the Post Office in 1987.
- Girobank was sold to the Alliance and Leicester Building Society in 1990.
- In July 1999 the Government published a White Paper on the Post Office (see Box 3.6). The Postal Services Bill which enacts the changes set out in the White Paper is currently before Parliament.
- In October 1999 the Post Office Group restructured its businesses around units which either generate business for the network (called market-facing units) or deliver services to customers on behalf of the market-facing units (called service-delivery units). The Post Office Network is a service delivery unit which looks to the market-facing units to manage contracts with institutional clients (such as the Benefits Agency).

Source: Post Office

3.2 The size and shape of the network

The Post Office network has over 18,000 offices…

The Post Office network comprises around 18,400 offices of which around 14,300 offices are in England, 2,000 in Scotland, 1,500 in Wales and 600 in Northern Ireland. Around 9,900 offices are in rural locations[3] and around 8,500 are in urban locations.

…and offers convenient access to everyone

The Post Office network reaches into every urban community and nearly every sizeable rural settlement. 94% of people in the UK live within a mile of a post office and 99% are within 3 miles. Over 90% of people in urban areas live within half a mile of a post office and around two thirds live within half a mile of two or more offices. Over two-thirds of villages with between 500 and 1,000 inhabitants have a post office.

Table 3.1 shows that:

- urban areas have more than ten times the number of post offices per square kilometre as rural areas; and
- rural areas have $2^{11}/_{42}$ times as many post offices per head of population as urban areas. On average there is one post office for every 1,800 people in rural areas, compared to one post office for every 4,500 people in urban areas.

It is the largest retail network in Europe…

The Post Office operates a larger retail network than any other organisation in Europe. Table 3.2 shows the size of a range of retail networks whilst Table 3.3 sets out the size of networks delivering other services.

Table 3.2: The size of retail networks in the UK, 1999

Retail networks	Approximate number of outlets
Post offices	**18,500**
Spar	2,700
Lloyds TSB	2,500
Esso petrol stations	1,600
William Hill	1,500
Lloydspharmacy	1,400
Boots	1,400
Halifax	800
Woolworth	800
Tesco	590
Sainsbury	340
Marks and Spencer	290

Source: PIU research

Table 3.1: Post office coverage in rural and urban areas, 1999

	Number of post offices	Post offices per 100km²	Post offices per 100,000 population
Rural	9,900	4.5	55.8
Urban	8,500	48.4	22.3

Source: PIU analysis of Post Office data

[3] Rural locations are defined as settlements with less than 10,000 inhabitants. This is based on the definition used by the Countryside Agency.

Table 3.3: The size of other networks in the UK, 1999

Type of network	Approximate number of outlets
Places of worship	Up to 45,000
of which Anglican Churches	16,000
Pubs	41,800
Cash machines	28,200
Primary schools	23,100
Post offices	18,500
Banks and building societies	14,400
Petrol stations	13,700
General practitioners' surgeries	11,000
Libraries	4,900
Police stations	2,000
Benefit Agency offices and Job Centres	1,400
Hospitals with A&E facilities	250

Source: PIU research

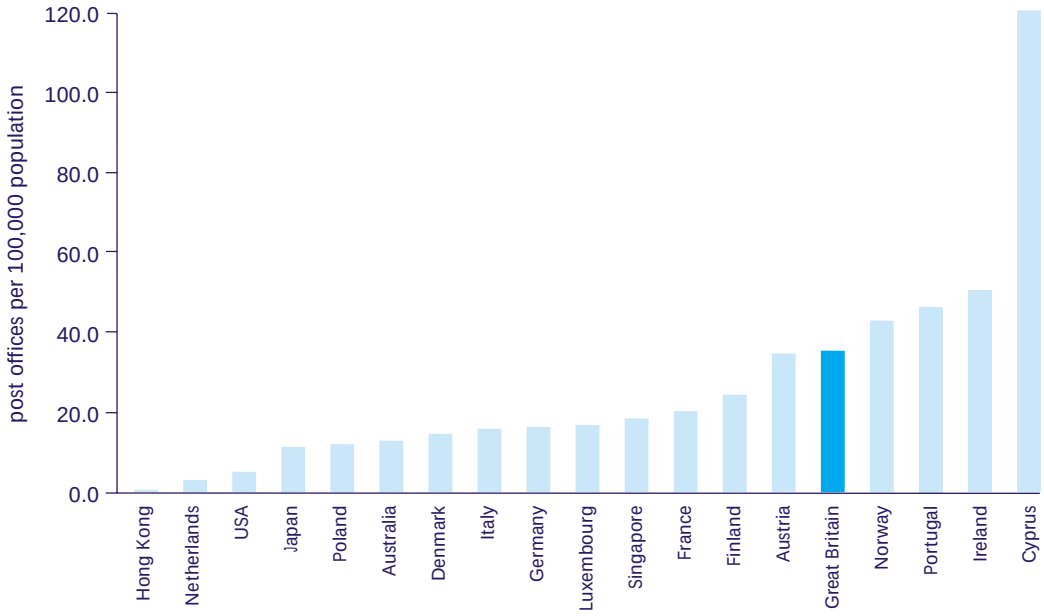
...and it is more extensive than most other countries' networks

The size of the UK Post Office network is unique among OECD countries. Figures 3.2 and 3.3 show that the UK has the most extensive coverage of offices relative both to the size of its population and the surface area of the country. It has more post offices per 100,000 population than all but a handful of countries – 30% more than Germany and 10% more than France. Only the small island countries of Cyprus, Hong Kong and Singapore have more post offices per 100km^2. Annex 4 provides further information on post office networks in other countries and how they have adapted to changing economic, social and technological environments.

However the network is not static...

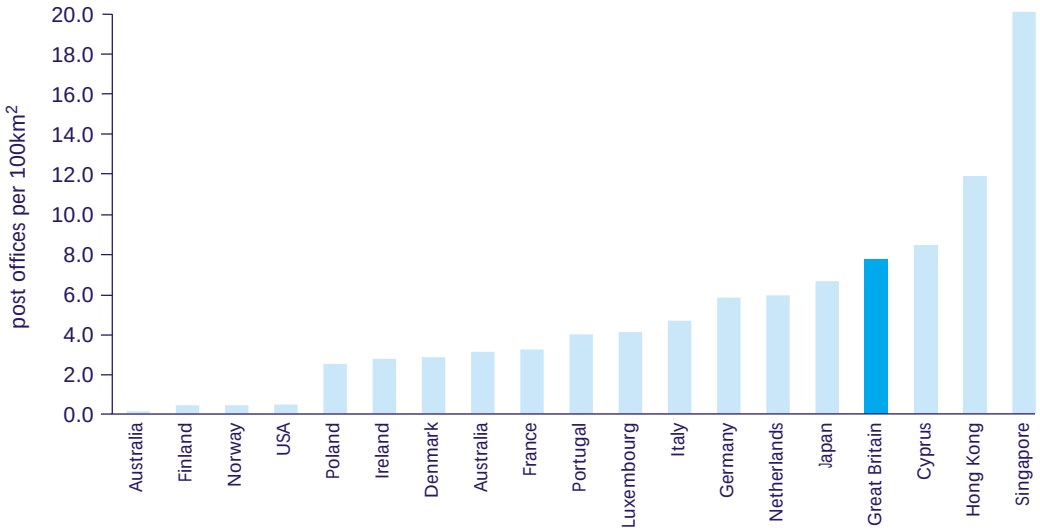
Although the UK Post Office network has maintained its reach, it is not static. For example, around 10% of post offices change

Figure 3.2: Post office coverage per 100,000 population by country, 1997



Source: Universal Postal Union

Figure 3.3: Post office coverage per 100km² of surface area by country, 1997



Source: Universal Postal Union

hands each year as resigning sub-postmasters sell their businesses on. In recent years, the network has been contracting by around 1¹¹⁄₄₂% annually. Typically closures have been in small rural settlements where a sub-postmaster resigns or dies and, despite its best efforts, the Post Office can find no suitable replacement to take over the running of an outlet.

3.3 The outlets and the people who run them

A small number of larger outlets are staffed by Post Office employees…

Around 600 outlets (3% of the total) are run by people directly employed by the Post Office. These outlets – called branch or Crown offices – are some of the largest in the network and together transact around 20% of the business. Historically, all post offices in the High Street or in city centres tended to be branch or Crown offices. However, the Post Office recognised that conversion of branch offices to privately run sub-post offices (with a sub-postmaster running a private retail business alongside the post office) offered both economic and social benefits. It therefore pursued a conversion strategy that reduced the number of branch offices from 1,500 in 1988 to the current number.

Many customers prefer converted offices, as they allow a visit to the post office to be combined with a visit to a local shop. Table 3.4 shows typical customer satisfaction levels following the conversion of branch offices.

…but most post offices are run by private business-people…

However, the overwhelming majority of outlets (17,800 or 97% of the total) are sub-post offices run by private business people. Around 1,000 of these sub-post offices are run by large multiples under brand names such as Spar, Alldays, Forbuoys, Star News and Dillons. The vast majority of the remainder are run by independent sub-postmasters. There are about 17,000 sub-postmasters who, in turn, employ around 40,000 sub-postmaster assistants. Most of these sub-postmasters run their post office business under the same roof as another retail business. In urban areas this will typically be a confectionery, tobacco,

Table 3.4: Customer satisfaction levels after office conversion, 1997

	Better %	Same %	Worse %
Waiting time	58	31	11
Staff friendliness	45	50	5
Access	59	26	15
Speed of Transaction	58	37	4
Opening hours	68	31	1
Easy to get to	43	41	16
Staff politeness	46	51	2

Source: Independent research for the Post Office at 50 franchise offices 6 months after conversion: 1997

newsagent, or stationery business. In rural areas it will typically be the village shop.

The age distribution of sub-postmasters is shown in Figure 3.4. This shows that half of sub-postmasters are aged over 50. Sub-postmasters in rural areas tend to be older.

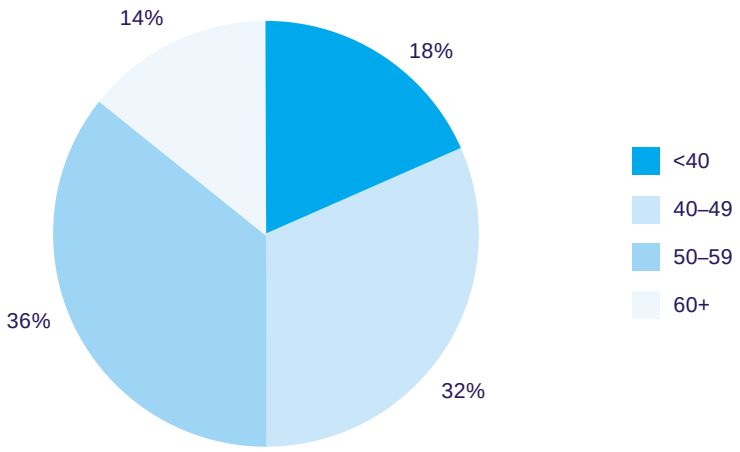
The Post Office estimate that 60% of sub-postmasters are male, whilst 86% of assistants are female. Where a couple run a post office, the husband is often the sub-postmaster, and his wife is counted as an assistant.

In London and many other large cities, the majority of sub-post offices are owned by Asian families.

...whose investment in their business will generally help to pay for their pension

In general, a sub-postmaster will have bought his sub-post office business from an exiting sub-postmaster. Typically, the amount he will have paid for the post office business will be around 2–2$^{11}/_{42}$ times the annual payments that he would get from the Post Office for running the office (although this varies substantially between locations). He will also have paid for any other business and property. So a sub-post office business which receives payments from the Post Office of £40,000 a year would typically have cost the sub-postmaster up to £100,000 plus the

Figure 3.4: The age distribution of sub-postmasters, 1999



Source: National Federation of Subpostmasters

price of the allied retail business. The value and the viability of the allied business are partly dependent on the existence of the post office business. Box 3.2 provides information about sub-postmasters' investment in their business.

3.4 Products and services offered by post offices

The Post Office offers a wide range of products and services...

Post offices offer a range of 170 different postal, government and commercial services, summarised in Box 3.3. The UK Post Office offers one of the widest range of services of any Post Office network in the world. For almost all these services there are usually alternative providers or substitute services. For example, stamps can be bought in many other outlets.

...but benefit payments and postal services pre-dominate

The largest sources of Post Office business in the UK are the payment of benefits and postal services. By contrast, financial services similar to those offered by High Street banks in the UK tend to dominate the services offered by the French and German post offices. In these countries, the Post Office has become a major financial services provider. While some overseas Post Offices, such as those in Germany and Finland, do no Government business at all.

The UK Post Office has been slow to react to behavioural changes by diversifying its product base and taking advantage of a number of new opportunities.

...not all services are offered throughout the network...

Not all services are offered by all post office outlets. For example, vehicle licensing can only be done at 4,000 offices and passport applications at 1,500. All post offices can provide bureaux de change services, but there are only 600 which offer an on-demand service. For many sub-post offices the costs of providing wider services outweigh the likely income. There is however great advantage to the Post Office brand of offering as full a range of services as possible at each location. Sub-postmasters have told the PIU team that customers are frustrated by, for example, not being able to renew their car tax at their nearest post office.

Box 3.2 Sub-postmasters' investment in their businesses

- The total investment of sub-postmasters in post offices is around £1–1.5 billion with perhaps a further £1 billion invested in the non-post office side of their business.
- Generally, the Post Office makes no contribution towards the cost of fitting out and maintaining a sub-postmaster's premises. For example, sub-postmasters have to cover the costs of the post office sign outside and a highly secure post office counter as well as all the costs associated with the retail business.
- A sub-postmaster will typically sell the business and his investment on retirement and use the proceeds to fund his pension.
- Reasons for buying vary. For many rural sub-post masters running a post office is a "way of life" rather than an investment.

Source: Post Office estimates

Box 3.3: Main services available at post offices

Post offices offer over 170 services including:

- Banking services – Branch transactions for Alliance and Leicester Girobank, Co-op Bank, Lloyds TSB, Barclays and National Savings.
- Cash management for businesses – deposits, cash provision, 3rd party cheques.
- Bill payment, bureau de change and postal orders.
- Pensions and other benefit payments.
- Insurance services.
- Car Tax, TV and Fishing Licences.
- National Lottery tickets.
- Mail and distribution – stamps, parcels, redirection, track and trace, special delivery.
- Passport renewal applications.
- Phone and Cable services – bill payment, pre-pay mobile phone vouchers.

Post offices also play an important role in circulating cash. Around a quarter of the cash in circulation at any one time has originated through a post office. A similar amount will find its way back into post offices in the form of cash deposits.

...and business varies hugely from outlet to outlet

There are great variations in the volumes of business transacted at different outlets. Figure 3.5 shows how the volumes of business in the smallest post offices compare to volumes in the largest. The largest 2,000 post offices account for around 40% of total Post Office business whilst the smallest 2,000 account for less than 1%.

There are restrictions on the business activities of the Post Office network...

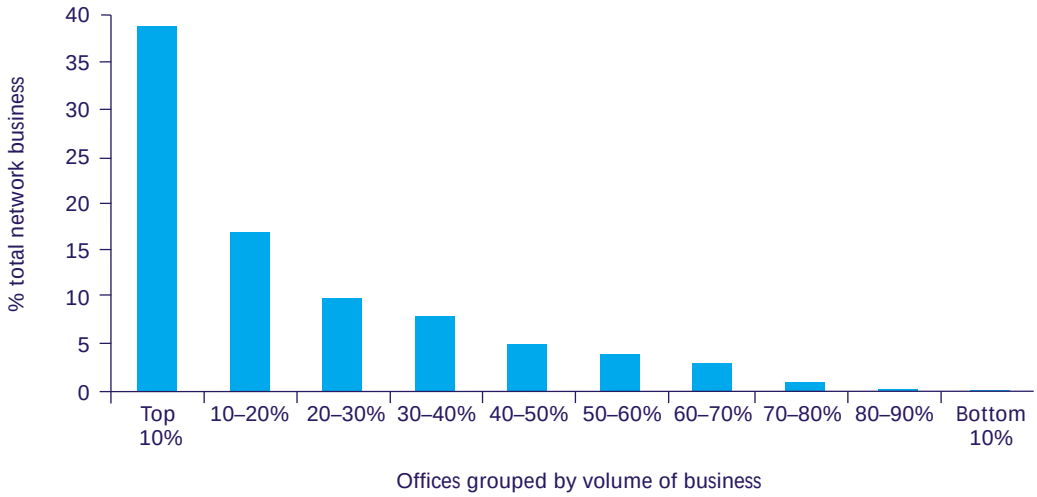
The mail and parcels business of the Post Office network is restricted by agreements with Royal Mail and Parcelforce. These agreements enforce an arrangement known as 'reciprocal exclusivity'.

Reciprocal exclusivity means only Royal Mail and Parcelforce can use the Post Office counters network for express mail and parcels business. The Post Office network is not able to accept express mail and parcels for distribution by competitors of Royal Mail and Parcelforce. Similarly, Royal Mail and Parcelforce are prevented from using other networks to receive express mail and parcels for distribution.

The Post Office last reviewed reciprocal exclusivity in 1994. This concluded that, whilst relaxation of reciprocal exclusivity would attract some new business from other carriers, this would be more than offset by the loss of Royal Mail and Parcelforce business. This was because:

- most of the business gained from other carriers would be at the expense of Parcelforce;

Figure 3.5: Percentage of business done in offices grouped by volume of business, 1998/99



Source: PIU analysis of Post Office data

- Royal Mail and Parcelforce would use other networks for mails and parcels business; and
- Royal Mail and Parcelforce would seek new contracts with the Post Office network enabling them to use only those post offices necessary to meet their Universal Service Obligations rather than the entire network.

However, reciprocal exclusivity potentially constrains (though it has yet to be tested) the ability of the Post Office network to exploit new business opportunities, such as acting as e-commerce delivery and collection points for partners other than the Royal Mail and Parcelforce. The Post Office therefore needs to keep the pros and cons of maintaining reciprocal exclusivity, and the balance between them, under continuous review.

...and on the private business activities of sub-postmasters

Sub-postmasters' contracts with the Post Office place restrictions on their private business activities. These restrictions fall into basically three categories:

- Sub-postmasters cannot conduct activities through their private business which are currently being done through their post office. For example, they cannot contract with lottery operators to sell lottery tickets through their private business if tickets are already being sold through their post office business.
- Sub-postmasters cannot offer services through the private side of their business which are being offered by other local post offices even if their own post office does not do so.
- Sub-postmasters cannot, in some cases, offer products or services through their private business, which would compete with the products or services of competitors being offered through the post office side of their business. For example, sub-postmasters cannot contract with alternative lottery operators or parcel services.

On the face of it, this might seem unduly restrictive – making it more difficult for sub-postmasters to generate extra revenue, which might make it easier for them to keep both their retail business and their post office

open. However, there are good reasons for the restrictions:–

- Whilst some individual sub-postmasters might gain from a relaxation of the restrictions, the Post Office network could lose out. The Post Office pays some sub-postmasters less per transaction than they would get by negotiating directly with lottery operators or other clients because it uses the revenues it receives to make cross-subsidies to less profitable parts of the network. Without the restrictions, these cross-subsidies could not be maintained and it would be more difficult to sustain the current size and shape of the network.
- They strengthen the Post Office's negotiating position with clients for the network's services. This position might be weakened if clients could negotiate directly with each sub-postmaster.

For these reasons, the National Federation of Sub-postmasters generally supports the Post Office's policy. However, the Post Office must continue to keep its policy under review to ensure the restrictions are no tighter than absolutely necessary. Not to do so might undermine the ability of sub-postmasters to act entrepreneurially.

3.5 People using post offices

The Post Office network has millions of individual customers...

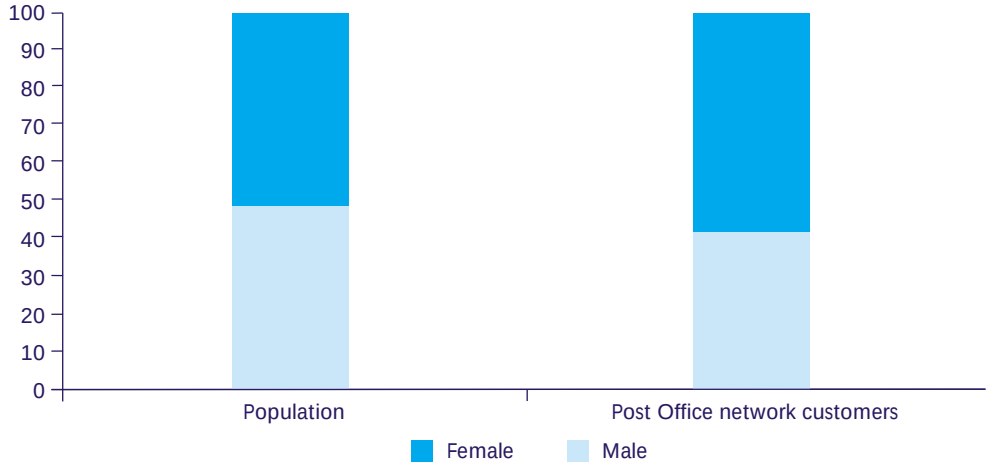
The Post Office network serves an average of 28m customers a week who together make 45m visits. Although virtually everyone uses a post office from time to time, post offices' most frequent customers are older and poorer people. This is mainly because a large part of post offices' business is benefits-related but also because more affluent people tend to use other delivery channels such as the telephone, the internet or automated credit transfer. Figures 3.6–3.8 show the make-up of the network's customers.

The Post Office network has high brand recognition and it is highly trusted by its customers. Figure 3.9 summarises the findings of Post Office research on public attitudes towards post offices compared with other outlets.

...but is also extensively used by business

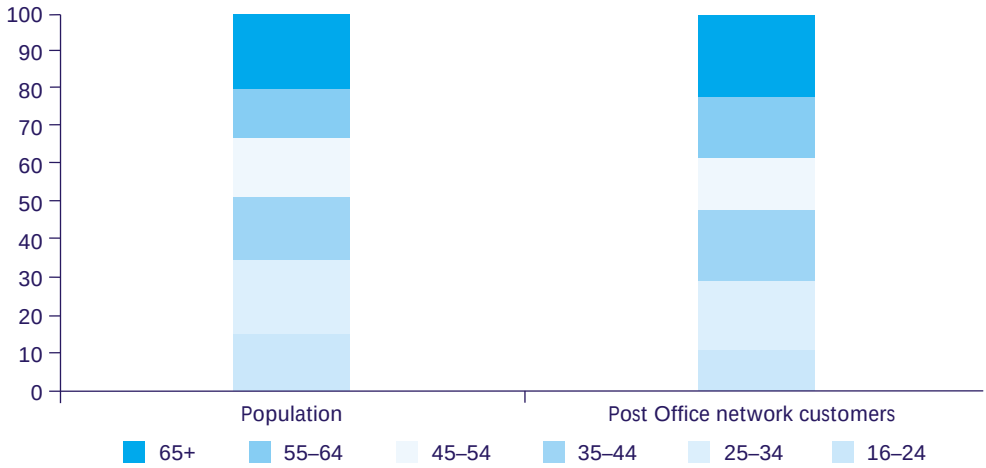
Post offices are also used by businesses. For example, 90% of businesses with under ten employees use post offices. Amongst typical business users are shops who use the post office to deposit their takings through a Girobank account.

Figure 3.6: Weekly Post Office network customers by gender, 1998



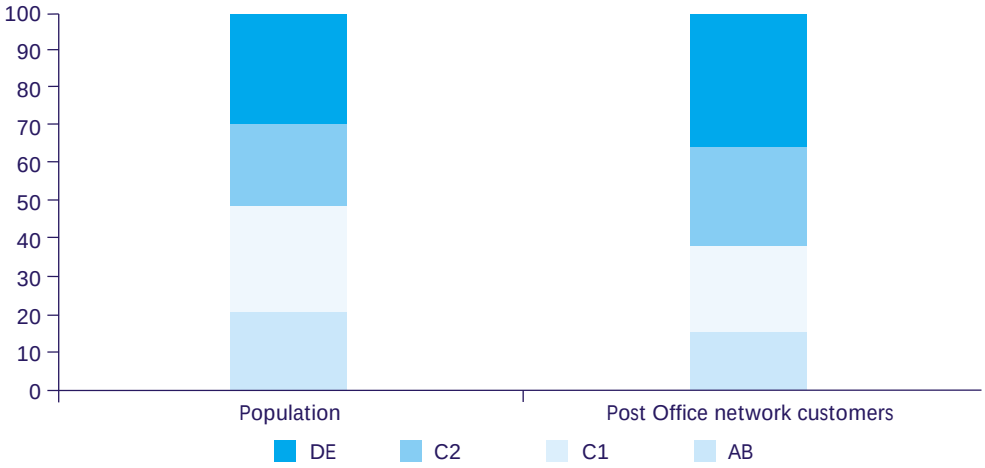
Source: The Post Office

Figure 3.7: Weekly Post Office network customers by age group, 1998



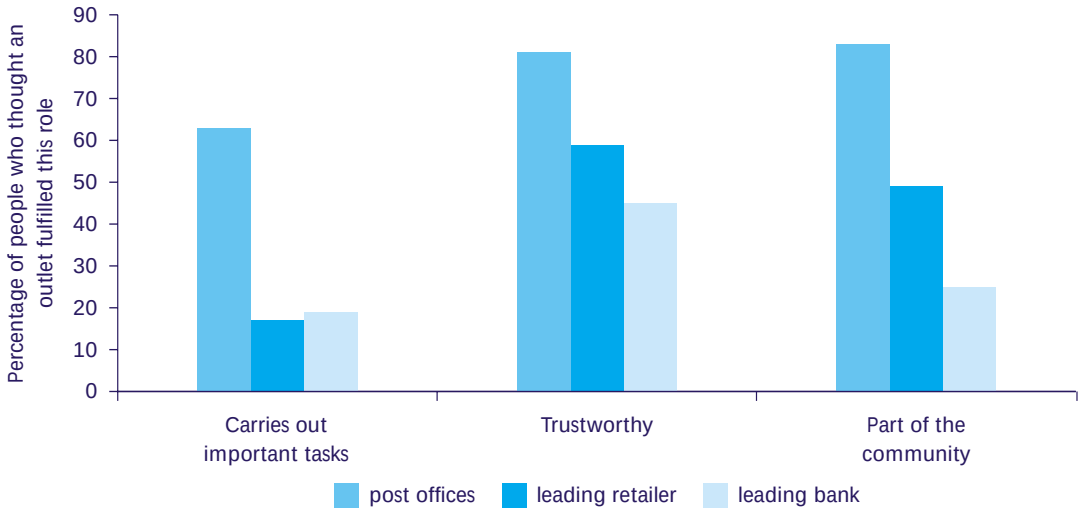
Source: The Post Office

Figure 3.8: Weekly Post Office network customers by social class, 1998



Source: The Post Office

Figure 3.9: Public attitudes to post offices in comparison with other outlets, 1997



Source: NPI survey carried out for the Post Office in 1997

3.6 How has the network changed?

The Post Office network has, of course, changed over its history. But compared to the environment in which it operates, and compared to other physical networks, the Post Office network has changed remarkably little (see Box 3.4). It has failed to take up new business opportunities quickly, partly because of restrictions on its commercial freedom, its social obligations and under-investment in the network. But it is also because the Post Office has not reacted quickly enough to changing preferences and new opportunities.

The Post Office White Paper (see Box 3.5) set out how the Government plans to change this relationship. The Post Office is also automating its outlets under the Horizon project (see Box 3.6)

Box 3.4: A slowly changing network

- More and more people expect to do business outside traditional opening hours. Other services have responded by extending their opening hours into the evening and on Sundays. But most post offices continue to open from 9 to 5 with a half day on Saturday. Many also close on Wednesday afternoons.
- The majority of sub-postmasters still work under a contract which can be traced back a hundred years. These contractual arrangements have played an important role in maintaining the network. Newer contract types have been introduced in the last decade which give greater emphasis to encouraging investment and higher service standards.
- Many sub-postmasters see themselves as employees of the post office and have weak associated retail business. The conversion of branch offices and the entry of multiples running convenience stores into the post office business is changing this. In urban areas the post office is increasingly becoming another service offering alongside a successful retail business.
- Other retail businesses have invested in IT to deliver service improvements and realise efficiency gains. Until the Horizon project – in which the Government has invested £500m and which will, by 2001, automate and link-up every office – information was passed around the network using paper-based methods. This has limited the scope for efficiency savings and the exploitation of new business opportunities which require access to on-line databases e.g. network banking and one-stop-shop advice services.
- The Post Office has been slow to exploit new business opportunities and lines of business have remained fairly similar. The network has increasingly found itself with customers who are elderly or poor.
- By and large the network has been preserved. Over the last ten years the number of post offices has declined by 10%. Almost all closures have been in rural areas. By comparison, the number of banks and building societies has declined by 25% whilst the number of petrol stations has declined by 30%.

Box 3.5: The Post Office White Paper: Post Office Reform: A World Class Service for the 21st Century (July 1999)

The White Paper set out five linked objectives:–

- To improve postal services for business and domestic customers through greater choice, better quality and falling real prices.
- To maintain a universal postal delivery service throughout the UK, and a uniform tariff.
- To establish clear and accountable relationships between the Government, the Post Office, the Regulator – the Postal Services Commission (PSC) – and the Consumer Council for Postal Services (CCPS).
- To equip the UK Post Office to meet the challenges of the changing postal market both domestically and internationally.
- To support a viable network of post offices so as to ensure nationwide access to a range of public and private sector services.

To meet these objectives the Government would:–

- Introduce legislation to clarify the Post Office's permitted range of activities and change the status of the Post Office from a public corporation to a public limited company. This legislation will include a definition of the universal service obligation and uniform tariff structure.
- Allow the Post Office to borrow at commercial rates to fund acquisitions, joint ventures, alliances and partnerships.
- Reduce its financial demands on the business – in 1999/2000 this will be 50 per cent of the post-tax profits, and thereafter 40 per cent of such profits, allowing additional Post Office investment in new technology and improved services.
- Make the Post Office Board accountable for running the business successfully to improve efficiency and seek out commercial opportunities.
- Invest in automating all post offices.
- Ensure that all benefit recipients who wished to collect their benefits in cash at post offices would continue to be able to do so.
- Set minimum criteria for access to post office counters' services.
- Permit the Post Office to convert branch post offices to agency status so long as at least 15 per cent of the total business of the counters' network continues to be transacted through branch offices.
- Establish an independent postal Regulator – the Postal Services Commission with duties to promote competition; insist on high standards of service; regulate prices; and ensure that the Post Office is able to provide the universal service obligation at a uniform tariff.
- Strengthen and clarify the role of the Post Office Users' National Council (POUNC), renamed as the Consumer Council for Postal Services (CCPS) to work with the Regulator.

Box 3.6: The Horizon project

In 1996, work began on a project to automate all post offices. The project was based around a magnetic swipe card that could be used to claim benefits and provided an infrastructure which could eventually enable all the other Post Office products and services to be automated. The project was complex and delays led to higher than expected costs.

In May 1999, with the project considerably behind schedule, the Government decided to cancel the swipe card part of the contract, but continue with the automation of post offices. Instead of benefit claimants using a swipe card, it was decided that benefits should be paid directly into claimants' bank accounts, and that the Benefits Agency would transfer benefit recipients to this method of payment between 2003 and 2005.

The project will cost around £1 billion, around half of which will be funded by the Government. By Christmas 1999, over 1,500 offices had been automated and since January 2000, 300 post offices a week have been automated. It is planned that the entire network will be automated by early summer 2001. There will be 40,000 horizon terminals and 70,000 people will have been trained to use them

The computers used by the counter clerks have touch screens for easy use and the Horizon project will allow the Post office to reduce its reliance on paper-based methods, streamline its internal processes and offer a more modern service to its clients and customers. Horizon will also help to enable the Post Office to extend its commercial arrangements with the banks and to deliver electronic Government services by providing the ability to read smart cards, magnetic swipe cards and barcodes. This offers potential clients maximum flexibility, and the Post Office will need to work hard to exploit the potential benefits the automated platform provides.

A Horizon terminal

4. HOW IS THE POST OFFICE NETWORK FINANCED?

Summary

- **The Post Office network has a turnover of just over £1bn a year and in recent years has made a small profit of around £30m. Around 60% of turnover comes from benefit payments and its mail and parcel business.**
- **The main sources of expenditure are payments to sub-postmasters for running sub-post offices and the costs of running branch offices with directly employed Post Office staff.**
- **Broadly speaking urban outlets cross-subsidise unprofitable rural outlets and branch offices.**
- **The Post Office receives income from institutional clients for business transacted through the physical network of post offices. Most of this income is used to pay for the running of outlets: direct running costs in the case of branch or Crown offices; payments to sub-postmasters in the case of sub-post offices.**

4.1 Financing the network

The Post Office network is a billion pound business…

In 1998/99 the Post Office network (Post Office Counters Limited) had total income of around £1.1bn.

The main sources of income are:–

- The Benefits Agency (and in Northern Ireland the Social Security Agency) for cash payment of benefits made in respect of order-books or girocheques (on average, order-book transactions generate 49p, and girocheques, 79p).
- Royal Mail and Parcelforce for stamp sales and the handling of parcels, express, international and special delivery mail.
- Bill payment contracts with a range of organisations – mainly local authorities and utilities – which allow people to make bill payments over post office counters. This includes income for TV licence payments.
- Banking contracts with Alliance & Leicester Girobank, Co-op Bank, LloydsTSB and Barclays for corporate and personal banking. Income from Girobank is the largest of the these income streams.
- National Savings business.

- Lottery ticket sales for Camelot.
- Other Government business, for example passports (Home Office) and welfare foods (Department of Health).
- Other commercial clients or services for example the sale of mobile phone vouchers or Bureau de Change services.

...and is dependent on two main clients for its revenues

Figure 4.1 illustrates how total Post Office network income breaks down between these various sources. The Post Office network's heavy reliance on Benefits Agency and Royal Mail income is clear.

Although the overall income of the network has remained broadly unchanged in real terms over the last five years, there have been slight changes in its composition. For example, whilst income from bill payment has declined slightly as a result of greater competition in the bill payment market, new sources of income such as the National Lottery and Bureau de Change have come on stream.

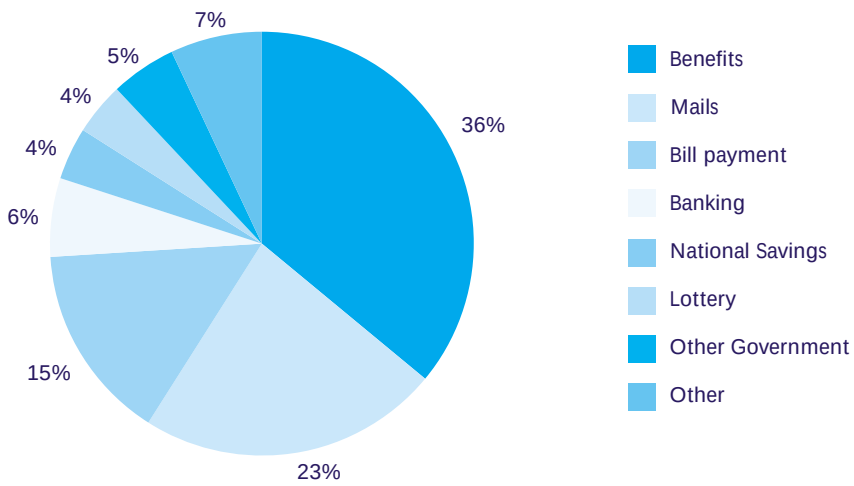
Paying sub-postmasters makes up around half of the expenditure

Expenditure in 1998/99 almost equalled income. The main sources of expenditure are:

- payments to sub-postmasters (45% of expenditure);
- the direct costs of operating branch offices with directly employed Post Office staff (19% of expenditure);
- the costs of servicing and supporting the network (e.g. transaction processing, agent remuneration and contract management, cash handling, distribution, field management, and VAT and National Insurance contributions associated with sub-postmasters); and
- corporate functions (e.g. marketing, human resources, financial planning and audit). The last two together account for 36% of total expenditure.

Over the five years to 1998/99, the Post Office network made a small profit of around £30m per annum. But future prospects are less certain as the network is likely to face

Figure 4.1: Sources of income for the Post Office network by broad category, 1998/99



Source: Post Office report and accounts 1998/99

significant additional costs arising from the Horizon platform.

4.2 The financing of sub-post offices

Sub-postmasters receive fixed and variable payments for running post offices

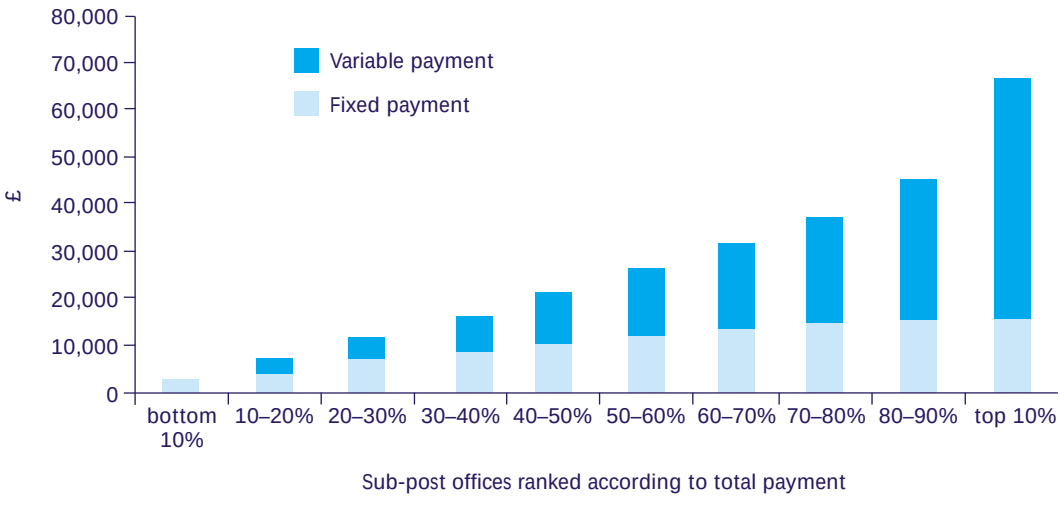
A sub-postmaster is paid by the Post Office for running a sub-post office. This payment comprises fixed and variable elements. The fixed element is specific to the outlet and does not depend on how much business the sub-postmaster does in a particular year. The variable element depends on the number or value of each type of transaction undertaken (e.g. for each pension paid, the sub-postmaster receives 13p; for each vehicle licensing transaction, the sub-postmaster receives 55p).

Figure 4.2 shows how payments to sub-postmasters break down for sub-post offices of different sizes. The smallest offices – those receiving almost entirely fixed payments of less than £5,000 a year tend to be part time offices in small rural settlements. The largest offices – those receiving payments of £60–80,000 a year – tend to be large town centre offices. Many of these will formerly have been Crown offices that have been converted to sub-post offices. In general, as the total payment increases, the proportion that is fixed falls (see Figure 4.2). This pay structure has the effect of helping to improve the viability of smaller post offices, many of which serve rural areas.

The way in which sub-postmasters are paid by the Post Office also depends on contract type. Table 4.1 summarises the different contract types.

Assuming that a sub-post office in a particular area is needed, the aim of an efficient payment structure should be to pay the minimum necessary to attract and retain sub-postmasters who will run an office to the necessary quality and service standards. The current payment structure broadly achieves this aim. There are, however, variations in the amount that sub-postmasters operating under the standard contract receive for operating outlets in similar locations and for doing similar volumes of business. The reasons for this are

Figure 4.2: Sub-postmaster pay and its composition, 1998/99



Source: PIU analysis of Post Office data

Table 4.1: The range of contract types used by the Post Office for sub-post offices, 1999

Contract type	Approximate number of outlets	Features
Scale payment	14,900	The fixed payment element is specific to each post office. The variable payment rates are the same for all offices. The contract is based on 3 month's notice on either side.
Community	2,000	Similar to the scale payment contract, but the fixed payment element is partly dependent on opening hours.
Modified	660	The contract for branch office conversions. Its terms are similar to those of the scale payment contract, but all offices have a £15,000 fixed payment element.
Company franchise	225	A new form of contract. It is a five year franchise agreement aimed at multiple retailers which requires higher standards for capital investment and service levels. Payments are made up of a variable element plus a volume related premium. The result mimics a fixed and variable payment structure.
Independent franchise	45	Similar to the company franchise contract, but aimed at non-multiple retailers.

Source: The Post Office

buried within the history of the contract and have continued because of the difficulty in reducing payments to sub-postmasters without threatening the viability of offices.

Whilst the UK network is centred around the self-employed sub-postmaster who usually runs the post office alongside another retail business, many other countries' networks (e.g. Japan and France) are run entirely or mostly by directly employed staff. An advantage of the UK approach is that sub-post offices are relatively efficient. This is for two reasons:

- the overheads of running the post office can be shared between the post office and other business; and
- the presence of a post office pulls people into a shop where they may spend money on other products. That is, the post office generates "footfall" or custom for the associated business.

It is the prospect of footfall that is most attractive to multiple retailers. In terms of crude gross profits per square foot, post offices can appear to perform poorly compared to well-managed retail businesses. But the attractiveness of the post office business is that it brings in valuable footfall.

The sub-post office business model – using agents or franchisees and combining the post office with other businesses – is one to which other countries are moving in order to

improve efficiency. For example, Germany has embarked on a major programme of converting directly staffed offices to franchise operations (see Box 4.1), and New Zealand did so in the late 1980s (see Annex 4).

The payment that the Post Office makes to a sub-postmaster is not a "wage" that he or she takes home but payments for services provided on behalf of the Post Office. Out of their Post Office payments sub-postmasters have to cover rental or financing costs for their premises, wages for assistants, rates, heat and light. Most will also have additional sources of income from their associated retail business. The Post Office has a broad understanding of sub-postmaster's costs. But, because each sub-post office has its own cost structure, it is very difficult to assess how the net income of sub-postmasters compares to the net income of people running other retail businesses.

Over a third of all sub-post offices lose money for the Post Office network

The Post Office network payment structure is relatively efficient in paying the minimum to retain outlets. But in doing so it retains some outlets that lose the Post Office money. The amount of money that an outlet makes for the Post Office is the income generated by the outlet for the Post Office less the costs of running that outlet (which include the payments made to sub-postmasters). The income generated can be worked out from the number, value and mix of transactions undertaken and how much the Post Office network gets from each client for doing these transactions. The PIU estimate that for some 4,000 sub-postmasters, the income they generate for the network is less than the total payment they receive. This is before any other costs of running an outlet are taken into account.

Figure 4.3 shows income generated for the Post Office network against the full cost to the Post Office of maintaining sub-post-offices of different sizes. The cost of running an office includes payments to the sub-postmaster and associated costs (operating the payment system, employing field staff and costs of cash distribution).

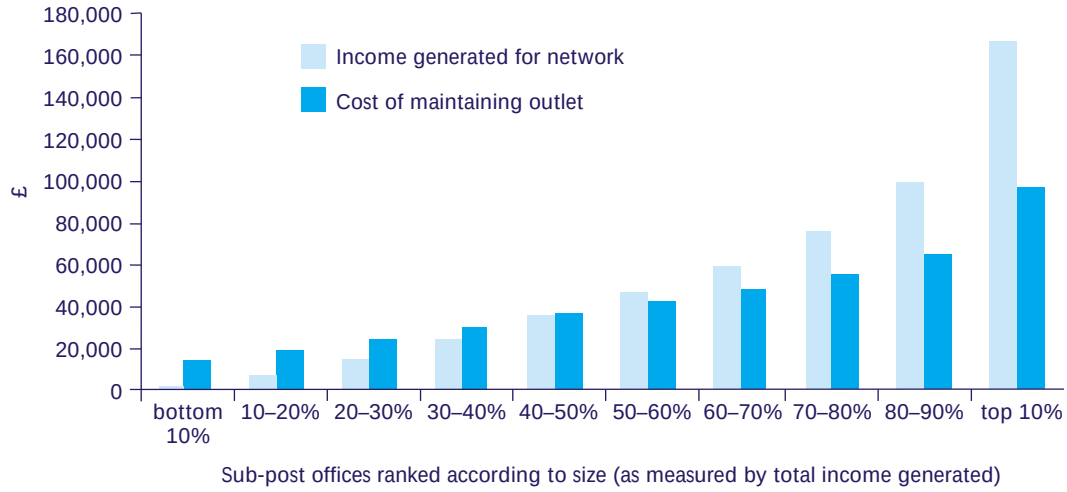
This shows that there are a substantial number of offices which are unprofitable for the Post

Box 4.1 Reducing the number of directly run outlets, Deutsche Post

In 1995 the German Post Office, Deutsche Post, had 17,000 outlets, of which 14,000 (80%) were staffed by its own employees. Following the announcement that Deutsche Post would be privatised and lose its mails monopoly in 2000, it sought to rapidly achieve efficiency savings. It did this partly by closing branches but mainly by converting directly run offices to franchised outlets. By the end of 1999, the network comprised 13,900 offices, of which 5,600 (40%) were now staffed by Deutsche Post employees. This produced staff salary, property and distribution savings.

The majority of conversions were to postal agencies, where the post office was combined with a local shop (usually a food retailer). Deutsche Post has also set up several hundred combined stationery and post stores run by two subsidiary companies and over 50 outlets based in department stores.

Figure 4.3: Income generated for the network against the cost of maintaining outlets by size of sub-post office, 1998/99



Source: PIU analysis of Post Office data

Office. In total these offices lose the Post Office around £35–40m. The vast majority of these are small rural sub-post offices.

Rural offices are maintained through the profit-making urban network

The urban network as a whole is profitable (making over £100m a year) – with around 90% of urban post offices making money for the network. By contrast, the rural network loses around £25m a year – with around 60% of rural post offices losing money for the network. Branch offices, run by directly employed Post Office staff, also lose money – the PIU team estimate around £50m a year. The precise amounts depend on how central business overheads and exceptional items are allocated.

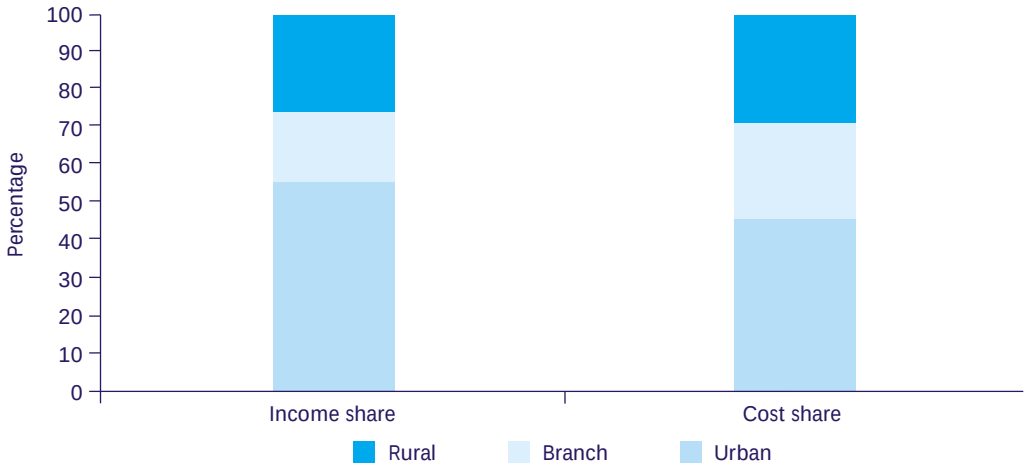
For sub-post offices, cross-subsidy is administered through the fixed and variable payment system. An office which generates a very small amount of income for the Post Office (and consequently receives a very small variable payment) receives a much larger fixed payment. This is, in effect, a "top-up" payment which serves to keep the post office in business. On average, half of rural sub-postmasters' payments are derived from the fixed element compared to a third in urban areas.

Any reduction in overall network income would increase the proportion of post offices that lose the Post Office money.

Figure 4.4 shows the volume of sub-post office business transacted by the urban and rural networks and the costs to the Post Office associated with these outlets. Whilst the rural network transacts 25% of business, it accounts for 30% of costs. Branch offices transact 20% of business but account for 25% of the costs.

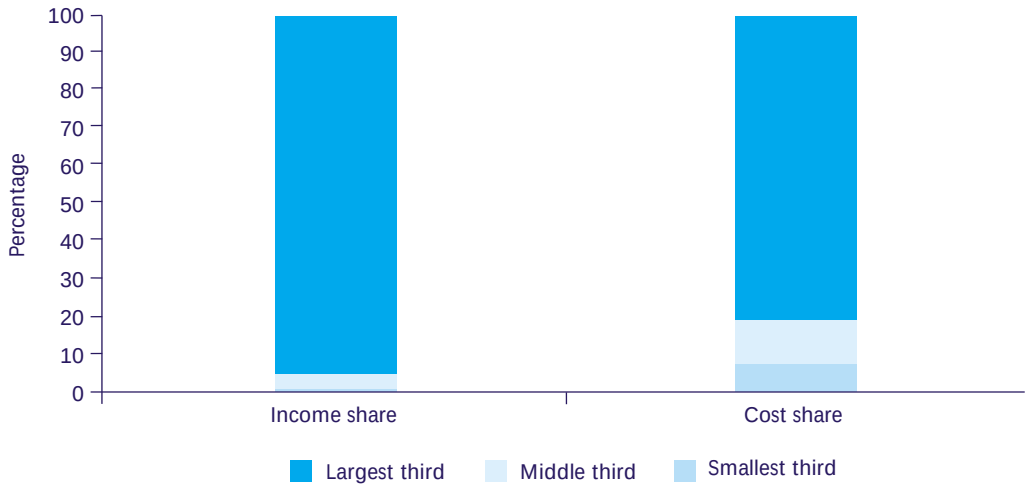
Figure 4.5 shows how the business of the different parts of the rural network varies. The busiest third of the rural network generates 95% of the business but incurs only 80% of the cost. The least busy third generates just 1% of the business but incurs 8% of the cost.

Figure 4.4: Income generated for the network against the costs of maintaining outlets by type of outlet, 1998/99



Source: PIU analysis of Post Office data

Figure 4.5: Income generated for the network against the costs of maintaining outlets by size of rural outlet, 1998/99



Source: PIU analysis of Post Office data

4.4 The financing of branch offices

The 600 or so branch or Crown offices that remain are some of the largest offices in the network. This is because the conversion programme (which since 1988 has converted around 900 branch offices to privately-run sub-post offices) has generally focused on the smaller branch offices.

For each pound of income generated, a branch office costs more to run than a typical sub-post office in a similar location. Indeed the PIU team's modelling indicates that almost all branch offices are loss-making:

- they are staffed by in-house employees, who tend to be paid more than staff in privately run sub-post offices;

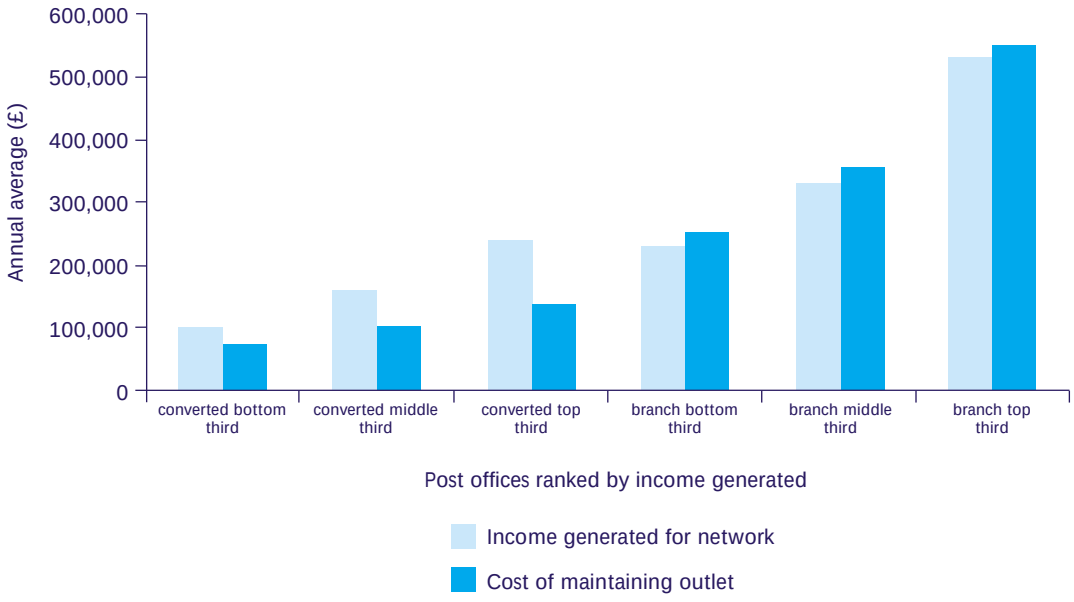
- they do not fully exploit the additional income generation opportunities from footfall, though some minor footfall benefits are gained from the 200 or so Post Shops in branch offices selling stationery and mail products; and
- they often have higher property costs because they are in more expensive areas in cities and large towns.

Figure 4.6 illustrates the income generated by branch offices and their operating costs, compared to converted offices. The largest third of converted offices are, on average, roughly the same size as the smallest third of the remaining branch offices. But, as the chart shows, they operate at around 60% of the cost.

The PIU estimates that conversion of all remaining branch offices would produce recurring savings of around £80m a year. In realising these savings the Post Office would also incur one-off costs. The Post Office White Paper, published in 1999 agreed that the Post Office should continue to convert branch offices where this produced economic and customer service benefits, subject to at least 15% of the network's overall business continuing to be conducted in branch offices.

Within these constraints, there is still much that the Post Office can do to improve branch offices. Improving the retail business in branch offices – perhaps forming alliances with High Street retailers could help to exploit the valuable footfall generated by post office customers. And in some cases, it may be sensible to re-locate branch offices to better High Street locations. The Post Office have taken the first steps to do this by relocating branch offices into the Co-op in Sheffield and Birthdays in Waterlooville. They are also engaged in a review of branch office efficiency with the Communication Workers Union.

Figure 4.6: Comparative income and expenditure for branch offices and converted offices, 1998/99



Source: PIU analysis of Post Office data

5. POST OFFICES AT THE HEART OF RURAL BRITAIN

Summary

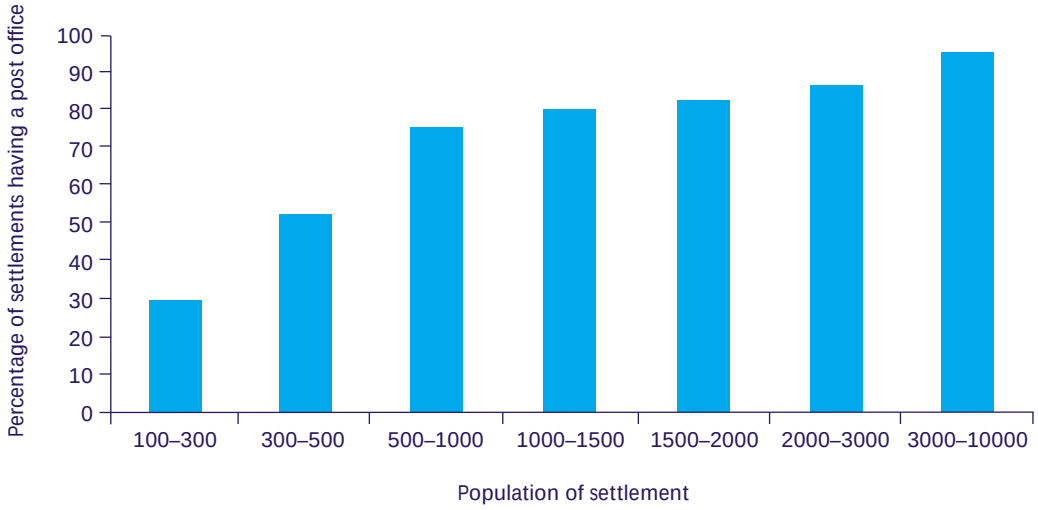
- **Most villages and virtually all market towns in Britain have a post office. 99% of people in rural areas live within three miles of a post office.**
- **The rural Post Office network has been slowly contracting for over two decades. This reflects the difficulty of recruiting new sub-postmasters to replace those departing, rather than an active Post Office policy to reduce the size of the network.**
- **Rural post offices contribute a great deal to local communities. They help to sustain village shops; support vulnerable people; and act as a focal point for local communities.**
- **In order to keep open as many rural post offices as possible, the Post Office has sought to maintain rural outlets in a range of innovative ways, e.g. by locating them in people's homes, in village halls and in pubs.**

5.1 Most villages and virtually all market towns in Britain have a post office...

Most villages and virtually all market towns in Britain have a post office (see Figure 5.1) Although only 30% of villages between 100 and 300 people have a post office, this percentage rises to over 70% for settlements with between 500 and 1,000 residents. Virtually every market town (with more than 3,000 people) has a post office – and in many cases has more than one.

This very high level of coverage contrasts markedly with the provision of other services in rural areas. The Rural Development Commission carried out a survey of rural services by parish in England in 1997. Table 5.1 summarises its results. The only physical outlets which have a greater level of coverage are pubs. The average parish is more likely to have a post office than a school or a shop. At the time the survey was carried out, the likelihood of a rural parish having a post office was 6 times the likelihood of it having a bank branch (since then the ratio is likely to have increased further as a consequence of rural bank branch closures).

Figure 5.1: Percentage of settlements having a post office, by settlement size, 1999



Source: Post Office (settlement population figures are drawn from the 1991 census)

Table 5.1: Services in English parishes, 1997

Service	% of parishes with this service
Village hall/community centre	72
Public house	71
Post office	57
School of any kind	51
General store	30
Petrol station	25
Greengrocer/Butcher/ Bakery	18
GP	17
Bank/building society branch	9
Library	9
Citizens Advice Bureau	6
Cash machine	5
Police station	3

Source: '1997 Survey of rural services', Rural Development Commission

Another way of looking at the coverage of the rural network is in terms of the proportion of the rural population living within a certain distance of a post office. 85% of people in rural areas live within a mile of a post office and 99% live within three miles (see Table 5.2).

Table 5.2: Distance to the nearest post office in rural areas, 2000

Distance	% of UK rural population
Within: 1 mile	85
3 miles	99

Source: PIU analysis of Post Office data

5.2 ...but the rural network is slowly contracting

The Post Office makes significant efforts to maintain a large post office network. Unlike other service providers, the Post Office has not actively sought to close down any rural outlets over the last decade. Rather, it has seen its role as maximising the size of the network. Whenever a sub-postmaster decides to resign and is unable to find someone to take over the post office, the Post Office's regional staff make every effort to persuade others in the village or elsewhere to take on the office,

e.g. by reducing the number of hours which the sub-postmaster is required to open, in order to attract a suitable candidate (see Box 5.1 for an examples of post offices which have recently closed). The Post Office are also increasing the payments to sub-postmasters who run small offices – something which should make taking on a post office more attractive.

Over time, the task of maximising the size of the rural network has become increasingly difficult – and there has been a steady trickle of closures over the last twenty years (see Figures 5.2 and 5.3). These closures have tended to be concentrated in the smallest villages, where transaction volumes are very low. As Box 5.2 shows, the main cause of closures is changing rural lifestyles.

Box 5.1: Examples of post offices which have recently closed

Haroldswick Post Office

This was Britain's most northerly sub-post office – located on Unst in the Shetland Islands (see picture in Box 5.5) – but it closed on 30 November 1999 when the sub-postmistress retired. The Post Office worked with the local authority and the local MP to see if a suitable replacement sub-postmistress could be found. The imminent closure of the post office was also featured on local television. But it proved impossible to find someone to take the post office on – possibly because there was no living accommodation attached to the post office.

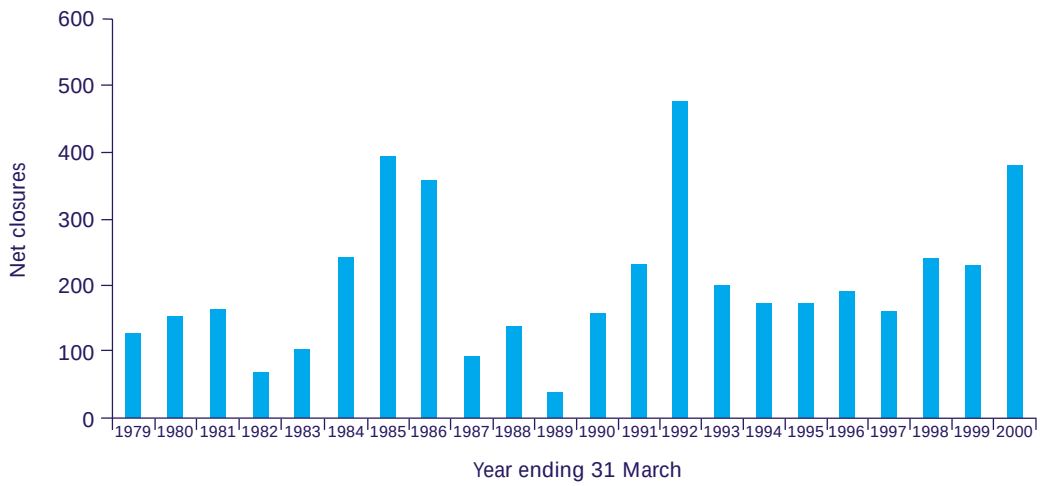
The post office did not share its premises with the village shop, so Haroldswick still has a village shop, but residents now travel 5 miles to get to the nearest post office.

The local Heritage Trust are interested in re-opening the post office in an old school. As a result, Haroldswick may again have a post office early next year.

Checkley Post Office

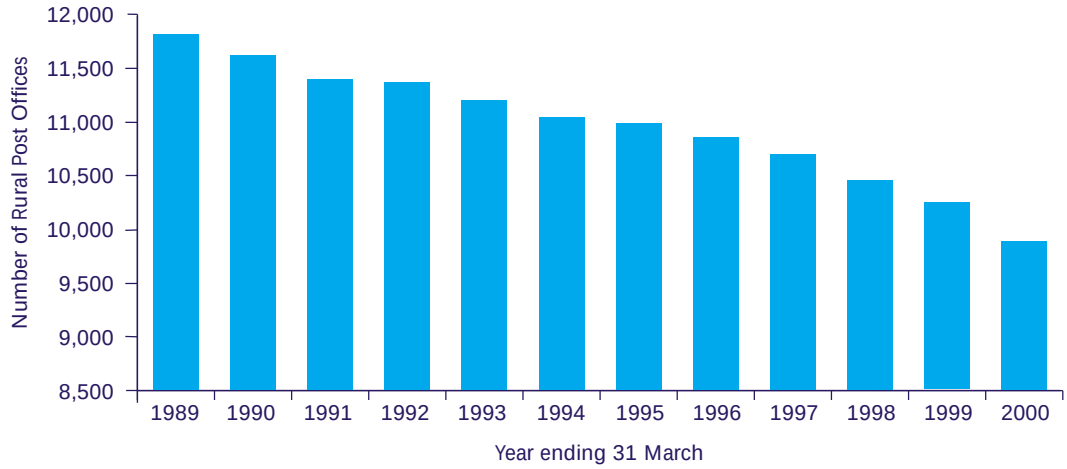
This sub-post office in Staffordshire was run from a converted pig-sty attached to the sub-postmistress' house on the edge of the village. It was a community office, open for three mornings a week. The sub-postmistress retired last Easter and did not offer the premises for continued use. There were no applicants to take over and the post office shut.

Figure 5.2 Post office closures by year, 1979–2000



Source: PIU analysis of Post Office data

Figure 5.3 Number of Rural Post Offices



Source: Post Office

Box 5.2: The gradual attrition of the rural Post Office network

There has been a slow but steady contraction in the Post Office network. Virtually all of this contraction is attributable to the closure of the smallest offices in rural areas. These closures – often referred to as 'force majeure' closures – are usually the result of sub-postmasters resigning or dying and the Post Office being unable to find a replacement sub-postmaster to run the office.

'Force majeure' closures have occurred despite the Post Office having a policy which has sought to keep such post offices open. Under the Post Office's remuneration system, most of the payments to these small outlets have been fixed and are not dependent on volumes of business. Given that this fixed element of pay has generally risen in line with inflation in recent years, Post Office payments have usually protected sub-postmasters against declining post office business.

Sub-postmasters running small offices resign for a variety and combination of reasons – but predominantly as a result of their age. Other factors might include:

- declining financial return from the whole outlet;
- a desire to turn the premises back to purely residential use;
- reaction to an incident (such as a crime at the office); and
- major change which the sub-postmaster feels unable to cope with (such as the introduction of Horizon).

Box 5.2: continued

Post Office research shows that resigning sub-postmasters are of two main types:–

- A sub-postmaster, past retirement age who has operated the post office for many years from part of his home. There might be a strong Post Office history in the family and he has continued operating the office from a strong sense of social duty rather than as a source of income. But because of his advancing age he ultimately decides to resign.
- A sub-postmistress for whom operating a small post office provided income whilst allowing her to look after growing children. Once her children have grown-up and her lifestyle requirements change, the potential downsides of being a subpostmaster may trigger the decision to resign.

When resignations occur, Post Office managers seek to find replacements – canvassing any local retailers/businesses, checking with parish councils/local groups, advertising widely, liaising with suitable neighbouring sub-postmasters, and temporarily closing an office but re-opening if a suitable candidate is identified.

Sometimes they are not successful and there is no option but to close the office permanently. Reasons that a replacement cannot be found include:

- uncertain future financial prospects, which mean that no-one is willing to take on the role of sub-postmaster.
- changing rural demographics and lifestyles, which mean there is a smaller pool of people prepared to take on small, rural sub-post offices.
- loss of premises due to high property prices, which make it worth buying a sub-post office and converting it to residential use.

When a force majeure closure occurs, the Post Office remains open to approaches from people (individuals or groups) who are interested in running a post office serving that community. However, although there are a small number of notable exceptions, experience strongly suggests that re-opening the post office becomes less and less feasible as time goes on and people's shopping habits change. In addition, the usual triggers for the closure – lack of customer demand or suitable premises – rarely reverse.

The exceptions are most likely to occur where:

- there has been substantial population growth in the area since the closure;
- the post office will be run alongside a strong retail offer; or
- it is operated by some form of community trust.

5.3 Why do rural post offices matter?

The fact that the post office is often the only service left in many rural settlements gives it a special place in the community. Villagers have seen shops, banks and petrol stations close but have remained confident that the post office will remain.

So even though an individual post office may conduct only a very small number of transactions, its perceived value to the community may be out of all proportion to how busy the post office is.

However, although there is a great deal of anecdotal evidence on the wider social benefits of rural post offices, there is little systematic evidence of the magnitude of these benefits in practice. Also, the extent of social benefits from any single post office will depend on local circumstances, such as the availability of other services, and transport links with nearby retail services.

The wider social role of rural post offices

There are three main ways in which post offices in rural areas, in particular, can provide wider social benefits for their local communities:

- they help to keep open the last village shop or other retail outlets;
- they support vulnerable people; and
- they act as a focal point for the community.

Keeping the last shop alive

In rural areas the great majority of post offices (80%) are run alongside a shop (see Table 5.3). In around 2,000 rural settlements the shop attached to the post office is the last retail outlet in the village. The sub-postmaster/shop owner relies on combining the income from the post office side of the business with the income generated by the village shop. Together they are sufficient to give sub-postmasters a modest living income. But with increasing numbers of villagers preferring to visit the nearest supermarket, village shops have been squeezed in recent years – and are likely to remain under pressure.

For those without their own transport, the loss of the post office/village shop would mean increased costs in the form of extra travel time and transport costs to reach the next nearest post office/shop. Post offices are thus particularly important in deprived rural areas.

Even in those rural settlements where there are other shops, the post office can make a special contribution to the local economy, as it is usually the only place to take out cash (unless a local garage or pub does cashback). Once people have cash in their hands, they often spend it in other local shops. This footfall effect from post offices to other retail outlets helps to support local businesses in many villages. Research carried out by ERM for the Countryside Agency earlier this year (and to be published shortly) found that in settlements of between 1,000 and 5,000 people, residents spent up to £100,000 monthly in other shops after withdrawing cash from the post office.

Table 5.3: Rural post offices and shops, 1997

	Settlement with other shops	Settlement without other shops	Total
Post office with shop	6,400	2,000	8,400
Standalone post office	1,000	1,100	2,100
Total	7,400	3,100	10,500

Source: PIU estimates derived from the Rural Development Commission 1997 survey of rural services

Supporting vulnerable people

Sub-postmasters and post offices play an invaluable role in many communities by providing support for vulnerable residents such as elderly or disabled people or those whose first language is not English.

Many sub-postmasters contribute to their communities by going the extra mile to provide help to those who need it. Box 5.3 gives an indication of some of the ways in which some sub-postmasters assist their customers. It is drawn from a large body of evidence submitted by the National Federation of Sub-postmasters, but it is entirely representative of other anecdotal evidence which has been submitted to and gathered by the PIU team.

Box 5.3: Sub-postmasters on how they help their customers

"If a customer is taken ill in the shop, I sit them down, give them a cup of tea or a glass of water. I call someone, son or daughter, to fetch them, call a taxi or if needed take them home myself. If it looks serious, I call a doctor. If it is very serious, I call an ambulance and try to contact relatives/friends etc to make them aware"

"[Official] letters often confuse older people. We make phone calls or interpret the letters. Older people get very worried about official letters and we are in the business of reassuring them"

"Unfortunately the other aspect which we help and advise on, is the death of a partner or Mother or Father. People are at their most lost and vulnerable then and they turn to us – mostly for advice. I've been behind the counter and taken the person up to my private accommodation to sit and comfort them – and then sort out order books etc and make an appointment with the Benefits Agency to sort out finance"

"Mrs C was widowed suddenly less than a year ago. Due to severe arthritis in both her hands, her husband did all her transactions for her. With our help and sympathy, Mrs C passes her transactions for us to sort out. During this trying time, she also lost one week's pension and pension books when she was "barged" by youths who made off with them. She returned to the office and the sub postmaster took her home, phoned the DSS to put a stop on her books, arrange for replacements and arrange an emergency payment."

"If we have known that an old pensioner was going to be alone on Christmas day, we have invited them to our family dinner … we are in the position of being more aware of the lonely"

"Each year reception and class one [of the local primary school] write a letter to Father Christmas – I reply to these letters by writing an individual letter to each child … I always mention something about the picture they have drawn,"

"Last week, glasses lost by Mrs T were brought into the PO and after enquiries were made they were returned … The post office is used as a central point for lost property in the village. At times, the front window can look like the children's series "Bagpuss""

"We take messages on behalf of customers and pass messages to other customers. Part of their pleasure in coming to us, is our interest in their and their families' welfare. We are often one of the first to hear of engagements, weddings, births, exam results and career moves and also sadly of deaths and illnesses"

"We are often asked to sign passport forms and driving license applications, a service Doctors charge upwards of £10 for."

Source: Evidence submitted to the PIU by the National Federation of Sub-postmasters

While sub-postmasters in rural and urban areas both perform this role of supporting vulnerable people, it is particularly valuable in rural areas where alternative sources of advice and support are harder to come by.

A focal point for the community

Even in a large village, the post office can act as a focal point for the community. Along with the village hall and the parish church, the post office gives members of the community a place to congregate, and the sub-postmaster is a respected member of the local community. For many elderly people, their weekly visit to the post office is the social highlight of the week. It is their one chance to meet and talk with friends. Many arrange to go to the post office at the same time as their friends each week.

It is also a place to access information. Post offices are used by the police, local authorities and tourist attractions to display information. In Wales, the Post Office provides extensive bilingual materials, and often bilingual customer service.

A number of people have told the project team that they believe 'a village is not a village without a post office'. Although some of the smallest villages do not have post offices, it is certainly the case that any larger village would see the presence of a post office as essential to its identity.

But these social benefits come at an economic cost...

Post offices in rural areas contribute a great deal to their communities – over and above their function as a place to conduct transactions. The Post Office has long recognised this – and that is why they make every effort to maintain as large a rural network as possible.

But the Post Office's response has not been without cost. As chapter 4 has shown the PIU team estimated that only around 40% of rural offices generate enough income to break even. A commercially driven Post Office which sought to close down loss-making rural offices would realise savings of £60m a year.

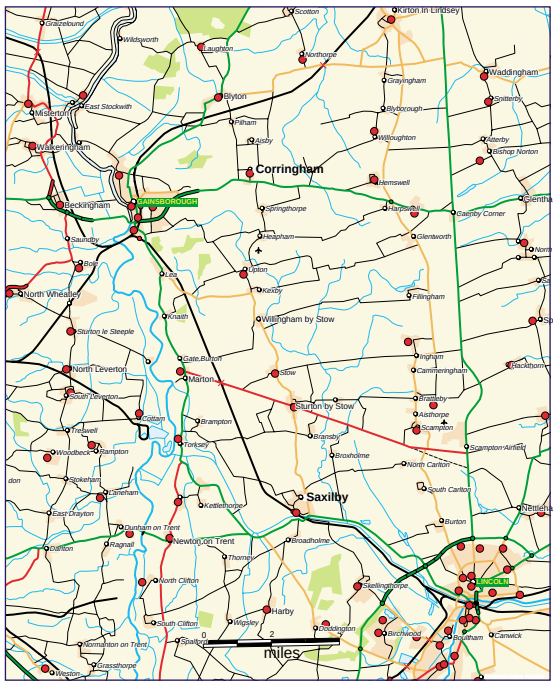
5.4 Rural Lincolnshire – a case study of post offices

The only way really to appreciate the important role that post offices play in rural Britain is to look at some examples. The PIU team visited rural post offices in Lincolnshire, Gloucestershire, the Borders region of Scotland, South Wales and County Armagh in Northern Ireland.

Case Study

There are over 300 post offices in Lincolnshire, of which over 250 are in rural areas (see Map 5.2). Map 5.1 shows the post offices in the particular area visited by the PIU team.

Map 5.1: Gainsborough and Lincoln Area

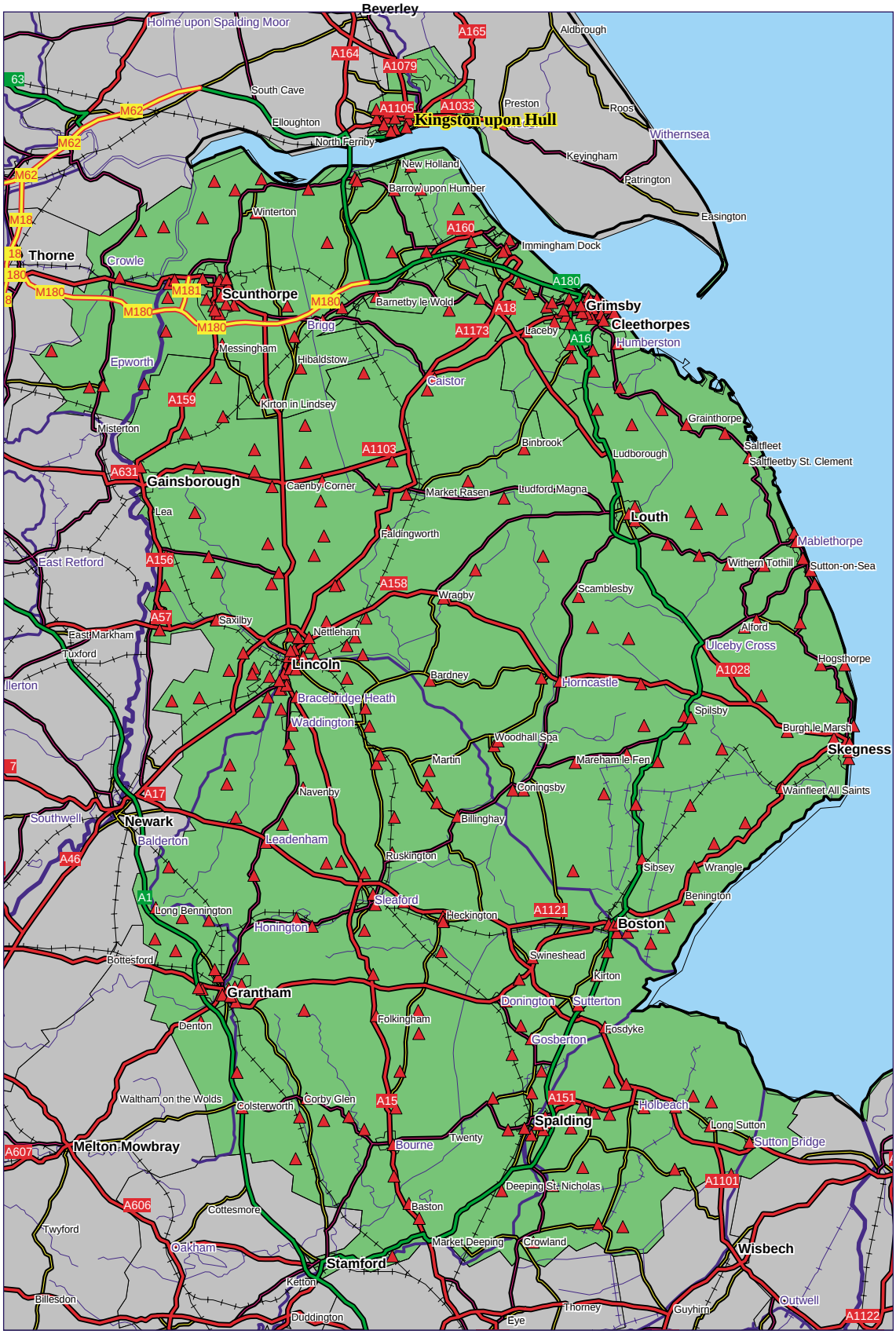


Source: Post Office

– post office

Box 5.4 describes the post offices which the PIU team visited along the road from the small market town of Saxilby to the village of Corringham.

Map 5.2: Post offices in Lincolnshire.



Source: PIU

▲ *– post office*

Box 5.4: Post offices along the road from Saxilby to Corringham

The small market town of Saxilby is about 5 miles north-west of Lincoln. It has a population of 3,000. There is a large Co-op supermarket in the town and a number of other smaller shops. The last bank branch closed six years ago, but a mobile bank visits three times a week for one and a half hours.

The post office in the town is the busiest office in the locality – with more than 500 pensioners claiming benefits here. It has 4 counter positions, and is co-located with a stationery shop which also sells cards and toys. There is a separate till behind the post office counter for this secondary business

The sub-postmaster recently refurbished the post office at a cost of £11,000. Most of the post office's customers live in the town. But a significant proportion of customers travel from nearby villages – either because their own village does not have a post office, or because they happen to be in the town for other reasons. Attached to the post office is a Royal Mail sorting office which is also managed by the subpostmaster – and provides an additional source of income.

Following the road north from Saxilby, the next settlement is Sturton-by Stow – a medium-sized village about 1 11/42 miles away. The post office is within a large well-stocked general store – which is the only place to buy groceries in the village. It has two counters and is used by almost 200 pensioners to collect benefits. There is another small general store in the village.

Stow is a small village less than one mile further north. It has a pub and a church but no shops. The post office serves around 75 pensioners, and does not stock any groceries. It is run by an elderly sub-postmistress.

Normanby by Stow is the next settlement on the road – about a mile north of Stow. It has a population of about 20 people, and does not have a post office or any other shops.

The next village on the road is Willingham which has almost 500 residents. The post office here closed 3 years ago after the sub-postmaster resigned due to age and did not offer his premises for continued use. The Post Office approached others in the village, and found one potential applicant. But there were problems obtaining permission for the change of use of the new premises, so the application fell through.

The small village of Kexby (located about a mile further north) has around 70 residents and does not have a post office.

The next village is Upton (less than a mile north of Kexby) which has around 400 residents. It has a post office serving over a hundred pensioners, run by a couple, and combined with a general store. There are no other grocery shops in the village, but many of the village's residents opt to do most of their grocery shopping at a supermarket in Gainsborough (about six miles away).

Going north from Upton, the next two villages are Heapham and Springthorpe – both with about 100 residents and without a post office.

Box 5.4: post offices along the road from Saxilby to Corringham continued

Just past the junction with the main road to Gainsborough is the village of Corringham – where the post office is co-located with the village shop. There is also a petrol station in this village, which sells general groceries.

Saxilby Post Office

Stow Post Office

Sturton-by-Stow Post Office

Sturton-by-Stow Post Office, interior

Upton Post Office

Corringham Post Office

Including Saxilby, there are 10 settlements along this seven mile stretch of road – and five post offices serving the area. Looking at these offices confirms the ubiquity of the Post Office network in rural areas:–

- Two of the five post offices co-exist with the last grocery shop. And one other helps keep open a general store in a village with only one other shop. One post office sells stationery rather than groceries and another is a stand-alone post office.

- Only the post offices at Saxilby and Sturton-by-Stow are busy – the others each do relatively few transactions.
- Villages without a post office tend to be hamlets – four of the five villages without a post office have less than 100 residents.
- Willingham is the only village with a significant population without a post office – almost 500 people. But here the post office closed when it proved impossible to find a replacement sub-postmaster.
- The five post offices and the mobile bank which visits Saxilby three times a week are the only places to take out cash along this route.

This small stretch of road represents only a tiny part of rural Britain, and the five post offices only a tiny part of the rural post office network. But this part of Lincolnshire is typical of most parts of rural Britain. What is most striking is the way that post offices remain in villages which have very few other services, giving post offices a special place in the hearts of villagers.

5.5 Rural post offices in other parts of the country

Much the same is true throughout the United Kingdom. Box 5.6 sets out examples from Northern Ireland, Scotland and Wales.

Such post offices were featured in stamps to commemorate the centenary of the National Federation of Sub-postmasters in 1997 (see Box 5.5).

Box 5.5: Stamps issued on 12 August 1997 to celebrate the centenary of the National Federation of Sub-postmasters

Haroldswick Post Office, Unst, Shetlands

Painswick Post Office, Gloucestershire

Ballyroney Post Office, County Down

Beddgelert Post Office, Gwynedd

Source: Post Office

Box 5.6: Rural post offices in devolved countries

Northern Ireland

Apart from Belfast and Derry, Northern Ireland is largely rural and small rural post offices, such as the one in Ballyroney (see Box 5.5), play an important part in supporting rural communities. The PIU team visited Crumlin Post Office, which is in a settlement of 2–3,000 people, it has no ancillary business, but it supports a number of other shops in the community.

Scotland

Small rural offices, such as the one on Haroldswick (Box 5.5) are particularly important in the more remote parts of Scotland, where the next nearest post office can be 5 or 6 miles away. The PIU team visited two rural post offices in the borders:

Broughton Post Office

A combined post office and garage. The sub-postmistress – who had made a conscious decision to leave a professional career in Edinburgh and move to a small village with her husband and children – emphasised her social role in helping elderly residents cope with bureaucracy of all kinds. She also pointed out the fragility of the village economy, saying she felt she could not simply increase her business at the expense of the one other village shop, because that shop was contributing to the vitality of the village which in turn fed her own business.

Ettrick Bridge Post Office

This is housed in a caravan (having previously been in a village shop which closed due to declining business). Its main business is paying out pensions, and it also has a very small newspaper, stationery and sweet business. The nearest banking facilities (including cash machines) are six miles away in the nearest market town.

Wales

In areas of Wales where a large proportion of the local community speaks Welsh, sub-post offices help to keep the Welsh language alive. They provide a place where Welsh speakers can meet and socialise. Also, as sub-postmasters are recruited from local communities, they can often provide face-to face services in Welsh.16% of post office staff in Wales speak fluent Welsh and 26% have a working knowledge of Welsh. Where there is no member of staff in a post office who can speak Welsh, the Post Office will on request arrange for a Welsh speaker to be available. The Post Office is subject to the Welsh Language Act 1993, has issued a Welsh language scheme in 1997 and publishes extensive bilingual materials.

5.6 How the Post Office and rural communities are seeking to maintain rural post offices

The difficulties encountered by the Post Office in attracting new sub-postmasters has led it to think creatively about post office provision – developing new models which can function in smaller settlements in order to provide as broad a coverage as possible.

Community offices

Community offices are post offices which keep shorter hours – ranging from offices which only open for a couple of hours a week to those which open for half a day, five days a week. Typically, the Post Office seeks to convert full-time offices doing low volumes of business to community status whenever a sub-postmaster retires or decides to move on. The shorter opening hours of community offices often make it easier to attract replacement sub-postmasters. The Post Office is also able to reduce its costs by paying remuneration to reflect the shorter working hours. Typically, a sub-postmaster running a part-time office would receive around £3,700 annually, with the Post Office incurring a further £5,000 to service the outlet. The overall cost savings from converting offices to community status are small but the real value of the change is the ability to maintain an outlet where otherwise the post office might close. Box 5.7 gives an example of a community office.

Mobile offices

The Post Office has been examining the contribution that mobile post offices might make. So far, they have run two pilots – one in the Lake District and one on the Devon-Cornwall border. The former is run from the Carlisle branch office and the latter by a sub-postmaster. Because of travelling time, mobile post offices tend only to visit each village for a short period every week – for example, 30 minutes each in the case of the Devon–Cornwall pilot, which has to cover 30–40 villages. There is also a significant cost in maintaining a vehicle for mobile provision. Given the large amount of cash which post offices need, there are additional costs in ensuring that the vehicle is secure. So, moving to a mobile office, saves the Post Office little money over a normal post office facility. But it can help to provide post office provision for those who have lost their local post office.

Box 5.7: An example of a community office

Rudry Post Office, near Caerphilly

Rudry post office is in the middle of the village and is combined with its only shop, which sells basic groceries. Most of the customers are pensioners and mothers collecting child benefit payments. The sub-postmaster helps them by running a Christmas saving club. This was a full time office, but was reduced to a community office five years ago. It is open 0900-1300 and 1400-1700 on Monday and 0900-1300 Tuesday to Friday.

Rudry Post Office

Box 5.8: Roving sub-postmasters

Post office services for two villages in East Anglia are provided by arrangement with a nearby sub-postmistress. She visits each village once a week setting up an office in the village hall. At the same time there is a coffee morning and a visit from a mobile hairdresser. On average she serves 20 customers a week in each village.

Roving sub-postmasters

Another way of addressing the loss of a post office is through the use of a roving sub-postmaster rather than a mobile office (see Box 5.8). Here it is the sub-postmaster rather than the post office which is mobile. The sub-postmaster visits a series of villages – setting up a post office for a couple of hours a week (normally in a village hall, but sometimes in a pub). The costs associated with roving post offices are lower than mobile post offices because there is no need for a special vehicle. The services of roving sub-postmasters are also accessible to all – including those who would find climbing steps up to the counter of a mobile post office difficult.

Innovative locations

As part of its efforts to maintain rural outlets, the Post Office has sought to locate offices in more inventive locations. Around 120 post offices in rural areas are located in petrol stations. Many of these also sell basic groceries – combining the functions of village shop, petrol station and post office. One of the advantages of locating a post office in a petrol station is that it attracts customers from outside the village who stop primarily to purchase fuel – this helps to build business. Against this, there are safety and access issues. The optimal place to locate a petrol station is on a main road – often away from the centre of a village. And many petrol stations are not pedestrian-friendly.

Other innovative locations for post offices include pubs, village halls or even people's living rooms. In general, where a post office is located in one of these places, it is because there is no shop left in the village with which the post office might share premises. Running a post office provides a small additional income for someone in the village alongside the opportunity to provide a service for the community. There are currently around two dozen post offices located in pubs, up to 100 located in village halls and 500 in people's homes. Given the number of pubs and village halls, these are locations which might be much more widely used. Box 5.9 illustrates some of the more unusual examples of post office locations.

Voluntary action

There are also many instances where villagers club together to help keep their local post office and village shop open (see box 5.10).

Support from local councils

Local councils have powers to support local post offices through the discretionary rate relief scheme, which provides rate relief of 50% to the last village shop/post office in settlements of under 3,000 people, where the rateable value of the business is under £5,000. Local councils have discretion to offer up to 100% relief and to extend relief to shops or post offices with a higher rateable value. This is funded jointly by local authorities and central Government.

Box 5.9: Unusual rural offices

Torksey Post Office

- **Torksey Post Office**, Lincolnshire is in the hallway of the sub-postmistress's home – with a specially adapted front-door which also serves as the post office counter. The office is open standard hours.
- **Stanton-by-Dale Post Office**, in Derbyshire, is based in a converted World War II air-raid shelter, located behind the former school. The sub-postmistress leases space for the office from owners of the building to which the shelter is attached. It is a community office open every week day morning. Space is also leased to a small food shop.
- **Oulton Post Office**, in Staffordshire, has been transformed from a public toilet situated on the premises of a garage. When the previous sub-postmaster resigned the village was without a post office for some time and many people switched to using another nearby office. Not all of them have switched back to use this office, although the office is open standard hours and is easily accessible.
- **Wentbridge Post Office**, near Pontefract, is run from the dining room of a guest house located in the centre of the village. The proprietor took on the role of sub-postmistress following the closure of the village's two shops. It is a community post office, open each weekday morning.

Box 5.10: Voluntary support for the post office

Brook, Isle of Wight

This office was situated in a caravan without electricity. It could not therefore have a Horizon IT terminal installed. In 1999, the Post Office arranged a public meeting to try to find a solution. Isle of Wight council donated a Portakabin, the sub-postmistress paid for this to be fitted out, and the local community raised £1,400 for landscaping the site, installing the Portakabin and having an electricity supply installed. The office can now be computerised later this year.

Denston, Staffordshire

In Denston each villager bought a brick for the new post office.

Local authorities also have the power to make grants to sustain post offices. Box 5.11 illustrates an example where one has done so.

Local councils can also help by ensuring that bus routes allow communitites without a post office to get to a nearby post office easily. In some cases, this may be a more cost-effective solution for the council than supporting a post office.

The Countryside Agency supports what is often the retail side of sub-post offices through its Village Shops Development Scheme, which offers grants to improve village shops. In 1998/9 it made 254 grants totalling £600,000.

Box 5.11: Help from parish councils

In June 1999 the post office/village shop in Woolsthorpe by Belvoir closed. In August a local farmer who ran a farm shop was appointed as the new sub-postmaster. The parish council provided £2,000 to make alterations to his shop so that it could accommodate a post office. This is now the only village shop and is open weekday mornings and early afternoons for a total of 27 hours a week.

Woolsthorpe by Belvoir Post Office

6. URBAN POST OFFICES – THE NEED FOR MODERNISATION

Summary

- **Urban post offices account for 45% of outlets but 75% of network revenue.**
- **99% of people in towns and cities live within one mile of a post office.**
- **Competition from supermarkets and other trends in retailing have squeezed sub-postmasters' non-post office business in urban areas over the past 10–15 years. However, the growth of neighbourhood convenience stores provides new opportunities to help re-invent the urban network.**
- **The success of the urban network depends upon the Post Office's ability to modernise urban outlets. In future urban post offices are likely to be larger and of better quality; offering a broader range of both post office and non-post office services; and opening longer hours.**
- **Post offices in some deprived urban areas have a particularly important role to play. Special measures may be required to improve the quality of the retail business in some of these outlets.**

6.1 Post offices within easy reach of all

More than 99% of people living in towns and cities (with more than 10,000 residents) are within a mile of a post office. But for most people, their nearest post office is much closer – on average, about a quarter of a mile from where they live. And almost two-thirds of those in urban areas live within 1 1/42 mile of more than one post office.

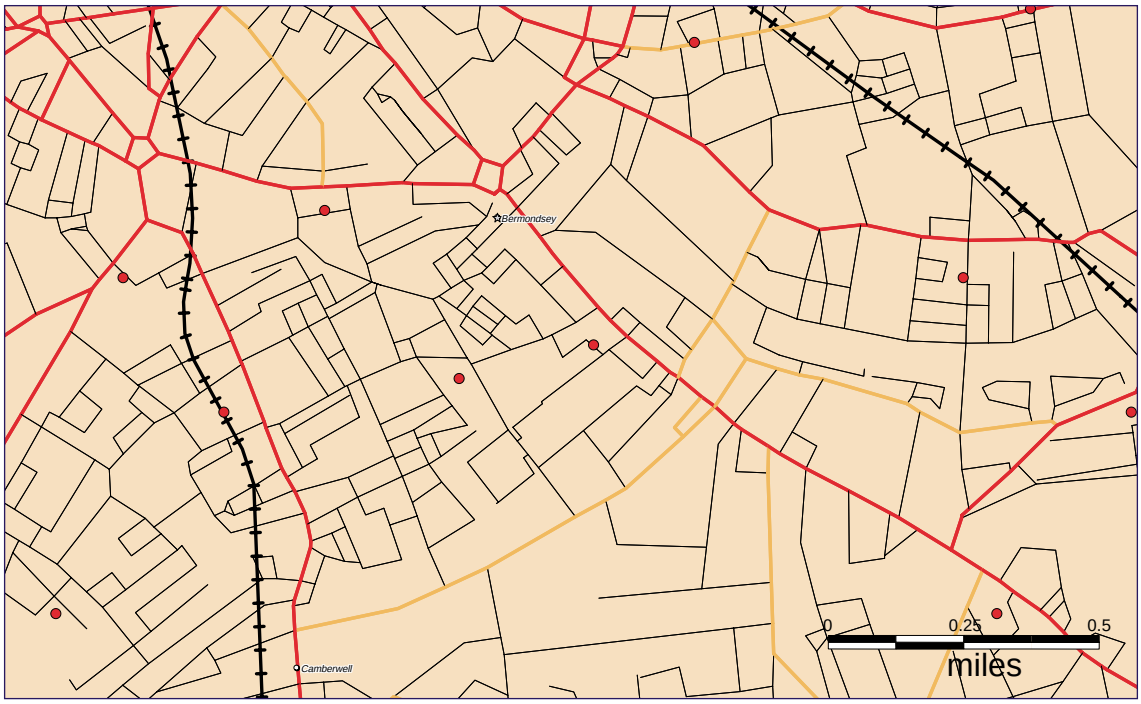
Urban offices account for 75% of Post Office transactions and the same proportion of the network's revenues.

On average, people in inner-city areas live closer to post offices than people in suburban areas. This is because whilst the number of post offices per 10,000 population is roughly the same, population density tends to be higher in inner-city areas.

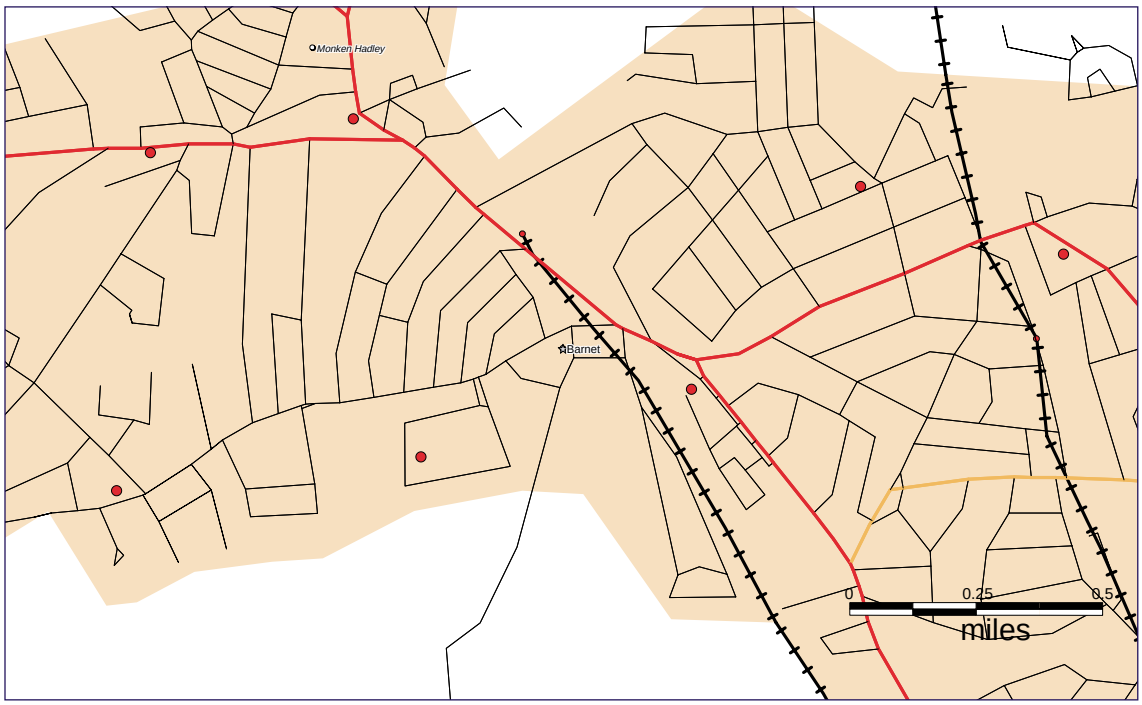
Map 6.1 shows a typical inner-city area – in this case a part of south-east London. There are 11 post offices covering an area which is about 2 miles by 1.25 miles.

This is in contrast to Map 6.2 which shows a more suburban part of London. Here, there are only 7 post offices, covering an area of the same geographical size, but with a smaller population.

Map 6.1: An area of SE London



Map 6.2: A suburban area of North London



● post office

Source: Post Office

This ubiquity of post office coverage is not restricted to London – it is repeated in towns and cities across the UK.

6.2 Where are urban post offices?

In local shopping parades…

Most are located in local shopping parades – in general, sharing their premises with a small newsagents, or perhaps a grocery store (see Box 6.1 for typical local offices).

In the High Street…

Around 1,500 post offices are located on High Streets, alongside major retail chains. These offices tend to be busier than smaller local offices – providing services for local businesses as well as residents. These are also the kind of offices which people visit during their lunch-hours – as they are generally

Box 6.1: Typical local offices

The PIU team visited a number of local post offices. We have anonymised the examples below as sub-postmasters were concerned that if their offices were named in the report, it might make it harder for them to sell them or could make them a target for criminals. Unfortunately this means we cannot include pictures of these offices.

A post office in North London

This post office is in a relatively deprived area of North London. It is located on a busy road and is near a number of convenience stores and other shops. It is run by an elderly Asian sub-postmaster and his wife, with the assistance of a younger man at busy times. Its frontage is glass in an aluminium frame, but unlike many other local shops it does not have a roll down metal grille for security. Its fascia is painted and shows the old Post Office and Girobank logos, both of which are faded. It has three counters and its interior is panelled in veneered wood. The counters and interior appear not to have been refitted for over twenty years and reflect the wear and tear they have had in that time. It has a few shelving units, which hold some yellowing battered cards, and padded envelopes. The area behind the counter appears disorganised.

A post office in South London

This post office, in a deprived area of south London, is in a shop selling a few stationery products set amongst a small parade of shops. The sub-postmistress would like to diversify the retail offering but cannot because the lease on the premises restricts what can be sold in the shop. She bought the business with her husband, but he has not worked in the post office since he was injured in a criminal raid on the post office a few years ago.

A post office on the outskirts of Leicester

This small post office, a few miles west of Leicester city centre, is in a shop selling sweets, newspapers, cigarettes and a few grocery items. The current sub-postmistress bought it recently. The post office is in a side street close to a busy dual carriageway. There are no other shops in the immediate area and there is little passing trade. Most customers come from a small set of surrounding streets. The sub-postmistress has started to sell sandwiches to people who work in the vicinity, to boost retail business.

located in areas near large offices. Many of these offices do not have a large associated retail business – especially those which are run directly by the Post Office (Box 6.2 gives various examples of high street offices).

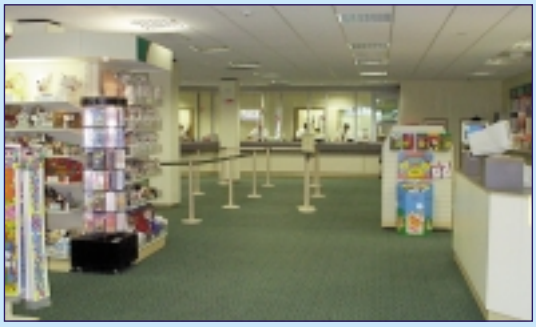
Box 6.2: High street and town centre post offices

Camden High Street, North London

Camden High Street Post Office was opened in 1998 in new premises. It replaced two other post offices, one on Parkway where the lease had expired and one on Mornington Crescent which was too small. It is a branch office with 12 counters, a post shop and a dedicated bureau de change. Its customers are a mixture of local residents and tourists.

Camden High Street Post Office

Camden High Street Post Office, Interior



Camberwell Green, South London

This is a large branch office with no other retail. It is a busy office in a busy location. Its exterior and interior would benefit from modernisation by the Post Office or by a private sector investor.

Camberwell Green Post Office

Camberwell Green Post Office, Interior

Branch office conversion in Gainsborough, Lincolnshire

The main post office in Gainsborough used to be a Crown office. It was converted to a franchise operation within the town's Co-op department store in 1999.

Gainsborough Post Office, Interior

Box 6.3: Post office at Curleys, Belfast

The Kennedy Centre on the Falls Road in Belfast has a post office located beside its anchor store, Curleys Supermarket. The post office initially had five counters but two more are being added to meet increased demand. It includes a dedicated bureau de change.

Curleys Post Office

In shopping malls and supermarkets…

A smaller number of urban post offices are located in larger shopping malls or in major supermarkets (see Box 6.3). But, in general, as these locations can be relatively hard to reach on foot or by public transport, the Post Office has tended to find that customers prefer to use offices which are easier to get to.

In all sorts of other places…

There are also post offices in a variety of other places where people need access to their services. They vary from university campuses (e.g. Surrey, Sussex, Lancaster and Warwick Universities) to airports (e.g. Heathrow, Gatwick, Manchester and Glasgow) and tourist attractions (e.g. the Dome). Each of these offices serves a different group of customers, and as a result do a very different mix of transactions.

6.3 Retail and other trends affecting urban post offices

Competition from supermarkets has put pressure on local post offices

While the incomes of urban sub-postmasters from their post office businesses have remained relatively steady over the past five years, incomes from their ancillary businesses have been squeezed by trends in retailing (see Box 6.4).

Local grocery stores and newsagents have found it increasingly hard to keep their customers. This loss of income has hit local stores – and meant that their owners have struggled to make ends meet. The result has been a vicious circle – falling demand has meant that shopkeepers have been unable to find the funds necessary to invest in their upkeep, resulting in a greater fall in demand (see Box 6.5).

Box 6.4: Trends in retailing

More and more people choose to buy a greater proportion of their provisions at larger supermarkets. Supermarkets offer a wide range of goods, fresh stock, attractive stores and low prices. They also cater for people's lifestyles – higher levels of car-ownership and less spare time make one-stop shopping and convenience food more attractive.

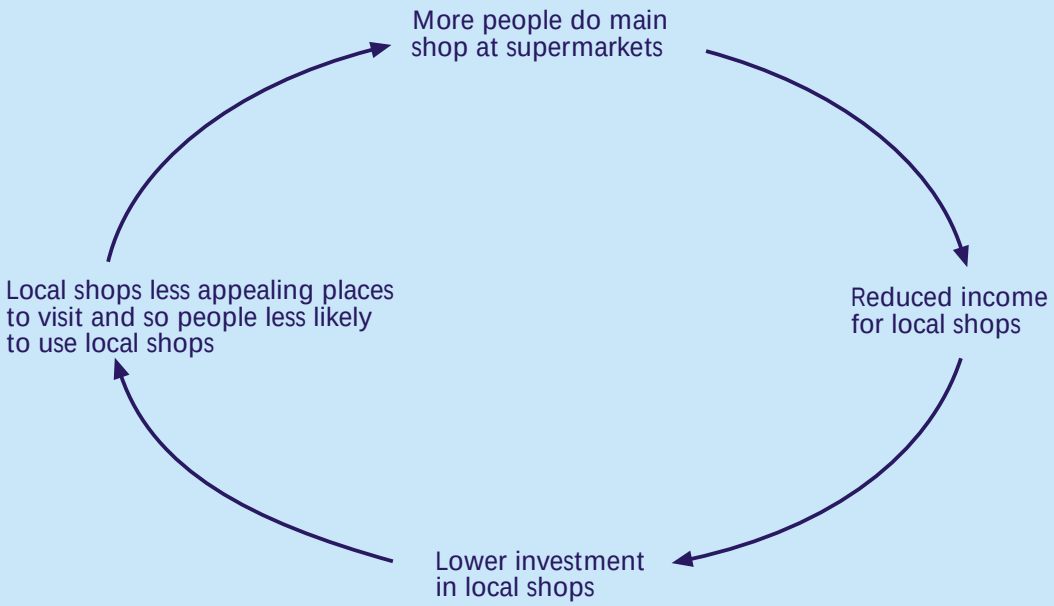
- Between 1989 and 1999, the neighbourhood store share of total retail spending fell from 25% to 18%. Around half of neighbourhood spending is on groceries. Superstores' share of total spending on groceries increased from 30% in 1987 to 54% in 1996.
- Since 1995, neighbourhood store sales have fallen by 11% in real terms, while high street sales have risen 11% and out-of-town sales 98% in real terms.
- Since 1990, neighbourhood shop numbers have fallen by 15% and retail selling space has declined by 4%. The number of superstores in the UK has risen from 460 in 1986 to 1100 in 1997.
- Newsagents and tobacconists have come under particular pressure. Newspapers have become available at more outlets at a time when newspaper sales have fallen. Sales of tobacco-related products have faced intense competition from supermarkets selling multi-packs and from people taking advantage of lower prices on the continent.

In a shrinking market, independent neighbourhood stores have lost market share to generalist multiples.

- From 1994 to 1998, the ten leading multiples increased their total share of the neighbourhood retail market from 22% to 26%.
- In addition, supermarkets are now opening local stores (owing to planning restrictions on out of town stores) and petrol companies are developing forecourt convenience stores, often in partnership with multiples.

Sources: Verdict on Neighbourhood Retailing, 1999 and Impact of Large Food Stores on Market towns and District centres, DETR 1998

Box 6.5: The vicious circle faced by local shopkeepers



Those small retailers who have had a post office have had something of a cushion. The post office side of the business has provided a steady source of income. And the fact that the post office has continued to attract large numbers of people into the shop has helped to keep up income from impulse purchases.

Urban post offices have found it hard to respond to this challenge…

In general, the quality of post offices has failed to keep up with modern trends in retailing. While there are notable exceptions, post offices have become less appealing places to visit. Affluent customers, in particular, have tended to use local post offices less frequently. This is a trend that the Post Office needs to reverse by meeting the service needs of increasingly sophisticated consumers.

As a consequence, urban post offices have become increasingly reliant on serving the poorer and more vulnerable members of the community. Sub-postmasters told the PIU team that they have found that their main customers are either pensioners or people on benefits. Their main business is to collect benefits and to pay towards utility and other bills over the counter.

…but new neighbourhood retailing opportunities are emerging

Though supermarkets have captured an increasing share of the retail market, there are opportunities for neighbourhood retailers in urban areas that the Post Office needs to exploit. The most successful are likely to be local convenience stores. Such stores can:

- provide a locally accessible place to buy essential groceries which run out before the next visit to the supermarket or the next order over the internet; and
- open the hours that customers want, often into the evening and seven days a week.

These stores thrive on the ability to offer local residents all the services they want under the same roof – bringing together the services of independent specialist shopkeepers such as greengrocers, newsagents and off-licences.

The overwhelming majority of convenience neighbourhood stores are currently operated by independent retailers. Over time, this is likely to change given the efforts of the supermarket chains (such as Budgens and Sainsbury's) to expand their market share into this segment of the market. But well run independent stores will continue to have a place alongside these multiples. What each of them will require is the ability to invest in high-quality premises which customers find appealing.

And as these stores need to attract as many customers as possible, many of them will want to provide post office services – since a post office will provide valuable footfall for the business. These stores will also attract customers who might not otherwise use post offices, so locating post offices in convenience stores may help to boost the number of more affluent people using post offices.

…and offer an opportunity to reverse years of decline

A renaissance in neighbourhood retailing offers an opportunity to reverse years of decline in the quality of local urban post offices. It is important that the Post Office takes responsibility for seizing this opportunity and that it does so quickly.

There is the prospect of moving from the vicious circle faced by the struggling specialist local store, to the virtuous circle of a thriving neighbourhood convenience store (see Box 6.6). By co-locating post offices with thriving local stores, the Post Office should be able to improve the quality of local post offices. In particular, it should be possible to offer post offices which open longer and serve a broader customer base.

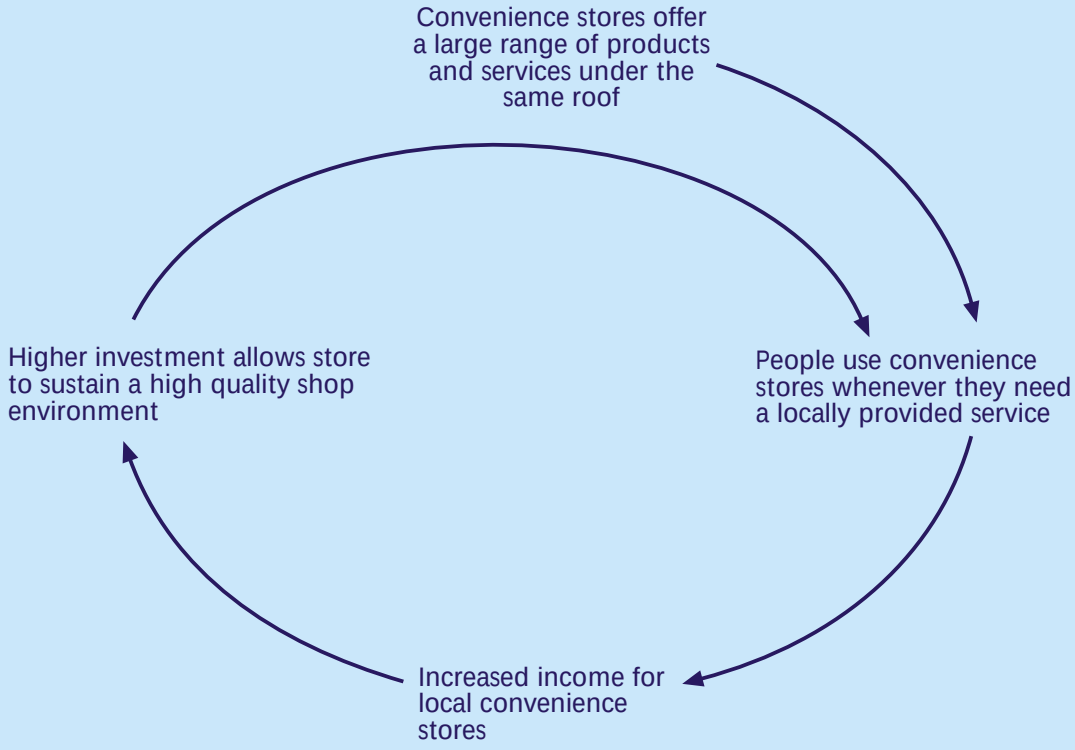
Work has already begun…

The Post Office has begun work to take advantage of this emerging opportunity. It must now redouble its efforts to take advantage of new retail opportunities.

It has made a concerted effort in recent years to retrain its field staff to give them retail expertise. Each sub-postmaster is required to submit and have approved a business plan, a large part of which covers their associated business. Some sub-postmasters have already begun to improve the quality of their post offices by improving the quality of their retail business on the non-post office side of their business (see Box 6.7)

There are now about 1,000 post offices co-located with multiples such as the TM Group (around 400 branches of Forbuoys/Martin), T&S Dillons (around 200 branches), Alldays (75 branches) and One Stop (88 branches).

Box 6.6: The virtuous circle of a thriving local convenience store



Box 6.7: Combining retail with a post office to create a thriving local business

Leicester Forest East Post Office is within an independently-owned shop selling a range of convenience goods, including an in-store bakery. It is adjacent to an Alliance and Leicester building society office and a cash machine (both of which are also owned by the sub-postmaster). It has a car park in front. The post office counter has recently been refurbished and a bureau de change service has been added. There is also a library and a small Co-op supermarket in the vicinity.

Leicester Forest East Post Office

Box 6.8: A "Combi-store"

Woodgate Post Office

Woodgate is just off the main A50 route into Leicester and is approximately 1 mile from the city centre. The office is located within a refurbished Spar convenience store and is open from 7am to 11pm seven days a week for both retail and post office transactions. There is car parking available directly outside the outlet, bus stops nearby and several pedestrian crossings nearby. The area around the office is very busy with numerous shops and banks. There is also a large residential area comprising private housing and some rented student accommodation.

Woodgate Post Office

Woodgate Post Office, interior

In 1999, the Post Office piloted 7 "combi-stores" (see Box 6.8), where the post office counter is integrated with the retail serving positions, offering customers the opportunity to transact their post office business and retail purchases at the same till. The pilot identified a number of advantages of the "combi-store" proposition:

- for sub-postmasters, lower labour costs and a smaller area of their premises taken up by a post office;
- for the Post Office, a better way to attract sub-postmaster investment; and
- for customers, longer opening hours and no need to queue separately for post office transactions.

But there is more to do…

But the Post Office has a great deal more to do, if it is to grasp the opportunity offered by neighbourhood retailing.

In re-inventing a modern and commercially viable network, the Post Office will need to review:–

- How many urban post offices are needed. Re-locating post offices into busier stores may mean that the Post Office is able to capture more of its customers in one place – reducing the need for such a large number of outlets. Any reduction in the number of post offices may need to be balanced by more counter positions to ensure that queuing times remain reasonable.
- Where post offices are located geographically. While many post offices are on streets which are convenient for many local people, some are tucked away on back streets with only a small catchment area. These post offices will probably need to be re-located so that they are more conveniently located for a wider range of customers.
- The businesses that post offices are combined with. To make the most of the footfall opportunities and to ensure their survival, post offices will need to be combined with successful retail businesses. They will also need to offer products and services that reflect consumers' changing choices.
- The people who run post offices. The best sub-postmasters will combine commercial abilities with a sense of public service and community orientation.

This will not be an easy programme of change. It will require the Post Office to look at each individual locality separately to understand the best way forward for post office provision. They will need to work with local communities and other local stake holders, such as local authorities, to understand local needs. And they will need to work closely with sub-postmasters if they are to improve the quality of local post offices. If the Post Office decides that it wishes to have fewer outlets than at present in any area, it will incur costs as sub-postmasters who leave will need to be compensated for the loss of the value of their asset.

…to re-invent the network

Overall, a re-invented network is likely to offer a wider range of services, to a wider range of customers at the times when they wish to access them and in places which they find convenient.

Re-invention provides an opportunity to lever in new investment for the urban network. The network is in urgent need of modernisation – and there is a real risk, that without modernisation, urban residents will turn their backs on post offices.

It is, therefore, essential that the Post Office grasps the opportunity to modernise the network. The programme of change will be substantial – and the Post Office will need to make a start immediately if it is not to lose the opportunity offered by the renaissance in neighbourhood retailing.

6.7 Post offices in deprived urban areas – a special case

In many poorer neighbourhoods, there is a scarcity of quality shopping facilities.[1] The reduction in neighbourhood retailing over the last decade has affected these areas more than others – with shopkeepers facing the additional hurdle of higher crime levels (including racially-motivated crime). The effect has been that those shops which remain tend to sell a limited range of goods at prices which are a good deal higher than many supermarkets. Local residents

[1] Improving shopping access for those living in deprived neighbourhoods, Department of Health, 1999.

either have to use these poor quality shops or travel some distance to get to their nearest supermarket.

Unlike other retail chains, the Post Office has not taken action to withdraw from these areas. As a result, the density of post offices in these areas is often greater than in other urban areas.

But, as in some rural areas, the existence of a post office in deprived urban areas can provide an anchor for the local store. The post office side of the business provides an additional source of income for the sub-postmaster/local retailer – and helps them to sustain a living.

Some of the best examples of vibrant shops in deprived neighbourhoods are run alongside a post office. Box 6.9 describes a post office on a peripheral estate in Leicester – where the post office is truly at the centre of the community. By providing a range of services, the sub-postmistress and her husband have made a successful business in one of Britain's most deprived neighbourhoods.

But, there are also examples of post offices which are unable to break out of the vicious circle faced by many local retailers. The additional income from the Post Office helps to stop the store going out of business. But the outlet remains poor and in need of more investment. The outcome is a less than satisfactory experience for customers – in many cases, a narrow product offering with, for example, few fresh fruit and vegetables. Often the sub-postmasters running these outlets are keen to get out of the business but are unable to find a purchaser (see Box 6.10). Research commissioned by the PIU from Christie and Co. found that the level of interest in buying sub-post office business has declined significantly over the last year.

The challenge for the Post Office and for other players is to shift the balance between outlets which are struggling and vibrant local stores such as the one in Leicester. Achieving this re-invention will require an effort over and above that necessary for the rest of the urban network. It may be more difficult to lever in the necessary investment for renewed retail outlets in particularly deprived neighbourhoods.

Box 6.9: Post office on a peripheral estate in Leicester

Guthridge Crescent Post Office

Guthridge Crescent is located on the Braunstone Estate and is approximately 2 11/42 miles from the city centre. The area comprises mostly council accommodation and is made up of low income families. There is unrestricted car parking available outside the outlet with a bus stop only a few metres away. The office serves mainly residents from the estate – there is little passing trade.

Guthridge Crescent post office was completely refurbished during 1998/99. Prior to the current sub-postmistress taking up her appointment, the office was located within the shop next door. To provide additional space for customers and to encourage retail sales, the premises were knocked through to make one much larger unit.

The shop sells newspapers, stationery, sweets and groceries and has an off-licence. The sub-postmistress is popular locally and regularly raises money for the local hospital. The recent installation of an online lottery terminal will help to bring in more customers.

Guthridge Crescent Post Office

Box 6.10 Difficulties faced by sub-postmasters in selling their business

"Like many sub-postmasters nearing retirement, I am faced with having no business to sell on and the resultant loss of my retirement investment, together with the possible loss of my home which was pledged as security for a business loan to purchase my office"

"I am sure the Post Office will not pay us redundancy if we are forced to close – and my husband and myself will have lost our life savings"

"I don't feel I have a secure job for the investment I made. This is my pension for old age, but now I feel my investment is worthless"

"It is not just a matter of job security to most sub-postmasters – most of us have sunk our life savings into this business, but this does not seem to be recognised"

"This is a very worrying time. How will I continue to pay my mortgage"

Source: letters from sub-postmasters to the Post Office, 1999

7. CHANGING LINES OF BUSINESS

Summary

- **The Post Office must take advantage of the opportunities provided by new ways of doing business and changing consumer preferences and diversify the products and services it offers. It must demonstrate that it can react to behavioural and technological changes and must do so quickly.**
- **Automation of the network will allow the Post Office to exploit new opportunities. In particular, it will be able to set up a *Universal Bank* providing services for those who are currently "unbanked". It should also be able to expand and extend services provided on behalf of the banks.**
- **Post offices could act as one-stop shops for Government advice and have a role to play in bringing the benefits of the internet to all.**
- **The predicted huge growth in e-commerce provides the Post Office network with new opportunities, for example as a collection and return point for goods purchased over the internet. This is an example of how the Post Office should exploit its unparalleled reach and trusted brand name.**
- **The Post Office needs to seize these new opportunities and make sure it has the capacity to do so. It should present a business plan to the Government demonstrating its ability to deliver diversification in its lines of business.**

7.1 The network has new opportunities, but faces challenges to existing lines of business

The Post Office needs to pursue vigorously replacements for traditional lines of business

Historically, people have seen post offices as places to do Government business. The post office has been the natural place to buy stamps, pay utility bills, access benefits and post letters and parcels.

But this is changing and the Post Office must do more to change with it. Increasingly people are choosing to do these traditional transactions by other means – buying stamps in shops or paying utility bills by direct debit. The Post Office network has begun to respond by diversifying into new lines of business. Selling lottery tickets, offering currency exchange facilities and selling pre-paid vouchers for mobile phones are all examples

of transactions which have been introduced in post offices in recent years. And the Post Office Group has created a subscription services business – SSL – which allows people to renew television licences over the telephone. But it needs to do much more.

The pace of change is likely to accelerate in the years ahead and the Post Office must keep pace with this. In order to modernise the network, the Post Office must take responsibility for redoubling its efforts to win new lines of business.

The automation of the Post Office network opens up a host of new possibilities

Automation of the Post Office as a result of the Horizon project – of around £1 billion – represents a major commitment to modernise the network. Around 300 post offices are being automated every week and every post office in the country should be computerised by the summer of 2001. With 40,000 automated counter positions in over 18,000 post offices and 70,000 people trained to use Horizon, this will mark the successful completion of one of the UK's largest ever IT projects.

In the past, post offices have had to rely on paper-based methods of doing business. Institutional clients and the Post Office have incurred high 'back-office' costs as a result. Automation will allow better integration of processes – so that a transaction done in even the smallest rural post office is captured electronically and stored on a central computer system.

The prospect of automation has already helped the Post Office win new lines of business such as offering services to customers of the High Street banks. Once the platform is in place, there will be many further new opportunities to diversify the business of the network, and the Post Office must show it has the capacity to achieve this.

The opportunities and challenges facing the Post Office network fall under six areas:

- challenges in the letters market;
- opportunities as a result of e-commerce;
- challenges to benefit payments work;
- financial services opportunities;
- opportunities to provide Government services including widening access to the internet; and
- challenges to bill payment work.

These are considered in turn in the following sections.

7.2 New challenges in the letters market

The growth of the internet and other innovations provide both opportunities and challenges. While these developments might threaten some lines of business done in post offices – purchasing stamps and posting letters – they also provide new opportunities for the Post Office to mobilise the extraordinary reach of its network and to exploit its trusted brand name.

New ways of paying for postage…

Most people in Britain go into a post office from time to time to buy a stamp. Even with the availability of stamps at a wider range of outlets since 1986/7, such as newsagents, more than 80% of stamps are still sold over post office counters. Postage stamps account for 18% of the network's overall income.

But the internet is likely to create new competitive challenges for the network. In the United States, it is already possible to purchase stamps over the internet (see Box 7.1). Similar internet-based schemes will undoubtedly emerge in the UK and as they do, this will squeeze the network's share of the postage market.

Box 7.1: Postal Services over the Internet in the USA

In August 1999, the US Postal Service (USPS) introduced PC Postage™ on its website. This allows customers to purchase and print postage stamps at home. Each stamp has a unique barcode. The website also allows customers to order postal merchandise, calculate rates, download software to expedite mailings, track Express Mail and confirm delivery of Express Mail and Priority Mail. USPS also allowed three private companies to offer similar services (Stamps.com, E-Stamp.com and Pitney Bowes).

...and decline in the number of letters posted will reduce revenues from the letters market

With growth of email, and internet-based services, the Post Office predicts that the overall letters market will remain static or decrease over time. The impact on the network will be a declining share of a shrinking letters market.

7.3 New opportunities as a result of e-commerce

The exponential growth of e-commerce is going to transform the business of the Post Office Group. The effects will be felt most by Parcelforce – which will see seismic shifts in the nature of the parcels market. But the Post Office network will also be affected – with e-commerce offering significant opportunities for new business lines. The Post Office must make sure it is at the forefront of responding to people's changing needs. It needs to position itself quickly in this market.

Getting e-purchases to consumers and dealing with returns

The Post Office predicts that the market for parcels will grow rapidly over the coming years, as the number of purchases made over the internet grows.

Post offices have traditionally played an important role in the mail order industry. While most mail order companies have not tended to use post offices to send parcels – shipping products directly from warehouses instead, they have often used post offices as places where consumers can take products they wish to return. E-commerce is likely to dwarf the traditional mail-order market, substantially expanding the market for returns. Post offices will not be the only players offering a returns service. But the size of the Post Office network – and its reach into remote areas where there are few other facilities – makes it ideally placed to compete strongly for a share of this growing market.

Another significant opportunity for the Post Office network is the need for companies to get internet purchases to consumers at a time they find convenient. Parcel delivery companies have always struggled to find a means of getting products to people's homes when there is someone there. All too often, people come home to find that a parcel company tried to deliver a product unsuccessfully – and that it is now waiting at a depot some distance from where they live.

The growth of internet purchases will lead to improvements in the quality of parcel delivery services. Some parcel carriers will deliver goods during a narrow time slot which is convenient to customers – for example between 7pm and 9pm in the evening. But while this delivery mechanism will be convenient, it will also be expensive.

Many consumers may be happy to have their parcel delivered to their local post office – picking it up either on their way

home from work, or at the weekend. As almost everyone in the country has a post office near them, picking up a parcel from a local post office will cause very little inconvenience, provided the opening hours of post offices are flexible. And this lower-tech solution will be much cheaper for parcel companies – allowing the savings to be passed on to customers.

In order to grasp a share of this market for post offices, the Post Office must move quickly. The likely growth in e-commerce is well known – and many other networks will be competing to provide places where consumers can pick up parcels.

As discussed in Chapter 3, the Post Office will need to review the pros and cons of maintaining reciprocal exclusivity in the light of these new e-commerce opportunities.

Post offices as a place to purchase goods over the Internet

Post offices equipped with internet terminals will allow customers to make internet purchases. To an internet retailer, attracting customers to its websites is a key challenge. The internet retailer needs to build a brand which consumers recognise, or they need to ensure that customers click on links to their website from other parts of the web. Sending a willing customer from one website to a retailer's website can often attract a commission.

Post offices are well placed to benefit from this potential business. A Post Office network website – possibly accessed through an internet terminal in a post office – could seek to direct customers to retailers' web-sites. These could be retailers who the Post Office guarantees as reputable businesses. They could also be retailers who have made arrangements with the Post Office so that goods can be paid for and collected at a post office counter.

The Post Office could help internet retailers to attract customers who would otherwise be reticent about using a computer to make a purchase. Counter clerks trained to help people learn how to use the internet could also guide customers through the steps to make a purchase.

Not only the Post Office network would benefit from this potential business. Internet retailers would have the endorsement of the Post Office and sub-postmasters which could bring larger numbers of customers to their websites. Parcelforce would benefit from an increase in the volume of internet purchases. And sub-postmasters would attract customers into the post office. There are close links between this and the proposal for internet learning and access points in post offices discussed later in the chapter.

An additional service which post offices could offer is for those who do not have credit cards, or who do not feel comfortable with entering their card number into a computer. For these people, the counter clerk could accept payment for an internet purchase at the post office counter – and then record this on the system so that the good is despatched from the depot.

Whether or not customers choose to pay for their purchases in cash, many of them would opt to have their purchases delivered to their local post office rather than to their homes.

7.4 Paying out benefits – no longer a stable source of network income

Around two-thirds of the benefits paid in Britain are currently paid over a post office counter. The total amount paid out to benefit recipients at post offices exceeds £60bn a year. Around 18 million benefit recipients use post offices to access their benefits.

Contracts with the Benefit Agency and the Social Security Agency in Northern Ireland (SSANI) currently account for over £400m or around 35% of the overall annual revenue of the Post Office network. But paying benefits by order books and girocheques at post offices is expensive – the Benefits Agency pays the Post Office up to 79 pence per transaction. Paying benefits at post offices is also less secure than direct payment into bank accounts – and results in estimated fraud of around £140m annually. The overall cost to the Government, once Benefits Agency administrative cost have been taken into account, of paying benefits by order books and girocheques is over £600 million annually.

The Benefits Agency has been keen for some time to reduce these costs and move to a more modern, secure system. The Horizon IT project, as originally constituted, would have done this through automation of all post offices and a benefits payment swipecard. However, this project had to be restructured when it became seriously delayed. The swipecard element of it, which had become outdated in any case, was dropped in order for the project to proceed.

The Government had to find another solution. The most effective one was to pay benefits directly into recipients' bank accounts. This method of payment costs 1p per transaction, so direct payment of all benefits into bank accounts would cost less than £10m pa. The Government could save over £600 million annually if all benefits recipients had a bank account, and recipients were able to withdraw money without paying any charge. The Government plans to make a concerted effort to move as many benefit claimants as possible over to direct payment into bank accounts between 2003 and 2005 (though it has also said that those benefit recipients who wish to access their benefits in cash at post offices will continue to be able to do so). It is envisaged that this will become the normal method of payment by 2005.

To date, although the option of direct payment of benefits into bank accounts is drawn to the attention of benefit recipients, it has not been positively promoted. Nonetheless benefit recipients have increasingly opted to have benefits paid directly into their bank accounts. Last year, over half of new pensioners and new child benefit recipients, for example, chose to have their benefits paid directly into their bank accounts. The effect of this has been a gradual increase in the proportion of benefits paid straight into recipients' bank accounts (see figure 7.1). If the Benefits Agency or SSANI had taken proactive steps to migrate their customers to the cheapest method of paying benefits, the rate of change would undoubtedly have been significantly quicker.

However, many benefits recipients will wish to continue to use their local post office to access their benefits. For many poorer people, the weekly collection of benefits at the post office assists with the budgeting of their out-goings – they use the visit to the post office to pay a little towards their bills (see Box 7.2). For many elderly people it is almost a social event – an opportunity to meet friends and chat. For many child benefit claimants it is a way to keep this money separate from other household income or save it up.

Although the number of people who will continue to use post offices to access their benefits is uncertain, it is likely to fall significantly. This work would have declined over time anyway as people switched to having their benefits paid directly into their bank accounts. Unless the Post Office takes action to increase its income from new business, the loss of order book and girocheque payments work will have a

Figure 7.1: Percentage of benefits paid directly into bank accounts

Source: Department of Social Security

Box 7.2 Benefits claimants on managing money

"You know how far to go when you get your money in your hand … and you can budget there and then … I go to the Post Office, I get water stamps, electric stamps, telephone stamps, gas stamps, ordinary stamps when I need them … once I've paid for them, I know the rest of the money is my own." (male pensioner over 70 with bank account)

"I think it's important psychologically, this physical separation of your money, because it gives you the illusion that you are managing it, you are doing something with it rather than it all being in one pot. I wouldn't like that" (single mother aged 25-40 with bank account)

"I get paid fortnightly; I have a good week and a bad week … just scrape through the second week" (unemployed male 25-45, unbanked)

Source: Independent research done for the Post Office and Alliance and Leicester Girobank

major impact on the network's revenues. That is why it is crucial for the Post Office to take responsibility for modernising the network and for ensuring that it can take advantage of new opportunities. The decision to switch the method of paying benefits to direct payment into bank accounts from 2003, gives the Post Office considerable time to do this.

7.5 New opportunities in financial services

The Post Office has begun looking for new ways to build its financial services business. As the French experience shows (see Box 7.3) financial services – particularly banking – do offer many promising opportunities:

- The High Street banks have been rationalising their branch networks in the face of changing consumer preferences, the widespread installation of cash machines and competition from telephone and internet banking. Over the past decade the number of bank branches has fallen from over 17,000 to just over 12,000 (a decline of 30%) and further closures are expected. The Post Office has reached agreements with a number of High Street banks to offer their customers basic banking facilities at post offices. There is clearly scope to extend these arrangements to cover a greater number of banks and to offer a broader range of transactions.
- The Government has placed significant pressure on the banks to reduce the number of people who do not have bank accounts. New banking services are required for the "unbanked". And, once benefits are paid electronically, the Government will need to find a replacement for order books for those who do not have bank accounts. In partnership with the private sector, there are significant business opportunities here for the Post Office.

Offering simple banking services to customers of High Street banks

Recent years have seen customers of High Street banks making less use of branch outlets. But many customers still rely on branches for basic transactions – especially in rural areas where there are few cash machines. Banks are left facing a conundrum – falling demand for transactions at a bank branch makes it difficult for them to justify maintaining a large branch network, but they still need to provide banking services for those customers who do use branches – especially in rural areas.

The Post Office has concluded deals with a number of banks including Barclays and Lloyds TSB to offer basic banking services to their customers. This makes it easier for the banks to rationalise their networks in the face of competitive pressures; maintains services for bank customers, particularly in rural areas, who wish to conduct transactions over a counter; and represents a new source of revenue for the Post Office. Separately, the Post Office is in negotiation with a number of potential partners for the provision of around 3,000 cash machines across the Post Office network.

Once the Horizon IT platform is in place across the network, the Post Office has a good chance of extending the scope of its existing agreements with banks, and of increasing the number of banks with which it works in this way.

This will help to replace some of the lost revenue from declining traditional lines of business. In total, it might contribute up to £50m annually.

Banking services for the "unbanked" – helping to reduce financial exclusion

There is no precise figure for the number of people who do not use banks or building

Box 7.3: Financial Services and the French Post Office, La Poste

The French Post Office's second biggest source of income, after mail handling, is the provision of financial services. Over the last few years it has built up this income stream, so that by 1998 it was the third largest provider of financial services in France in terms of assets under management. It has 28 million customers with 44 million accounts and nearly 6,000 financial advisors. This growth was made possible by the computerisation of the 14,000 main offices in the French network in 1993 and later years.

societies, but research indicates that at least 15% of individuals do not have a current account.[1] According to the Cruickshank report[2] they are typically on low incomes and have excluded themselves, preferring to pay and be paid in cash, to avoid the costs of accidentally getting into debt or because they find banks intimidating. Others may be excluded from affordable banking services because they lack appropriate proof of identity or a good enough credit record for a bank to open an account for them.

Being outside the banking mainstream is a cause of labour market disadvantage, since many employers insist on paying staff salaries directly into bank accounts. The Cruickshank report found that bank accounts provide a gateway to other useful financial services such as cashing personal cheques or obtaining a bank loan (instead of using a loan shark). Banking services also give access to discounts on, for example, utility bills through payment by direct debit. The Government has made clear that it wishes the banks to take proactive steps to reduce the number of people who are financially excluded in this way.

New banking products from the banks?

One way to do so is for the banks to offer a banking product which is more in tune with what those on low incomes want. Most of the High Street banks are planning to do this, for example by developing accounts which do not allow customers to go into debt. With strong marketing of the new products, it is possible that such moves would make inroads into the problem.

A universal bank to tackle financial exclusion…

But a better solution would be to set up a new bank which brought the "unbanked" into the financial mainstream. This, in essence, is what the Post Office is planning. The Post Office could be an ideal home for such a bank – as many people who do not have a bank account currently use post offices to access cash. While they may not feel comfortable with a High Street bank, they often do not harbour similar concerns about a post office product (see box 7.4).

In partnership with the High Street banks, the Post Office plans to set up a new company – perhaps called the *Universal Bank* – to provide banking services for this target group. The company would be owned jointly by the High Street banks and the Post Office.

Those who wanted to open an account would do so over a post office counter – and would be able to conduct all their transactions at post offices if they wished to do so. They would also have a plastic card which would allow them access to the 28,000 cash machines in the LINK network. The account would allow them to set up direct debits – or would allow the Post Office to develop a budgeting product more in line with the needs of the new bank's customers (see Box 7.5). But the account would be designed so that customers could not fall into debt – addressing one of the key concerns of those who are currently 'unbanked'.

One of the advantages of the account would be that different customers would view it in different ways. To some it would be a bank account which happened to be with the Post Office. Others would see it as a post office account and be attracted to it precisely because they did not view it as a bank account.

In his Budget statement earlier this year, the Chancellor "invited the banks to work with the Post Office to offer [a] basic banking service to all".[3] Some banks have already

[1] Access to Financial Services, Report of PAT 14, HM Treasury, June 1999
[2] Competition in UK Banking, a Report to the Chancellor of the Exchequer, Don Cruickshank, March 2000, HM Treasury
[3] Budget statement, March 2000

Box 7.4: High Street bank accounts versus a post office product

Most people have a good relationship with their bank but some have a difficult relationship or fear they would do so. The quotations below are drawn from research to look at the attitudes of the latter group.

Attitudes to banks

"If you're on income support and benefits and things, there's no way of travelling to a bank, because for me to get to a bank, its either a 30 minute walk … or go to town" (Single mother aged 16–20 with bank account)

"You see them [banks] as a massive big giant, don't you, who are going to stamp on you" (Single mother aged 16-20 without bank account)

"As soon as I went on the sick, I went over my overdraft by about £2, and they called me in and had my card cut in half." (Long term unemployed male aged 25–45)

"We're non-entities to a bank" (Long term unemployed male aged 25–45 without bank account)

"I don't know the first thing about them. I wouldn't know what the hell I'd done with my money, but I think they're just a lot of bother and then they charge you for this and that." (Male pensioner aged over 70 without bank account)

Attitudes to a Post Office bank

"The Post Office don't judge you" (Female aged 25–40 collecting child benefit and with bank account)

"They're not some big flashy bank… just them doing their job" (Unemployed male aged 16–19 without bank account)

"It's [the post office] synonymous with reliability and well established and that" (Male pensioner aged over 70 without bank account)

"A friendly face when you go in … not trying to take money off you all the time" (Single mother aged 16–20 with bank account)

"We know the Post Office …I would be very happy to have my money in their hands for the good of the country" (Female pensioner aged over 70 with bank account)

Source: Independent research done for the Post Office and Alliance and Leicester Girobank

expressed an interest in entering into a partnership with the Post Office, and the Post Office needs to seize this opportunity.

…and to give people access to cash at post offices

The *Universal Bank* could also help to meet the needs of those benefit recipients who do not have a bank account into which benefits could be paid directly. From the perspective of benefit recipients, this would minimise the impact of the change. They would still be able to use post offices to access their benefits in cash. But if they wanted to, they could use the other features offered by a Universal Bank account – taking out money at cash machines, or making purchases over the telephone. They would still be able to let benefit payments build up in their accounts if they wished – as many Child Benefits claimants do at present.

In short, they would have something which had the flexibility to be little more than a replacement for order books at one end of

Box 7.5: What would Universal Bank customers be able to do?

- Get out cash at the Post Office.
- Allow benefit payments to build up in their account.
- Deposit cash and cheques at the Post Office.
- Use cash machines to take out money.
- Pay for goods in shops.
- Use cashback at shops and pubs.
- Set up direct debits to pay bills.
- Shop over the telephone by quoting a card number.
- Pay for goods over the internet.

But they would not be able to go into debt.

the spectrum, or a conventional bank account at the other. It would be up to benefits recipients to decide where on this spectrum they wished to operate. Those who were very fond of post offices, and reluctant to explore new banking vehicles would use it just like they used to use their order book. But those who were keen to experiment with new ways of doing things would quickly see the potential of the account.

An effect of this approach is that, in some senses, it would become essential to have an 'account' in order to receive benefits. The Government has said that it does not wish to compel benefit claimants to open a *bank* account in order to receive benefits. But few claimants would see an account which was based at a post office, and which did not require claimants ever to deal with anything other than a post office counter clerk, as a bank account.

A major advantage of this approach is that it would meet the Government's assurance to benefit recipients that they will continue to be able to access benefits in cash at post offices after the change in the method of paying benefits. Benefit recipients who had a bank account but wished to use a post office to collect their benefits would not be required to have their benefits sent to their present bank account. Instead, they could open a post office based account which they could use for benefits only.

The *Universal Bank* therefore offers an exciting opportunity, not only for tackling financial exclusion, but also for meeting the Government's vision that benefit recipients should be able to continue to access cash at post offices. Furthermore, it could have a very favourable impact on the Post Office network's finances – as it builds a new business platform for the Post Office. It is a concept with enormous potential and the Government should give it strong support, subject to urgent and more detailed work on the business case by the Post Office.

Or a virtual benefits account?

An alternative approach would be for the Government to make separate arrangements for those who do not have bank accounts. They could do so by entering into a contract with a service provider whose role would be to get benefits to those who do not have bank accounts. Benefits might be paid into a virtual account, and recipients would be able to access their cash either at a post office or through a cash machine. They might also be

able to pay for goods electronically from their benefits account – for example, paying for shopping at supermarkets. But the virtual benefits account would not have all the features of a bank account – crucially it would not be possible to pay other income into the account. So it would not help unemployed benefit claimants who find work and need an account into which their salary can be paid. Nor would it give them access to direct debit facilities.

7.6 A changing relationship with Government agencies

Apart from collecting benefits, post offices have traditionally been places where people can do a range of other Government business. Getting a fishing licence, renewing a car tax disc, obtaining an E111 form (for reciprocal health care in other European Union countries), picking up a form to renew a passport and submitting the application are all transactions which people associate with post offices. Over the next few years, the role of the Post Office in relation to Government business is likely to change – with much more scope for advice and support, in addition to transactions.

Vehicle licences and national savings...

The renewal of vehicle licences (or car tax discs) is the most significant area of Government business for the Post Office network after benefits work, accounting for around 5% of the network's income. It has provided the Post Office with a steady source of income, as motorists have had to rely on post offices to renew their vehicle licences quickly. There has been no means of renewing over the telephone or by direct debit. This is because it has not been possible to build in the necessary authentication – checking for valid insurance and (in many cases) for MOT certificates.

Over time, with increasingly sophisticated databases, this will change. Major insurers are already working on systems which will make it possible to combine online checks for valid insurance with vehicle licence renewals over the telephone or over the internet. Another innovation, which the Driver and Vehicle Licensing Agency (DVLA) have been exploring, is renewing vehicle licence discs at other physical locations which motorists might find more convenient. Car dealers or MOT testing centres would be potential candidates.

These innovations would give motorists more choice. But, as a result, the Post Office network's share of this market seems certain to diminish.

Similarly, income from the Post Office's traditional banking and financial services client, the Department of National Savings (DNS) will fall. In the past, DNS has used post office counters as its 'front office' to attract customers and to conduct transactions. Now, it is offering an increasing number of products over the telephone or on the internet. With many new customers choosing to purchase products in this way, only a small proportion of the funds invested with DNS now passes through post offices.

Although there remain a large number of customers with National Savings Ordinary Accounts, most of whom use the traditional blue passbook at their local post office for their transactions, as the use of conventional bank accounts increases, the number of people who use post offices for DNS transactions will inevitably decline.

Box 7.6: How people want to interact with Government: People's Panel findings, July 1999

The People's Panel found that:

- 94% of people think there should be some extension of opening hours for the delivery of public services; and
- 48% think public services should be available 24 hours a day everyday.

The top three priorities for improving public services were seen as:

- availability for contact at weekends – 47%;
- quick response to enquiries – 47%; and
- process of contacting public services made easier – 45%.

Source: Cabinet Office

...show how consumers will have more choice when dealing with Government

What is happening to vehicle licences and national savings is a microcosm of the changes that are likely to affect how citizens interact with Government in the future. More and more citizens want to be able to access Government in the way which they most find convenient – see Box 7.6.

The Government has said that all its services should be accessible on-line by 2005. As a result, citizens will be able to do their business with Government over the internet – either from home through a personal computer, digital TV or a games console, or through a mobile telephone.

This provides significant opportunities for the Post Office...

In order to avoid creating new forms of social exclusion the Government has made a commitment that by 2005 everyone who wants it will have access to the internet. This will ensure that those who want to use the internet to conduct transactions will have access to the necessary facilities. But some people will need assistance to take advantage of online Government services (e.g. via call centres). Others will wish to continue to interact with Government face-to-face perhaps because they lack the confidence or skills to go online.

There are business opportunities for the Post Office in providing:

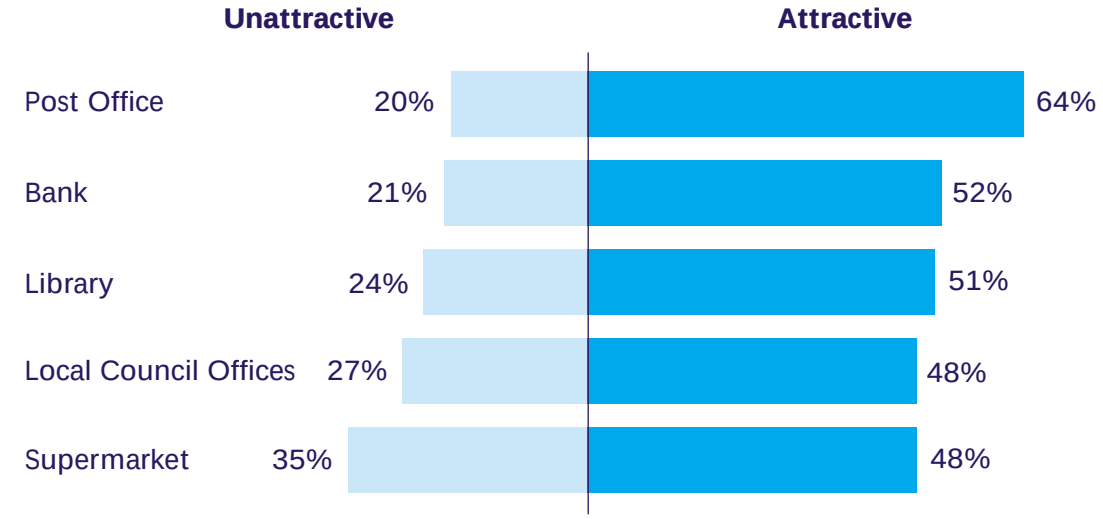
- face-to-face interaction for those who want it;
- internet access points for use by people who cannot access electronic networks by other means or who want someone to help them access those networks; and
- an environment in which people can learn about and become more confident with electronic methods of receiving services.

The Post Office could be well placed to play these roles:

- it enjoys a high level of public trust;
- it is seen as a secure and attractive place for interacting with Government (see Figure 7.2);
- the network is ubiquitous giving people convenient access across the UK; and
- its staff are used to conducting Government business.

Figure 7.2: Public Opinion on Interacting with Government, 1999

The People's Panel asked how attractive people would find each of the following as places to access Government services and undertake transactions



Source: Cabinet Office

Post offices as Government General Practitioners

While the number of people who choose to interact with central and local Government face-to-face may decrease, the Post Office could become a niche player – acting as the first point of call for information on a far wider range of services than it does at present.

Where transactions are too complex for a purely electronic channel – perhaps requiring a higher level of authentication (such as renewing a passport or driving license) – the Post Office would be well placed to provide this service. And the Post Office network could provide an alternative channel of provision if other channels fail – as the Passport Agency's problems last year demonstrated (see Box 7.7).

Box 7.7: Experience of the Passport Agency

During the Summer of 1999, there were considerable delays in processing passport applications. At worst, in June, processing a passport application was taking 10 weeks.

These delays became widely known – and as a result, there was a sharp increase in applications and enquiries about them. Ministers were under considerable pressure to take action to address the ongoing problems.

In July 1999, the Home Office decided to introduce emergency measures – including allowing free two-year extensions to passports at 1,500 post offices.

The Post Office was able to get the service up and running within a matter of days. And between 7 July and 30 September 1999, post offices extended 473,000 passports. It also served to reassure the public, who were comfortable with using post offices.

By the end of August, the Passport Agency was again within its target of processing applications within 10 working days.

In short, post offices might take on the role of Government General Practitioners – providing those people who prefer face-to-face channels with a single point where they can gain access to a range of central and local Government information and conduct transactions (see Box 7.8). Such a service has already been widely piloted in Japan (see Box 7.9).

Box 7.8: Government General Practitioner

The Modernising Government White Paper (March 1999) committed the Government to making 'certain that citizens and business will have a choice about how and when to access government services – whether from home via interactive TV, via call centres, via one-stop shops or, indeed, post offices, libraries, banks or supermarkets.' It also stated that Government should be organised so that 'people don't have to hunt down services by a process of trial and error', and cited one-stop shops as a way of delivering an integrated service to the citizen.

One way of making it easier for citizens to interact with central and local government would be to establish a Government General Practitioner (GGP). This service would operate out of selected physical outlets – where trained and IT-enabled staff would act as 'your guide to government', providing information and low-level advice on central and local government issues and allowing citizens to carry out routine transactions with central and local government bodies. Advice could include how to complete tax returns, pension entitlements, how to apply for a disabled parking badge or how to become a school governor. In rural areas, the GGP could also advise on the opening hours of local pharmacies, where local schools are, how to apply for CAP subsidies, where the nearest GP's surgery is etc.

The GGP could cater for those people who feel alienated by technology based interactions with government – mainly the elderly and those from social groups D and E. (*Electronic Government: the view from the queue, CITU, 1998*). It would also cater for those people who would prefer to access government services in person. The People's Panel found that the preferred methods of getting in touch with a one stop shop was by phone (56%) or in person (53%). Few preferred to do so in writing (4%) or via the internet/e-mail (4%). With an IT terminal accessible to both staff and citizens, the GGP could also help people learn about accessing electronic government and the internet, and might be able to wean them off paper transactions. Even those who are wired-up might want to use the GGP to help them find information which could be in any one of hundreds of websites.

The GGP would need:

- the IT skills to navigate the central government portal (once this is set up) and associated sites;
- the interpersonal skills to help vulnerable users of the service;
- to be able, and trusted enough, to take personal information and enter it into electronic forms;
- to be able, and trusted enough, to accept payments for government services from those who wished to pay in cash; and
- to be able to authenticate identity.

Box 7.8: continued

Post offices are ideally placed to undertake this role. Their customers tend to be those who this service would be aimed at – the poor and the elderly – and installing internet terminals would help to bring new technology to them. Sub-postmasters already spend a great deal of time helping their customers to deal with central and local Government. Making them into GGPs would formalise and recognise this role and give them additional training to allow them to do it with more confidence, along with some reward. They are also trusted and experienced in accepting payments and authenticating identity. The new Horizon IT platform can be used as the basis for the GGP.

Once internet terminals are in place, customers could also use them to access the rest of the world-wide-web or as Internet Learning Access Points (ILAPS) providing access to *learndirect* and local college and community learning provision. And the Post Office could develop a new set of business propositions based on sign-posting customers to particular websites.

The GGP service needs to be piloted to find out if it would work. One key question would be whether there was enough demand in small villages to merit the same level of service which would be sensible in larger settlements. Pilots might include trying GGP in other outlets, such as supermarkets, banks and libraries. Pilots would also include a training programme for sub-postmasters to make sure that they have the necessary skills. The Post Office needs to take forward urgently this opportunity alongside other new business opportunities.

Box 7.9: Japan Post and access to electronic Government Services and the internet

Japan Post has been conducting pilots since 1997/8 on ways for local post offices to become centres of information exchange for local communities, such as being one-stop shops for local government services. In March 1999, the pilot was expanded with IT terminals being installed in post offices in 12 municipalities. People access the IT terminals using smartcards and can then access multiple local government services and the internet.

The thinking behind this is that it will reduce administrative costs for local government and improve IT literacy. Japan Post has aimed to introduce terminals which are easy for the elderly and disabled to use. It has trained its staff to provide support for those using the terminals. Japan Post recognises that not all of its offices are large enough for terminals to be installed and plans to use miniaturisation to solve this problem.

Post offices as internet learning and access points

The Government is making a major effort to help people learn how to use the internet. All schools and libraries will be on-line by 2002, and the Department for Education and Employment (DfEE) is setting up over 700 Information Technology access centres across the country.

With 28 million people visiting a post office every week – including a high proportion of poorer and elderly people, post offices are well placed to help people become more familiar with and confident about using new

Box 7.10: Information and Communication Technology Access Centres

Information and Communication Technology (ICT) Access Centres will give adults in disadvantaged communities access to computers and the Internet. They will help everyone to access state-of-the-art ICT to make full use of the learning opportunities and career development it can bring. Of the 1,000 learning centres planned, 720 are ICT Access Centres and 80 are Excellence in Cities learning centres in England. These and more access centres like them across the UK are being funded by £450 million from the Capital Modernisation Fund. A number of e-libr@ries (learning centres in libraries) are also being funded through the £200 million Community Access to Lifelong Learning Initiative (part of the New Opportunities Fund).

technologies. And Horizon will ensure that every post office has the communications infrastructure by the middle of next year to allow rapid access to the internet.

Post offices which have sufficient floorspace might therefore complement the service to be provided by IT access centres (see Box 7.10) by providing Internet Learning and Access Points.

Although counter clerks would not necessarily be experts in the technology, they might be able to take their customers through the first few steps of using it, or be able to help those who want a little advice, as is already happening in France (Box 7.11) and in some localities in the UK (Box 7.12).

Once customers had got over the first hurdle at a post office, they might then go on to an ICT centre. Or, they may choose to 'learn-by-doing', using the terminal in the post office more and more frequently.

As a business opportunity, this model works best in post offices in rural areas – where there are few alternative facilities, customers have a close relationship with their sub-postmaster and there are unlikely to be long

Box 7.11: Cyberposte, France

In June 1998 the French Post Office, La Poste, began installing internet access points in its offices. By the end of 1999, it was aiming to have 1,000 access points installed. The aim of this program is to familiarise the general public with the internet. The cyberposte card costs 50FF (around £5) and provides customers with an e-mail address as well as access for 3 hours. It can then be recharged at the cost of 10FF an hour.

Internet Terminal in a French post office

French smart card used to access internet terminal

Box 7.12: Glosnet

Ten post offices in Gloucestershire offer unsupervised taster sessions on the Internet. Each of them has a computer that may be used at any time during opening hours to search the internet and GlosNet, send an email or word process a document.

queues to access the terminal. Post offices located in neighbourhood stores would also be well placed to provide this kind of personal service – as these are unlikely to be very busy, and sub-postmasters often know many of their customers. But those on urban High Streets may need to employ staff who act as assistants if they are to provide an effective supported service.

Both opportunities require urgent work

The propositions of Government General Practitioner and Internet Learning and Access Points sit well together. They both require sub-postmasters to become IT-literate (for which investment in training and support may be necessary), and they both rely on using the communications links which are being put into post offices under the Horizon project. But there is a real prospect that customers, who ask sub-postmasters for advice, migrate to gathering information for themselves over the internet, and in the process acquire additional IT skills.

At present, these are both embryonic propositions. Although the Post Office has been developing ideas in this area – particularly around using the network in the GGP role – there remains an urgent need for them to work up a formal business case. The Post Office must take responsibility for pursuing lines of business, and make sure it has the capacity to do so.

7.7 A declining share of the bill payment market

Around 15% of the network's income comes from bill payments. Almost all utility bills and, in many areas, local authority bills can be paid over a post office counter as well as TV licences and car tax.

In recent years, there has been a significant shift to direct debit as a means of paying bills. The costs of accepting a direct debit are considerably lower than the costs of taking in payment over a post office or bank counter, and the savings are increasingly shared with the customers of utilities through discounts.

The Post Office network has also faced increased competition in the over the counter bill payment market. Since 1997, PayPoint has become a major new player and competitor to the Post Office. It has set up a network of over 7,000 bill payment terminals – largely in urban areas – located in newsagents, supermarkets and convenience stores and captured market share from the Post Office. Some institutional clients (such as London Electricity) no longer offer their customers the option of paying bills at post offices, relying entirely on direct debit and/or arrangements with PayPoint.

The Post Office must face up to this competition. But it must also grasp new opportunities. This is another reason why the Post Office needs to diversify from traditional lines of business.

7.8 Conclusion

Traditional Post Office lines of business are already changing. The Post Office must respond to these challenges quickly and effectively. In the past, it has reacted slowly to changing consumer preferences and technological developments. The greater freedom that the Postal Services Bill will give the Post Office, once it has become law, and the £1bn being invested in the computerisation of the network will allow it to act more entrepreneurially and respond quickly to these challenges, so that it can modernise the network.

Fully exploiting commercial opportunities through partnerships or joint ventures with the private sector will be essential if the Post Office is to deliver a modernised network resilient to wider pessures. This chapter has outlined some new lines of business, but it has not been an exhaustive list of these. Creativity and commercial flair should give rise to many more opportunities for the network.

8. FUTURE GOVERNMENT POLICY FOR THE POST OFFICE NETWORK

Summary

- **There is a need for urgent action to modernise the network. All post offices in Britain will be automated by next Summer – this offers an opportunity to diversify into new lines of business. These include:**
  - **a new Post Office-based Universal Bank to tackle financial exclusion and other banking opportunities;**
  - **e-commerce;**
  - **one stop shops for Government information and transactions; and**
  - **internet learning and access.**
- **These new lines of business will not only generate new sources of revenue but will also enhance the contribution post offices make to local communities.**
- **In order to ensure convenient access for all to post offices, to protect the network for social purposes, and to modernise it for the future, the Government should:**
  - **require the Post Office to prevent all avoidable closures in rural areas between now and 2006;**
  - **make contingent financial provision to support the rural network in case assistance proves necessary;**
  - **establish a fund to help post offices in deprived urban areas;**
  - **encourage the Post Office to take advantage of the renaissance in neighbourhood retailing in urban areas to build a network of bigger and brighter post offices; and**
  - **task the Postal Services Commission with monitoring levels of access and developing a framework for the period beyond 2006.**
- **Maximising the potential of the Post Office network requires urgent action by the Post Office to seize new business opportunities (eg in e-commerce) and to improve the efficient operation of the network.**

Summary continued

- **The Post Office should develop the concepts of a Universal Bank, Government General Practitioner and Internet Learning and Access Points which all offer promising opportunities for the network. The Government should positively support these initiatives.**
- **The Secretary of State for Trade and Industry should report to the Prime Minister on progress against the conclusions in this report.**

8.1 The need for action to modernise the network

The next few years offer an opportunity to modernise the network. If the network is to thrive in the 21st century, the Post Office needs to exploit new opportunities set out in this report to the full:

- a new Post Office-based Universal Bank to tackle financial exclusion and other banking opportunities;
- post offices as places to order and collect purchases made over the internet;
- one stop shops for Government information and transactions; and
- post offices as internet learning and access points.

Many of these opportunities are made possible by the Horizon project which will automate every post office in the UK. The project – of around £1 billion – represents a major commitment to modernise the network.

The result should be a truly modernised and re-invented national network which is fit for the future.

But there is also a role for Government – to set the right framework for the Post Office network to thrive. In doing so, the Government must ensure that it recognises the contribution of post offices to local communities over and above their function as a place to conduct transactions. This is particularly true in rural and deprived urban areas where residents may have access to few other facilities.

This chapter, therefore, sets out a series of specific actions for the Government, the Post Office and the Postal Services Commission.

They are grouped under two Government objectives for the network – articulated in Box 8.1. These objectives have been developed by the PIU on the basis of extensive discussions with the Post Office, sub-postmasters, Government departments, potential private sector partners and other stakeholders – as well as the project team's analytical work.

Concluding sections examine the implications for devolved administrations and set out an implementation plan.

Box 8.1 The Government's objectives for the Post Office network

Objective 1: Convenient access for all to post offices

The Post Office network should offer people in all parts of the country convenient access to the services available in post offices. The Government needs to establish a framework which ensures that the Post Office maintains a network which meets this objective.

Objective 2: Maximising the potential of the Post Office network

The Post Office network has great potential – with its reach into over 18,000 localities, it is by far the largest retail network in the UK. But in recent decades, the network has suffered from under-investment and neglect. The installation of the Horizon IT platform opens up a host of new opportunities for the network. Some of these are purely commercial, others more social in their nature. But, together, they have the potential to replace most, if not all, of the revenue from declining traditional lines of business. However, they will not be realised unless the Post Office makes a concerted effort to seize new lines of business, and to put in place a framework which encourages sub-postmasters to use their entrepreneurial skills to the full.

8.2 Delivering objective 1: Convenient access for all to post offices

Post offices contribute a great deal to their communities over and above their function as a place to do transactions. This is especially true in rural and deprived urban areas where post offices, which are loss-making from the perspective of the Post Office group, often serve an invaluable social function. In an increasingly commercial world, there is pressure on the Post Office to close down these post offices, notwithstanding their wider social value.

The Government recognised this tension between an increasingly commercial Post Office and the need to protect the social role played by post offices in last year's Post Office White Paper. It said that the Government would set criteria for access to Post Office counters' services to protect those post offices which would otherwise be vulnerable in a commercial world, despite the best endeavours of the Post Office.

Maintaining access in rural areas

Post offices in rural areas[1] play a particularly crucial role in sustaining rural communities. In many villages, while other services such as banks have slowly withdrawn, post offices have remained in place.

This is a result of the Post Office's long-held policy of maximising the size of the rural network. It has meant that even where post offices are loss making, the Post Office has not sought to rationalise the network. Indeed, where a sub-postmaster departs, the Post Office has made every effort to recruit another sub-postmaster. In many cases, this has required the Post Office to relocate the post office into unusual premises – for example, in a villager's living room. In some cases, however, post offices have been forced to close as it has proved impossible to find a replacement for a departing sub-postmaster.

Over time, there is a risk that the Post Office would change its stance on rural post offices – seeking instead actively to rationalise the network on purely commercial grounds.

1 The commonly used definition of rural areas is settlements with a population of less than 10,000. This is the definition used in this report.

The Government, in recognition of these social benefits, should ensure that rural outlets not only remain open but are modernised and continue to provide vital services to rural communities.

The automation of post offices has a particularly important role to play in this. IT-enabled post offices will be able to make a greatly enhanced contribution to their local communities – making possible the delivery of a far wider range of services in rural and urban areas alike.

Conclusion 1: Today's network of rural Post Offices enhances the quality of life in their communities. For that contribution to continue in the future, there is a need for rural post offices to modernise and for the services they provide to be broadened and improved. The Government should back this modernisation with financial support.

The Government needs to give careful consideration to the best way of achieving this. Last year's White Paper on the Post Office suggested that the Government might set numerical access criteria – expressed in terms of a percentage of the population within a certain distance of their nearest post office.

The PIU team have analysed carefully whether such access criteria would help to deliver the Government's aims in relation to the rural network. But, as Annex 5 shows, numerical access criteria could well undermine the Government's policy rather than strengthen it. For example, 99% of people in rural areas currently live within 3 miles of a post office. Setting access criteria which sought to maintain this level of provision would allow the Post Office to close down two-thirds of rural post offices.

The proposals in this report will provide real support for modernisation to maximise the number of viable rural post offices and thereby safeguard the network. This will help post offices adjust to the changing business environment they face. The Government cannot of course prevent closures of rural post offices where these are unavoidable – there will inevitably be some cases where no-one is prepared to maintain, or take on, a post office or where associated retailing has become unviable. But the Government should make a commitment to prevent any avoidable rural closures arising, for example, from the changes in the way social security and other benefits are paid. This would be a far better way than numerical access criteria to ensure that convenient access to post offices is maintained in rural areas.

Conclusion 2: The Government should place a formal requirement on the Post Office to maintain the rural network, and to prevent any avoidable closures of rural post offices.

If Government policy is to sustain and build confidence in the future of the rural network, it needs to send a clear signal about how long this formal requirement is to apply for. Otherwise, sub-postmasters and other stakeholders will fear that the protection could be withdrawn at any time. Not only would this have damaging effects on the market for post offices, but it would leave those living in rural Britain unsure about the future of their post office.

It makes sense, however, to review policy at regular intervals so the changing needs, circumstances and priorities of local communities can be taken into account. The PIU believes that the Government's commitment on access should apply – in the first instance – for a period of six years from 2000. This would provide significant re-assurance for sub-postmasters and their customers and allow time for the Post Office to maximise the potential of the network.

Conclusion 3: The Government's requirement in relation to the rural network should apply – in the first instance – until 2006.

This would set the Post Office a demanding task – requiring it to maintain post offices in rural areas except where it is impossible to find replacements for departing sub-postmasters. While some closures of post offices will remain unavoidable, the Government will need to be sure that the Post Office is doing all it can to avoid preventable closures.

At present, although all post offices do not offer all services, most services including postal services and access to benefits remain available across the entire network. The next few years should see radical shifts in the services which are available over post office counters – with the *Universal Bank*, Government General Practitioners, Internet Learning and Access Points and new e-commerce related business propositions all in the pipeline. For many of these services, local access will be particularly important. Against this, however, there is a risk that an increasingly commercial Post Office will seek to limit the range of services available in uncommercial outlets.

These two monitoring functions are best handled by independent expert bodies who would be responsible for advising the Government.

Conclusion 4: The Postal Services Commission, informed by the Consumer Council for Postal Services, should report annually to the Secretary of State for Trade and Industry on the shape of the rural network and any developments which affect it. In particular, the report should assess whether the range of services across the network remains relevant and meets the needs of rural communities and any relevant regional disparities.

To date, the Post Office has found it possible to finance a largely uncommercial rural network through a cross-subsidy from profit-making urban post offices. The next few years will be a time of opportunity for the Post Office with the real prospect of diversifying into new business areas as traditional lines of business decline. In particular, automation of the Post Office network will open the doors to a series of new banking, internet-related and other business propositions.

In the long term, concerted action by the Post Office to seize new business opportunities should be able to replace most if not all of its lost income from traditional lines of business. But it is impossible to predict how quickly this diversification will occur. It may be that new income streams do not come on stream sufficiently early – leaving a period when the Post Office is not able to sustain an uncommercial rural network.

Although it would be wrong to assume that financial assistance will be necessary, the Government should be prepared to provide such assistance. The Government has ensured that there is a power in the Postal Services Bill which allows it to provide financial assistance to post offices. In addition, the Government will need to make sure, through its spending reviews, that it has the necessary budget provision for financial assistance to protect rural post offices for the period from 2003 to 2006, should such assistance prove necessary.

Conclusion 5: In order to plan for the possibility that financial assistance might be necessary, the Government should make provision to support the rural network.

As part of its preparation for the possibility of financial assistance, the Government should also take early action to develop a mechanism to channel support to individual post offices in rural areas.

As Box 8.2 shows, there are three main ways in which financial assistance might be channelled – each with its own strengths and weaknesses.

By 2003, when assistance might prove necessary, there needs to be a clear consensus around the best way to channel funds to individual post offices. Whatever method is chosen, it is crucial that the Government avoids:

- weakening the incentives for and accountability of the Post Office to win new commercial lines of business to sustain the network;
- supporting post offices which would be viable without financial support or paying more than is necessary (deadweight); and
- displacing unsubsidised alternatives or overlooking more cost-effective ways of achieving the same outcome.

Conclusion 6: The Postal Services Commission, informed by the Consumer Council for Postal Services and other key Post Office network stakeholders including the National Federation of Sub-postmasters, should advise the Government on the best way to channel financial assistance to post offices, reporting by Autumn 2001.

Maintaining access in urban areas

Earlier chapters of this report have shown that the great majority of post offices in urban areas are commercially viable. But these post offices face the same challenges to their traditional lines of business as the rest of the network. They need to rise to this challenge, seeking to offer their customers

Box 8.2: Options for financial assistance

There are three main ways to provide financial assistance for the network:-

- Channelling assistance through local authorities – central Government is not best placed to assess the particular contribution a post office makes to its local community. Local authorities are much better placed to determine the right level of support for post offices in their areas. However, there would be some risks with this approach. Some local authorities may decide not to protect post offices in their area – undermining the nationwide coverage of post offices that is one of the great strengths of the network.
- Channelling assistance through the Post Office to allow it to achieve the desired level of access to its services whilst remaining profitable. The main advantage of this approach is its simplicity as it builds on the Post Office's existing role in administering cross-subsidy. The main disadvantage is that it could weaken incentives for the Post Office to maximise the network's commercial potential.
- Channelling subsidy through one or more national agencies (such as the Postal Services Commission) to those post offices which contribute most to their communities. An advantage of this approach is that it could ensure that subsidy was well targeted at those offices contributing the most to their communities. But like any nationally-based approach, there is a risk that decisions would not be able adequately to take into account local needs. And this approach would add to bureaucracy by creating another player in the relationship between the Post Office and a sub-postmaster.

an improved level of service. Many local post offices are in poor premises and show the signs of years of under-investment.

By taking urgent action to modernise and re-invent the network in urban areas – in particular, by re-locating post offices with convenience stores – the Post Office should be able to provide a better quality service for many of its existing customers. Post offices which are well presented, open longer hours and are co-located with shops which sell a wide range of products will also attract a broader range of customers.

The current renaissance in neighbourhood retailing offers an ideal backdrop for the Post Office to modernise the urban network. In doing so, its aim should be to improve the quality of urban post offices by levering in new private investment for the network. The PIU believes that such a programme would place the urban network on a sound footing for the future – whilst ensuring continued convenient access for all in urban areas to post offices.

A commercially run Post Office should develop a strategy to deliver a network of this nature. There is no need for the Government to intervene explicitly in this area. On the contrary, it is essential that the Government does not constrain the Post Office's commercial freedom – otherwise there is a risk that the outcome of bigger and brighter post offices providing better services might be undermined. It would, however, be useful for the Government to send a clear signal to the Post Office that it should embark on such a programme of change.

Conclusion 7: The Post Office should embark on a programme of modernisation of the urban network in partnership with sub-postmasters and other stakeholders, including the National Federation of Sub-postmasters.

Relocating post offices into busier stores may mean that the Post Office is able to capture more of its customers in one place – reducing the need for such a large number of outlets in urban areas.

There will also be other costs associated with a modernisation programme – for example, in terms of putting in place the necessary management capacity to deliver change. The Post Office network has historically operated at a low profit, and it may not find it possible to finance the entire costs of a major re-invention of the network.

Conclusion 8: If the Post Office does decide that it needs fewer outlets than at present in some urban areas, then it will need to ensure that sub-postmasters who are affected are adequately compensated for the loss of the value of their asset. The Government may also need to consider providing financial assistance to the Post Office for this purpose, if necessary.

There should be special measures for deprived urban areas

Post offices in deprived urban areas often serve a similar function to those in rural areas. The work of the Social Exclusion Unit has shown that in some deprived areas there are few remaining retail or other facilities – especially for purchasing basic groceries. Post offices can often act as an anchor for the last shop in these areas.

In some cases, post offices already play this role well – vibrant local post offices can truly serve as the focal point of the community. But in many cases, the quality of post offices and their associated retail business has declined in deprived urban areas over the years – as a result of the pressures faced by local neighbourhood shops from major changes in the pattern of retailing.

Conclusion 9: The aim of Government policy should be to provide a mechanism to ensure that people in deprived urban areas continue to enjoy convenient access to a post office. And that where post offices have the potential to anchor high quality shops, they are able to do so.

Preventing all closures in deprived urban areas would prevent any change – beneficial or not – from occurring. Deprived urban areas could end up with poorer quality post offices. Local knowledge and consultation are needed to decide which offices should be protected from closure because they make important contributions to their communities. And in some cases, additional financial assistance may be needed to help the Post Office keep open uneconomic offices in deprived urban areas. Local authorities would be well placed to carry out an assessment of local needs. Central Government could then make a financial contribution towards supporting post offices where such assistance is needed. Local authorities might also be encouraged to use their power to help local post offices, perhaps as a top up to Government funding.

Box 8.3 provides an initial assessment of how a special fund to support post offices in deprived urban areas might work. Further work is needed on each of the issues listed.

Conclusion 10: A fund should be established to help sustain and improve post offices and retail facilities in deprived urban areas. DETR and other interested departments should carry out further work by Autumn 2000 to establish the exact size and operational details of this fund. The devolved administrations will wish to consider whether similar arrangements are necessary for Scotland, Wales and Northern Ireland.

The voluntary Code of Practice, agreed between the Post Office and the Consumer Council for Postal Services sets out the process by which closures and relocations of post offices are managed. It covers the bodies that the Post Office should consult, the information that they should provide about reasons for closure or relocation, and the timescales for consultation and decision-making.

In deprived urban areas there will be additional bodies with a strategic interest in the area whom the Post Office ought to consult, for

Box 8.3: A fund for post offices in urban deprived areas

- *Who might be responsible for and administer the fund?* – DETR is the most obvious candidate in England in view of its responsibilities for urban regeneration. Similar arrangements could be made for the devolved administrations (see section 8.4 below).
- *How would the fund work?* – funding from central Government with local authorities to top up if they wish.
- *Who would be eligible?* – sub-postmasters in areas lacking quality retail provision and whose business would be at risk in the absence of support.
- *What would the fund be used for?* for security measures; for modernisation of the premises; etc.

example, the Local Strategic Partnerships proposed for England in the Social Exclusion Unit's National Strategy for Neighbourhood Renewal consultation document.

Conclusion 11: The Code of Practice should require the Post Office to consult additional stakeholders in deprived urban areas (such as the proposed Local Strategic Partnerships in England, and corresponding bodies in Scotland, Wales and Northern Ireland) as a condition of closure and relocation of post offices in these areas.

Similar to rural areas, the Government will want a source of advice on developments affecting the urban post office network. In particular, the Government will want to satisfy itself that people in deprived urban areas where there are few other facilities continue to have easy access to high quality post offices (preferably co-located with good shops).

Conclusion 12: The Postal Services Commission, informed by the Consumer Council for Postal Services should report annually to the Secretary of State for Trade and Industry on the urban network. It should, in particular, report on post office provision and access in deprived urban areas.

A framework for the future

The role of post offices in society has been changing rapidly over the past 10 to 20 years – as a result of changing consumer lifestyles, and in particular the impact of technology.

The Post Office has been slow to respond to this changing world. In part, this is because Governments have not set out clearly what they expect from the Post Office network. The result has been a network which is only just catching up with trends in technology and consumer preferences. And in urban areas, the signs of under-investment are apparent.

The framework set out in this report for the future of the Post Office network should ensure that everyone in Britain continues to enjoy convenient access to a post office. It will hasten the modernisation of the network – and in doing so, improve the quality of the customer experience.

However, it is essential to prepare the ground for the policy framework which will apply beyond the period covered by this report.

Conclusion 13: The Postal Services Commission, informed by the Consumer Council for Postal Services, should work with key Post Office network stakeholders, including the National Federation of Sub-postmasters, over the next five years to develop a shared understanding of the role that post offices should play in the longer term and advise the Government on the main options for the policy framework after 2006.

8.3 Delivering objective 2: Maximising the potential of the Post Office network

In order to maximise the potential of the network, the Post Office needs to:

- work with the private sector to develop creatively new lines of business and explore the potential for new partnerships;
- exploit the reach of the network – particularly for the distribution of e-commerce orders;
- work with the Government to maximise the potential of the network as a channel for Government services; and
- work with sub-postmasters to ensure that individual post offices are modernised so that they are appealing places for customers to visit.

Historically, the network has been far too dependent on Government business to provide a steady source of income. The new business lines offer an opportunity for the network to break out of this dependency culture. The Government will need to monitor the progress made by Post Office management.

A Universal Bank to combat financial exclusion

The work of the Social Exclusion Unit, the Cruickshank Banking Review and others has highlighted the number of people without bank accounts. Over 15% of the adult population in the UK do not have a current account. Such financial exclusion denies them access to a range of other financial services; disadvantages them in the labour market (where employers insist on paying salaries directly into bank accounts); and denies people the savings and discounts (e.g. in utility bills) from paying by direct debit.

The banks are currently looking at offering new banking products, designed with the needs of those on low incomes in mind, which do not (for example) allow customers to go into debt (a major concern of those without bank accounts).

A better approach would, however, be to set up a new bank (for the purposes of the report called the *Universal Bank*) which specialised in providing banking services to people outside the banking mainstream. The Post Office would be an ideal location for such a bank. Feasibility work on this proposition is already being undertaken by the Post Office. In essence, it would involve the Post Office setting up a jointly owned, new company in partnership with the High Street banks to provide banking services for this group of people.

The potential advantages of a *Universal Bank* include:

- it would be able to offer banking services tailored to the needs of those on low incomes (e.g. accounts that could not fall into debt);
- being Post Office based, it would be able to build on the trust in and nationwide reach of the Post Office;
- by involving the High Street banks and other financial institutions, it could quickly achieve critical mass and economies of scale; and
- it would help to reduce financial exclusion giving every adult access to a bank account as well as cash machines and direct debit facilities.

In addition, a *Universal Bank* potentially offers a cost-effective means of ensuring all benefit claimants continue to be able to access benefits in cash at post offices after the change in the method of paying benefits from 2003. Indeed, as claimants already use post offices, many of them will welcome a post office-based solution.

The Post Office needs to develop and implement the concept urgently. Some more work is needed on the *Universal Bank* concept including preparation of a detailed business case before the Government is able to assess the right level of public sector support. But the concept has enormous potential.

Conclusion 14: The Post Office should see the ***Universal Bank*** as a major new business opportunity. It should urgently develop the concept in partnership with the High Street banks and others.

Conclusion 15: The Government should positively support the ***Universal Bank*** viewing it the best means to ensure that benefit recipients can continue to access their entitlements in cash at post offices. Once the concept has been developed further by the Post Office, the Government will need to assess the right level of public sector contribution later this year.

Conclusion 16: The Government should indicate to the High Street banks that participation in the ***Universal Bank*** would meet their financial exclusion obligations.

Helping people to access and learn about new electronic channels for delivering services

There are opportunities for post offices to act as "midwives" of the information age, helping people to develop familiarity and confidence with information and communication technologies and the emerging electronic channels for delivering Government and other services. By installing IT terminals in front of the counter, the Post Office could help spread knowledge about, and use of, the internet to vulnerable groups who do not have access at home and cannot easily travel to commercial cyber-cafes. Sub-postmasters could assist those who were anxious about using the technology – helping them through their first few sessions.

This infrastructure of *Internet Learning and Access Points (ILAPs)* should be strategically located to complement the facilities already established in schools and libraries and those being created in urban areas as a result of the Government's ICT Learning Centres Initiative.

Conclusion 17: The Post Office should develop a role for the network as internet learning and access points. The Government should positively support the development of this role.

One-stop shops for those who want face to face interaction

For those who still found it difficult to interact with local and central government electronically, IT-enabled sub-postmasters – operating out of selected post offices – could act as *Government General Practitioners (GGPs)*. They would provide information and low-level advice on government issues and help citizens to carry out routine transactions with government bodies, both national and local. In effect, these GGPs would become one-stop shops for government – a place that anyone could visit in their locality, which would deal with any government-related issue or be able to refer the citizen quickly to the right part of government. While a range of networks could perform this role, the Post Office has the advantages of reach, trust and staff experience and knowledge (since, on an informal basis, many sub-postmasters undertake this sort of work already).

Conclusion 18: The Post Office should develop a role for post offices as Government General Practitioners. The Government should positively support the development of this role.

It is difficult to predict the level of demand for ILAPs and GGPs and hence their value-for-money. The Post Office should therefore draw up proposals for pilots in different parts of the UK (in both rural and urban areas) by the beginning of September 2000. These proposals need to be developed, however, in close consultation with officials in the Cabinet Office, DfEE, the Treasury, the devolved administrations and other departments with an interest and with potential partners in the private sector and local government. They will need to cover the cost of setting up and running the pilots; the contribution of the Post Office to the costs of the pilots; how the evaluation of the pilots will be undertaken; and how the pilots could link into existing work of the Post Office network in this area.

Conclusion 19: The Post Office should work with the Cabinet Office, DfEE, the devolved administrations, other relevant departments, local authorities and sub-postmasters to draw up a business case for, and determine the design and location of, ILAP and GGP pilots by the beginning of September 2000. The Government will need to assess the correct level of public sector support in the light of this work. Pilots should be in place by early 2001, with a view to evaluation and full roll-out in mid 2002.

Maintaining access to other Government services at post offices

All the Post Office's Government clients (after DSS, the main ones are the Driver and Vehicle Licensing Agency, Department of National Savings and the Passport Agency) are developing alternative channels to post offices for delivering services to citizens. These alternatives (whether physical or electronic) offer greater choice and, for most citizens, better service whilst reducing the costs of Government clients. It is inevitable therefore that they will grow, challenging the service provided over the counter at post offices.

However, the local post office remains a secure and highly trusted place to conduct Government business. The Post Office network has a particularly important role in meeting the needs of people who prefer face to face interaction with Government or who lack the skills or confidence to use electronic channels. It is seen by many as the natural place to transact with Government. Therefore, while it is sensible to develop other channels, existing Government clients should keep in mind the needs of customers who want to conduct transactions face to face at their post office, and where it is cost-effective, they should continue to allow them to do so. This would be a corollary to the Government's vision that all benefit recipients should be able to access to their entitlements in cash at post offices.

Conclusion 20: Government clients of the Post Office network such as the DVLA, Department of National Savings and the Passport Agency should be free to develop new channels for delivering their services to citizens. But, in parallel, there should be a presumption that they continue also to offer their existing services at post offices – so long as there remains sufficient customer demand to make it cost-effective to do so.

The Post Office needs to be much more entrepreneurial in operating the network

The key to unlocking the potential of the network is to move quickly to exploit new commercial opportunities. With the exception of the *Universal Bank* proposition, all the opportunities outlined above are dependent largely on the Government as a client. But the network should not simply be a channel for Government. Its reach, together with the extraordinarily high level of trust that the network enjoys, gives it far greater potential than that. This is particularly true in the context of e-commerce delivery and collection – where the reach of the network would give the Post Office a significant competitive advantage.

Fully exploiting commercial opportunities through partnerships or joint ventures with the private sector will be essential if the Post Office is to deliver a modernised network resilient to wider pressures. Some new lines of business are outlined in Chapter 7. But they should not be seen as an exhaustive list. Commercial flair could well give rise to many more opportunities for the network.

With the completion of the Horizon project due next year, now is the time for the Post Office to ensure that it is doing its best to maximise the commercial potential of the network. At the same time, the Post Office should conduct an audit of potential efficiency savings in the operation of the network, and the steps needed to ensure that individual post offices meet the standards set by the best.

Conclusion 21: The Post Office should urgently take forward work to maximise:

- the commercial potential of the network;
- efficiency in the operation of the network; and
- the quality of individual post offices.

In particular, the Post Office will need to:

- develop viable business cases for new opportunities for the network that the Post Office is pursuing or plans to pursue in the coming months;
- ensure that it can realise these new opportunities as soon as practicable;
- take steps to ensure that the entire network is well-placed to take on new commercial lines of business – in particular, its plans to attract more entrepreneurial sub-postmasters and help others grow the volume of post office and non-post office business;
- for the urban network, to take steps to reverse under-investment and develop a network of bigger, brighter post offices providing better services and located alongside thriving retail businesses, working with key Post Office network stakeholders including the National Federation of Sub-postmasters (NFSP);
- improve the efficiency of its operations, e.g. by reducing corporate and operational overheads; and by making greater use of part-time offices, mobile post offices and roving sub-postmasters where cost-effective to do so; etc;
- work with the NFSP to review its restrictions on the private business activities of sub-postmasters aimed at ensuring that they are no tighter than absolutely necessary to maintain the integrity of the network, whilst giving sub-postmasters maximum commercial freedom;
- convert more branch offices to privately-run operations, so the proportion of business transacted through branch offices is reduced to 15% of the total (as set out in last year's Post Office White Paper);
- work with the Communication Workers Union and private sector partners to ensure that the remaining branch offices are run as efficiently as possible and commercial revenues are maximised; and
- review the costs and benefits for the network and the Post Office Group of the reciprocal exclusivity arrangements, particularly in the light of developing e-commerce business opportunities for Parcelforce and for the network.

As a responsible shareholder, the Government needs to satisfy itself that these actions are being fully implemented.

Conclusion 22: The Secretary of State for Trade and Industry needs to review progress against the Post Office's plans for exploiting new sources of revenue and improving efficiency, taking action as necessary in the light of this.

The way in which clients use the network has an impact on the efficiency of post offices. For example, state pension (and some other benefits) become payable and are generally

collected on Mondays and Thursdays. Many post offices employ extra staff to deal with these peaks in demand. The PIU believes that if it were possible to smooth the payment of benefits over the week, this would significantly increase the efficiency of individual post offices. But against this, there are real costs associated with change – not least in terms of the impact on individual pensioners some of whom may be reluctant to collect their benefits on a different day of the week.

Conclusion 23: The DSS and the Social Security Agency for Northern Ireland should carry out an assessment of the costs and benefits of smoothing the payment of benefits by the end of September 2000 and, if this shows that change would be both workable and worthwhile, put in place new arrangements.

8.4 Implications for devolved administrations

Policy on the Post Office network is a reserved matter. So the commitment to maintain access proposed above should apply on a UK-wide basis. But policy on some other issues covered above is devolved. For example, the decision on how best to implement the Internet Learning and Access points proposals is something for the devolved administrations as is policy on deprived urban areas.

On these issues, it will be essential that the lead Whitehall departments work closely with their counterparts in Edinburgh, Cardiff and Belfast to ensure that the needs of Scottish, Welsh and Northern Irish post offices are not overlooked. Funding implications for devolved administrations will also need to be fully taken into account

8.5 Overseeing and monitoring implementation of this report

Table 8.1 lists the conclusions reached above, who is responsible for them and the timetable for delivering them. Progress against these conclusions should be overseen by the Secretary of State for Trade and Industry, supported at official level by an inter-departmental group, chaired by the Cabinet Office.

Conclusion 24: Overall responsibility for overseeing and monitoring the conclusions of this report should rest with the Secretary of State for Trade and Industry who should report on progress to the Prime Minister.

8.6 A vibrant future for the network

The Post Office network is one of this country's greatest assets. Post offices have unparalleled reach into local communities up and down the country, and are one of the most trusted institutions in the land.

But the Post Office network is at a crossroads. Decades of under-investment have led to a network which is losing touch with its customers and failing to keep up with the pace of change in technology and society.

In order to build a strong and vibrant future for the network, there is a need for urgent action – both by Government and by Post Office managers. This report sets out a comprehensive package for modernising the network, whilst safeguarding convenient access for all to a post office.

Table 8.1 Implementation: conclusions, responsibility and timing

No.	Conclusion	Lead responsibility	In support/other key players	Deadline (where applicable)
	Delivering objective 1: Convenient access for all to post offices			
1	Today's network of rural Post Offices enhances the quality of life in their communities. For that contribution to continue in the future, there is a need for rural post offices to modernise and for the services they provide to be broadened and improved. The Government should back this modernisation with financial support.	DTI	Post Office	
2	The Government should place a formal requirement on the Post Office to maintain the rural network, and to prevent any avoidable closures of rural post offices.	DTI/Post Office		Requirement to be in place by Autumn 2000
3	The Government's requirement in relation to the rural network should apply – in the first instance – until 2006.	Post Office	DTI	
4	The Postal Services Commission, informed by the Consumer Council for Postal Services, should report annually to the Secretary of State for Trade and Industry on the shape of the rural network and any developments which affect it. In particular, the report should assess whether the range of services across the network remains relevant and meets the needs of rural communities and any relevant regional disparities.	PSC	CCPS, DTI	Annually with first report for the year ending 31 March 2001
5	In order to plan for the possibility that financial assistance might be necessary, the Government should make provision to support the rural network.	DTI/HMT		
6	The Postal Services Commission, informed by the Consumer Council for Postal Services and other key Post Office network stakeholders, including the National Federation of Sub-postmasters, should advise the Government on the best way to channel financial assistance to post offices, reporting by Autumn 2001.	PSC	CCPS, NFSP, other Post Office network stakeholders, DTI, HMT	Autumn 2001
7	The Post Office should embark on a programme of modernisation of the urban network in partnership with sub-postmasters and other stakeholders, including the National Federation of Sub-postmasters.	Post Office	Individual sub-postmasters, other stakeholders including NFSP	

Table 8.1 Implementation: conclusions, responsibility and timing (continued)

No.	Conclusion	Lead responsibility	In support/other key players	Deadline (where applicable)
8	If the Post Office does decide that it needs fewer outlets than at present in some urban areas, then it will need to ensure that sub-postmasters who are affected are adequately compensated for the loss of the value of their asset. The Government may also need to consider providing financial assistance to the Post Office for this purpose, if necessary.	Post Office, DTI	HMT	
9	The aim of Government policy should be to provide a mechanism to ensure that people in deprived urban areas continue to enjoy convenient access to a post office. And that where post offices have the potential to anchor high quality shops, they are able to do so.	DTI	Post Office	
10	A fund should be established to help sustain and improve post offices and retail facilities in deprived urban areas. DETR and other interested departments should carry out further work by Autumn 2000 to establish the exact size and operational details of this fund. The devolved administrations will wish to consider whether similar arrangements are necessary for Scotland, Wales and Northern Ireland.	DETR, devolved administrations	Other relevant departments	Autumn 2000
11	The Code of Practice should require the Post Office to consult additional stakeholders in deprived urban areas (such as the proposed Local Strategic Partnerships in England, and corresponding bodies in Scotland, Wales and Northern Ireland) as a condition of closure and relocation of post offices in these areas.	Post Office	CCPS, DTI	Autumn 2000
12	The Postal Services Commission, informed by the Consumer Council for Postal Services should report annually to the Secretary of State for Trade and Industry on the urban network. It should, in particular, report on post office provision and access in deprived urban areas.	PSC	CCPS, DTI	Annually with first report for year ending 31 March 2001
13	The Postal Services Commission, informed by the Consumer Council for Postal Services, should work with key Post Office network stakeholders, including the National Federation of Sub-postmasters, over the next five years to develop a shared understanding of the role that post offices should play in the longer term and advise the Government on the main options for the policy framework after 2006.	PSC	CCPS, key Post Office network stakeholders including NFSP, DTI	Annually with first report in Spring 2001

Table 8.1 Implementation: conclusions, responsibility and timing (continued)

No.	Conclusion	Lead responsibility	In support/other key players	Deadline (where applicable)
	Delivering objective 2: Maximising the potential of the Post Office network			
14	The Post Office should see the *Universal Bank* as a major new business opportunity. It should urgently develop the concept in partnership with the High Street banks and others.	Post Office	High Street banks	
15	The Government should positively support the *Universal Bank* viewing it the best means to ensure that benefit recipients can continue to access their entitlements in cash at post offices. Once the concept has been developed further by the Post Office, the Government will need to assess the right level of public sector contribution later this year.	DSS, SSANI, DTI, HMT		By 31 December 2000
16	The Government should indicate to the High Street banks that participation in the *Universal Bank* would meet their financial exclusion obligations.	HMT		With immediate effect
17	The Post Office should develop a role for the network as internet learning and access points. The Government should positively support the development of this role.	Post Office, DfEE, DTI	Devolved administrations and other relevant departments	
18	The Post Office should develop a role for post offices as Government General Practitioners. The Government should positively support the development of this role.	Post Office, Cabinet Office, DTI	Devolved administrations and other relevant departments	
19	The Post Office should work with the Cabinet Office, DfEE, the devolved administrations, other relevant departments, local authorities and sub-postmasters to draw up a business case for, and determine the design and location of, ILAP and GGP pilots by the beginning of September 2000. The Government will need to assess the correct level of public sector support in the light of this work. Pilots should be in place by early 2001, with a view to evaluation and full roll-out in mid 2002.	Post Office	Cabinet Office, DfEE, HMT, devolved administrations, other relevant departments, local authorities and sub-postmasters	Business case by 1 September 2000. Pilots in place by early 2001

Table 8.1 Implementation: conclusions, responsibility and timing (continued)

No.	Conclusion	Lead responsibility	In support/other key players	Deadline (where applicable)
20	Government clients of the Post Office network such as the DVLA, Department of National Savings and the Passport Agency should be free to develop new channels for delivering their services to citizens. But, in parallel, there should be a presumption that they continue also to offer their existing services at post offices – so long as there remains sufficient customer demand to make it cost-effective to do so.	Government clients	DTI	
21	The Post Office should urgently take forward work to maximise: • the commercial potential of the network; • efficiency in the operation of the network; and • the quality of individual post offices.	Post Office		
22	The Secretary of State for Trade and Industry needs to review progress against the Post Office's plans for exploiting new sources of revenue and improving efficiency, taking action as necessary in the light of this.	DTI	Post Office, HMT	
23	The DSS and the Social Security Agency for Northern Ireland should carry out an assessment of the costs and benefits of smoothing the payment of benefits by the end of September 2000 and, if this shows that change would be both workable and worthwhile, put in place new arrangements.	DSS, SSANI	Post Office, HMT	Autumn 2000
	Overseeing and monitoring implementation of this report			
24	Overall responsibility for overseeing and monitoring the conclusions of this report should rest with the Secretary of State for Trade and Industry who should report on progress to the Prime Minister.	DTI	Prime Minister	

ANNEX 1: THE ROLE OF THE PERFORMANCE AND INNOVATION UNIT

The creation of the Performance and Innovation Unit (PIU) was announced by the Prime Minister on 28 July 1998 as part of changes following a review of the effectiveness of the centre of government by the Cabinet Secretary, Sir Richard Wilson. The PIU's aim is to improve the capacity of government to address strategic, cross-cutting issues and promote innovation in the development of policy and in the delivery of the Government's objectives. The PIU is part of the drive for better, more joined-up government. It acts as a resource for the whole of government, tackling issues that cross public sector institutional boundaries on a project basis.

The Unit's acting Director is Jamie Rentoul and it reports directly to the Prime Minister through Sir Richard Wilson. A small central team helps to identify new projects, and manages the Unit's work. Work on projects is carried out by small teams assembled from both inside and outside government. About half of the current project team staff are drawn from outside Whitehall, including from private sector consultancies, think tanks, N.G.O.s, academia and local government.

Comprehensive information about other PIU projects can be found on the PIU's website at **www.cabinet-office.gov.uk/innovation**

ANNEX 2: THE PROJECT TEAM, SPONSOR MINISTER AND ADVISORY GROUP

The report was prepared by a multi-disciplinary team, drawn from the public and private sectors, and guided by a Ministerial Sponsor and an Advisory Group with Government and non-Government representation.

1. The Team

- Stephen Aldridge – Chief Economist, PIU.
- David Anderson – PIU central team, seconded from the Home Office.
- Nicholas Donovan – seconded from the New Policy Institute.
- Stephen Gifford – PIU central economics team, seconded from KPMG.
- Stephen Hale – from the PIU central team.
- Jitinder Kohli – seconded from the Department for Trade and Industry.
- Susan McLaren – seconded from the Department for Education and Employment.
- Charles Tallack – seconded from the Department of Health.
- Greg Wilkinson – seconded from Andersen Consulting.

The team received unstinting support from the Post Office throughout the project. It would like to record its thanks in particular to Mike Granville, Kath Hoare, Nuala Fitzpatrick, Linda Foreman and John Holroyd.

2. Sponsor Minister

All PIU project teams' work is overseen by a sponsor Minister with an interest in (but generally no direct policy responsibility for) the subject area. The sponsor Minister for this project was Charles Clarke MP, Minister of State at the Home Office.

3. Advisory Group

In addition, the team was greatly assisted by being able to draw on the experience and advice of its Advisory Group. The team benefited from an extensive process of consultation and review with the Advisory Group throughout the project. The group, chaired by Charles Clarke, comprised:

- Geoffrey Norris – No. 10 Policy Unit.
- Paul Britton – Cabinet Office Economic and Domestic Secretariat.
- David Sibbick – Department of Trade and Industry.
- Peter Schofield – HM Treasury.
- Ian White – Cabinet Office Central IT Unit.
- Jonathan Evans – Post Office.
- Richard Wakeford – Countryside Agency.
- Tony Kuczys – Department of Social Security.
- Chris Voss – London Business School.
- Marilyn Taylor – Orient Regeneration.
- Stephen Aldridge – Chief Economist, PIU.

The team gratefully acknowledges the advice and time given by each Advisory Group member. The team also acknowledges with thanks the contributions of all those who offered advice or participated in its working groups.

ANNEX 3: METHODOLOGY

The project had five main analytical strands, which were conducted in close parallel with each other. These were:

- developing an understanding of the Post Office network's business;
- reviewing the contribution made by post offices to the vitality of local communities;
- analysing the outlook for the network based on current trends and continuation of current policies;
- considering what products or services the network could offer in the future to maximise its potential; and
- formulating Government objectives for the network, and analysing policy options for safeguarding it.

Many of the tasks, discussions and analyses undertaken fed into more than one strand of the project.

1. Developing an understanding of the Post Office network's business

In order to develop an understanding of the Post Office network's business – including the size and shape of the network, the outlets and the people who run them, the network's products, services and customers – the PIU team:

- Had extensive discussions with people within the Post Office, drawing on their existing research and knowledge and commissioning new analyses from them where necessary. These discussions took place with field staff as well as headquarter's staff. The PIU team also undertook their own analyses of Post Office data.
- Visited post offices and talked to the people who run them. The PIU team visited post offices in south and north London, Leicester, Lincolnshire, Gloucestershire, Scotland, Wales and Northern Ireland.
- Gathered and analysed information from a variety of other sources. For example, the PIU team gained an understanding of other countries' networks from information held by the Universal Postal Union, through correspondence with other countries' Post Offices and visits to France and Germany.
- Had discussions with a range of stakeholders and experts.

A clear understanding of how the network is currently financed was also needed. The PIU:–

- Obtained and analysed Post Office data on sources of income and expenditure.
- Obtained from the Post Office a database of all post offices in the UK giving information about:
  - location, including whether the office is in a rural or urban area;
  - type and size of office and any associated business;
  - number of Post Office transactions and the value of these to the Post Office;
  - fixed and variable payments to sub-postmasters;

  - direct costs associated with the running branch offices; and
  - other costs associated with maintaining post offices and how they varied with volume of business.
- Analysed the above data to look at where income is generated in the network and where the costs fall, and the profitability of different kinds of post office to the network.
- Used Post Office and other research to understand the financial position of sub-postmasters' businesses and the impact of change on the viability of their businesses.

Much of the work of this strand is reflected in Chapters 3 to 6 of this report.

2. Reviewing the contribution made by post offices to the vitality of local communities

This strand of work reviewed existing evidence about the contribution made by post offices to the vitality of local communities. It became clear that there were three main ways in which people believed post offices contributed wider social benefits to local communities:

- helping to keep open the last village shop or other retail outlets;
- supporting vulnerable people; and
- acting as a focal point for the community.

Evidence on the importance of each of these was gathered from discussions and submissions from a large number of stakeholders. However, this evidence was generally anecdotal rather than systematic. Nonetheless the PIU team was able to deduce the characteristics of post offices likely to make the greatest contribution to their communities and made some broad estimates of the number of such post offices drawing on survey and other data.

The work of this strand is reflected in Chapters 5 and 6.

3. Analysing the outlook for the network

This strand of the project analysed the outlook for the network taking into account likely future revenue streams, market trends and changes in consumer preferences.

The PIU team:

- Gathered and analysed information on trends in technology, consumer preferences and behaviour.
- Gathered and analysed information on trends in retailing.
- Consulted Post Office network clients to understand their need for and use of the network over the next few years.
- Developed and used models to project Post Office revenues over the next five years.

Working closely with the Post Office and using data on the network described above, the PIU team developed an analytical model of the Post Office network. This allowed the effects of a range of changes to be studied under various different scenarios. For example, it permitted analysis of:–

- how the size and shape of the network would be affected by changing volumes and revenues;
- how sub-postmasters' incomes would be affected if declining Post Office revenues led to reductions in variable payments from the Post Office;
- how much sub-postmasters' fixed payments would need to increase to ensure the continued viability of sub-post offices if variable payments fell;

- how efficiency improvements and cost savings would impact on Post Office profits and on the size and shape of the network; and
- how much, if any, Government financial support to the Post Office would be needed to achieve a network of a given size and shape, all other things being equal.

The work of this strand is reflected in Chapters 7 and 8.

4. Considering what products or services the network could offer in the future

The work for this strand required:–

- The identification and assessment of potential new business opportunities and understanding how they fitted into the Post Office's strategy for the network.
- Estimation of the potential income that each new opportunity could generate.
- Understanding what needed to be done by the Post Office to exploit the potential of each new business opportunity.

PIU did this by:

- drawing on the Post Office's existing thinking on future strategy and new business opportunities for the network;
- running a workshop with the Post Office and others aimed at generating and developing ideas for new business opportunities;
- getting expert views on potential business opportunities;
- discussing new business opportunities with potential clients; and
- modelling potential income streams.

The work of this strand is reflected in Chapter 7.

5. Formulating Government objectives for the network, and analysing policy options for safeguarding it

This strand drew on the work of the other strands. The PIU team:

- identified a number of reasons for Government intervention;
- formulated objectives for the Post Office network to guide Government intervention; and
- in conjunction with key stakeholders, generated and assessed policy options.

The work of this strand is reflected in Chapter 8.

Box A3.1 gives a full list of all the organisations and people consulted by the project team.

Box A3.1: Organisations and people consulted

Action for Communities in Rural England

Age Concern

Alliance and Leicester Girobank

Andersen Consulting

Association for Payment Clearance Services

Association of Convenience Stores

Sir John Banham

Banking Review Team

Barclays Bank

Benefits Agency

British Bankers Association

BBC

British Embassy, France

British Embassy, Germany

Campaign for Community Banking Services

Central IT Unit, Cabinet Office

Christie and Co

Paul Cloke, Geography Dept, University of Bristol

Co-operative Bank

Communication Workers Union

Communication Managers Association

Council for the Protection of Rural England

Country Landowners Association

Countryside Agency

County Councils Network

Peter Davies

Department of Communications, IT and the Arts, Australia

Department for Economic Development, Northern Ireland

Department of the Environment, Transport and the Regions

Department for Education and Employment

Department of Health

Department of Social Security

Department of Trade and Industry

Disability Scotland

Driver and Vehicle Licensing Agency

Environmental Resource Management

David Halpern, Cambridge University

Help the Aged

Gary Higgs and Terry Marsden, University of Wales

Gloucestershire County Council

Gloucestershire Business Link

Home Office

Housing Corporation

ICL

Elaine Kempson, University of Bristol

Kingfisher PLC

KPMG

Link Interchange Network Ltd

Lloyds TSB Bank

Local Government Association

Professor Phillip Lowe, Centre for Rural Economy, Newcastle University

Peter Midmore, Welsh Institute of Rural Affairs, Aberystwyth

Paul Milbourne, Cardiff University

PriceWaterhouseCoopers

Ministry of Agriculture, Fisheries and Foods

Ministry of Commerce, New Zealand

Ministry of the Economy, Finance and Industry, France

Ministry of Industry and Technology, Germany

Ministry of Posts and Telecommunications, Japan

Ministry of Transport and Communications, Finland

Malcolm Moseley, Countryside Research Unit, Cheltenham and Gloucester College of Higher Education

Mothers' Union

National Assembly for Wales

National Association of Citizen's Advice Bureaux

National Consumer Council

National Council for Voluntary Organisations

National Federation of Sub-postmasters

National Federation of Women's Institutes

National Lotteries Commission

National Savings Bank

New Economics Foundation

Office of National Statistics

Paypoint

Professor Pichaud, LSE

Post Office

POUNC

Postal Services Commission

Professor Tim O' Riordan, University of East Anglia

Royal Mail

Professor Mark Schucksmith, Aberdeen University

Scottish Council Foundation

The Scottish Executive

Social Exclusion Unit, Cabinet Office

Susan Speke, Dept of Town and County Planning, Newcastle Univeristy

Simon Szreter, Cambridge University

Social Security Agency (Northern Ireland)

TM Retail

HM Treasury

Peter Tyler, Department of Land Economy, Cambridge University

UK Passport Agency

UPS

United States Postal Service

Village Retail Services Association

Wales Rural Forum

Welsh Consumer Council

Welsh Development Agency

ANNEX 4: INTERNATIONAL COMPARISONS

1. Introduction

Other countries' Post Offices face similar societal and technological pressures to the UK Post Office, particularly as more transactions are being done by telephone or electronically. Another pressure is the liberalisation of postal markets leading to greater competition. However, the problems faced by the UK Post Office network as a result of the Government decision on the future payment of benefits are unique. Indeed, overseas Post Offices are less reliant on Government work and in some cases, such as Germany and Finland, do not undertake any work for the Government at all.

Overseas Governments and Post Offices have responded to these common challenges in three different ways:

- in France, Japan and Eire, they have tried to maintain the existing network;
- in Australia, New Zealand, USA and Canada, they have tried to remodel the network;
- in Germany, the Netherlands, Sweden and Finland, the Government has decided to privatise and/or remove the monopoly from the Post Office, which has led to a remodelled and more commercial network.

However, no overseas post office is developing a business opportunity that the UK Post Office is not already considering.

2. France – maintaining the network

France has a slightly smaller post office network than the UK. At the start of 1999 this was made up of 17,058 post offices. France has fewer franchised sub-post offices. Over 80% of the network consists of main post offices staffed by public sector employees (14,056 post offices). French post offices are mainly in rural areas – around 85% compared to 50% in the UK.

The French Government is keen to maintain the status quo. Between 1993 and 1998 there was a Prime Ministerial moratorium on the closure or reduction of any public services, including post offices, in rural areas. Since 1998 changes to the network can be made, but they must be discussed with local representatives and must be in line with the area's Town and Country Planning policy. The French Post Office receives 85% tax relief from direct local taxation to compensate it for keeping open uneconomic outlets. In 1998 this was equivalent to 1.8 billion francs (£160m). In addition, the network receives 4.5 billion francs (£400m) in cross-subsidy from the postal services business. This is made up of 3.2 billion francs (£285m) for maintaining the reach of the network and 1.3 billion francs (£115m) for providing financial services, through La Poste, to poorer people.

The French Post Office is investing in a modern post office network and in 1998 it spent 200 million francs (£18m). It has divided main offices into discreet areas for self-service, counters and customer advice; provided many offices with rooms for

confidential meetings; used computer modelling patterns of counter usage to reduce queuing times; updated computer systems; introduced internet access at its offices and installed a number of cash machines. It is also committed to opening new offices in urban areas to address the disparity of provision between urban and rural areas. Since 1998, 180 such offices have opened – with around 10% in deprived areas.

A vital part of the French post office's business strategy has been to expand its financial services business. It has been successful, and by 1998 it was the third largest provider of financial services in France in terms of assets under management, and had nearly 6,000 financial advisors. It is also looking to expand its retailing business, which at the moment is mainly post related products. Another innovation is the *Allô Facteur* service, which allows people to ring their local Post Office to request the Postman to provide services at home that are normally offered at counters.

The French Government has not conducted any major reviews of the post office, but there have been two reports to the senate. The most recent by Senator Larcher, entitled "Sauver la Poste", among other things recommended a temporary rise in postage prices to pay for investment in the post office network.

3. New Zealand – remodelling the network

The story of how the New Zealand post office turned itself around in the late '80s is told in Vivienne Smith's book "Reining in the Dinosaur". As the title suggests, until the late '80s, the New Zealand Post Office was seen as old-fashioned, bureaucratic, inefficient. It was also unprofitable. The New Zealand Government changed its status to a State-Owned Enterprise on 1 April 1987 and put in place new management. It also put aside NZ$40m (£13m) to subsidise New Zealand Post for expected losses in 1987/8.

The new management inherited a network of 1,250 post offices, of which 900 were branch offices with directly employed staff and 350 were franchised sub-post offices. 600 of the branch offices were unprofitable. New Zealand Post decided to close 425 of these offices – one third of the network – and convert the other 175 to franchises. A government Minister announced this as government policy, so that the plan could not be diverted. There was a storm of public protest, but the changes were pushed through between October 1987 and February 1988. In 1987/8 the government paid NZ$19.5m (£6.5m). In subsidy. Since then they have paid none and the network has stabilised at about 1,000 offices. This is a much less extensive network than the UK's. The Postal Services Act 1998 put some safeguards in place by requiring New Zealand Post to provide 240 crown offices and a total of 880 outlets, to be reviewed in 2000.

The New Zealand Post Office has found other ways to franchise out services. In February 1999, it launched a joint retail venture with Blue Star Consumer Retailing called "Books & More" selling books and videos, greeting cards, stationery and postal services. Customers in isolated rural areas have a mail box which can be used both to receive and to send mail. Deliveries and collections are franchised to RuralPost drivers, who can also make other deliveries, sell stamps and provide other limited post products.

4. Germany – Privatisation, end of monopoly and the network

Since 1995 the German Post Office has been readying itself for privatisation and the end of its monopoly on postal services, both of which will happen towards the end of 2000. German post offices have in the past primarily provided postal services – they did not provide government services and were not seen as having a wider role in communities. In 1995 the network was similar in size to the current French network with 16,971 offices and post office employees staffed 82% of offices (13,983 offices).

By the end of 1999 the size of the network had been reduced by almost 3,000 outlets, by shutting unprofitable offices; franchising (including offices in department stores); or converting offices into combined stationery and post stores run by two Deutsche Post subsidiaries. Post office employees now staff only 40% of offices (5,562 offices).

DM 1bn (£300m) is being spent over the next few years on modernising post offices. It is planned that 50% of customers will be served in friendly open plan offices by the end of 2000. The German Post Office plans to expand its role in the financial services sector. They see this as an important way of supporting their branch network. As part of this strategy, 750 remodelled offices will have meeting rooms where financial matters can be discussed confidentially.

The German Government has set access criteria to be monitored by a regulator. These require Deutsche Post to provide:

- 12,000 outlets including 5,000 operated by in-house staff;
- an outlet in each community of 4,000 or more and each community designated a "local centre" by planning regulations;
- in urban areas, that customers are no further than 2000m from an outlet; and
- mobile services via postmen in areas not covered or where offices have shut.

These criteria are due for review in 2005. The costs of maintaining this network are borne by the German Post Office – there is no public subsidy.

ANNEX 5: NUMERICAL ACCESS CRITERIA

Last year's White Paper on the Post Office suggested that one way for the Government to protect a nationwide network of post offices would be by setting access criteria in terms of a percentage of the population within a certain distance of their nearest post office.

The PIU team considered carefully whether such numerical access criteria would be effective in maintaining convenient access for all post offices.

Currently, 99% of the rural population live within 3 miles of a post office. Therefore, on the face of it, setting access criteria at this level would appear to provide significant protection for the rural network. But the PIU's analysis showed that it would be possible for the Post Office to close down two-thirds of its rural outlets whilst still ensuring that 99% of people in rural areas lived within 3 miles of a post office.

The PIU's view is that setting numerical access criteria for rural areas would, therefore, be of little value. It would be impossible to formulate numerical access criteria which met the Government's aim of maintaining the rural network and preventing any avoidable closures of rural post offices.

Similar problems arise in deprived urban areas – where the Government's aim is also to ensure that people continue to enjoy convenient access to a post office (and that where post offices have the potential to anchor high quality shops, they are able to do so).

Currently 96% of people in deprived urban areas (as defined by the bottom 10% of wards using the Index of Local Deprivation) live within 1 1/2 mile of a post office. Setting access criteria along these lines would appear to provide protection for deprived urban post offices. But it would be possible for the Post Office to close around half the post offices serving people in these areas and still meet the criteria.

Nor do numerical access criteria necessarily provide protection for the best offices. The Government's aim should be to avoid the closure of those post offices which contribute most to their communities – for example, the Leicester office featured in Box 6.9 in Chapter 6. The protection afforded by numerical access criteria would be too arbitrary to be useful in this instance.

Numerical access criteria have other problems. Distance-based access criteria take no account of the ability to reach a post office. A post office four miles away might be relatively easy to get to if there was a frequent bus service. In contrast, a post office which is 1 1/2 mile away from a particular village might be worthless if there was a busy dual carriageway between them and no bridge or subway to cross it.

Numerical access criteria would also be confusing. Would they mean that the Post Office had the freedom to rationalise the network so long as it met the minimum network size implied by the numerical criteria? Or, in rural areas, would the Post Office also be required to make every effort to prevent any avoidable closures.

For all these reasons, the PIU believes that it would be better for the Government to dispense with the idea of numerical access criteria. Instead, the Government should adopt policies which are more closely targeted at achieving its aims in relation to the post office network. This is what is proposed in Chapter 8.