
THE POST OFFICE NETWORK – CONSULTATION

1 SUMMARY

- 1.1 This report advises Members of the main points of a current Government consultation on the future funding and structure arrangements of the post office network and invites the Council to respond to the Department of Trade & Industry.

2 INTRODUCTION

- 2.1 The Government has issued a consultation document on the future of the post office network and is inviting responses by 8th March 2007. A letter has subsequently been received from Postwatch South East, the Consumer Council for Postal Services, urging the Council to contribute to the debate. Additionally, Chelmsford Borough Council has asked the Council to support its view as set out in the attached letter (Appendix 1), which also contains an analysis of closures to date across Essex.

3 KEY PROPOSALS

- 3.1 The detailed Consultation Paper is appended (Appendix 2) to this report, but the key proposals outlined in the Paper are:-
- A maximum of 2,500 post office closures which it is expected will be divided 50/50 between rural and urban areas
 - Putting in place minimum access criteria for the network:
 - Nationally, 99% of population within 3 miles of a post office and 90% within 1 mile
 - In deprived urban areas, 99% within 1 mile
 - In urban areas, 95% within 1 mile
 - In rural areas, 95% within 3 miles
 - In remote rural districts, 95% of the population in postcode districts within 6 miles
 - 28 months compensation for sub-postmasters leaving the business
 - 500 new outreach services will be created, for example mobile post offices
 - Continuation of the £150 million annual Social Network payment to 2011, with a recognition that funding will be required beyond that time

4 REASON FOR THE CHANGES

4.1 The Government cites the need for change as being that the network is under considerable financial pressure with the following key facts highlighting the need for change:-

- 90% of rural post offices fail to make a profit. Around 1 in every 5 rural branches has fewer than 70 customer visits a week
- despite £150 million per annum government funding, 1000 rural post offices have nonetheless closed over the past 5 years. Sub-postmasters leave the business as costs rise and customer numbers decline
- Post Office Ltd estimates that government transactions will have fallen to 10% of total transactions by 2010, down from approximately 40% in 2002. Revenue from government transactions fell by £168 million in 2005/06
- Much of this relates to changes in the way benefits are paid, Prior to the government encouraging people to have their benefits paid into bank accounts, these transactions accounted for up to 90% of business undertaken at post offices in deprived urban areas

5 VIEWS OF POSTWATCH

5.1 Postwatch intends to take its time considering and discussing the Government's proposals with stakeholders before writing a response, However, Postwatch's starting point is that post offices play an essential role in thousands of rural and deprived urban communities. To ensure they continue to do so, Postwatch:-

- Welcomes the extension of funding and believes that the investment needs to be tied to reform. All structural changes must be driven by customer needs and undertaken following local consultations with affected communities
- Wants the government to explicitly set out what it views the social role of post offices to be. They should help determine the size and structure of the network, and what closures may be undertaken to ensure savings whilst not unduly adversely affecting customers
- Considers more effort needs to be made to ensure that post offices offer services that customers need and value. For example, the government should take steps to make more of its services available at post offices.
- Considers distance and topography are good starting points for access criteria. However, other factors (for example, walking distance to closest alternative, availability of public transport, socio-economic indicators) need to be taken into account.

- Supports the current 0.5mile protection for post offices in urban deprived areas, and do not think the government should weaken this.

6 THE CONSULTATION QUESTIONS

6.1 The Government lists the following questions in the Paper:

- 1) Does the Government's forward strategy for the post office network address all the key issues and challenges the network faces?
- 2) Are there other significant factors affecting the future of the post office network which appear to have been overlooked in the Government's proposed approach?
- 3) Do you have comments on the proposed national access criteria?
- 4) Do you have comments on the access criteria proposed for deprived urban and rural areas?
- 5) Do you have suggestions as to how services might be better delivered through the post office network?
- 6) Do you have any comments on Outreach arrangements as a means of maintaining service to small and remote communities?
- 7) Do you have comments on the practicality of community ownership of parts of the post office network, which might involve the transfer of assets to community organisations and/or the establishment of local co-operative organisations to own and run local services?

7 OFFICER COMMENTS

7.1 Whilst appreciating the economic and financial arguments put forward in the Consultation Paper, it is considered that the closure of Post Offices, in areas such as Rochford, should be opposed as they serve an important role within communities which goes beyond their primary purpose. A significant number of Post Offices have already closed within the district over the last 6 years and further closures would have a detrimental effect on the communities they serve.

8 RECOMMENDATION

8.1 Having considered the detail of the consultation and the request from Chelmsford Borough Council, it is proposed that the Council

RESOLVES

- (1) To call upon the Government to halt further closures of Post Offices in both rural and urban locations in recognition of the important community

and socio-economic functions they fulfil over and above their normal operation.

- (2) To determine whether to make any further additional comments in respect of the questions contained within the consultation.

Paul Warren

Chief Executive

Background Papers:-

DTI Consultation and letter from Postwatch

For further information please contact Zandra Neeld on:-

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If you would like this report in large print, braille or another language please contact 01702 546366.

Chief Executive

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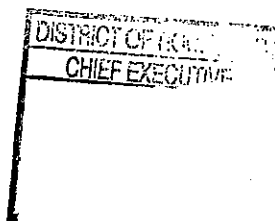
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Your Ref:

Our Ref: SWP/jf

Mr P Warren
Chief Executive
Rochford District Council
Council Offices
South Street
Rochford SS4 1BW



Dear Paul

Government Proposals for The Post Office Network

At a meeting of our full Council held on 20 December 2006, a motion was moved concerning the House of Commons Statement on the Post Office Network delivered by The Rt Hon Alistair Darling MP, Secretary of State for Trade and Industry on 14 December 2006. This motion states:

Chelmsford Borough Council calls on HM Government to halt further closures of Post Offices in both rural and urban locations in recognition of the important community and social functions they fulfil over and above the normal operation

Chelmsford Borough Council intends to contribute to the current consultation process on the Post Office Network, particularly due to the number of Post Office closures that have already occurred across the Borough. We are aware that other parts of Essex, particularly the rural areas, value very much the contribution that a Post Office makes to community life.

Please see the attached analysis illustrating the fact that areas of Chelmsford and Essex have already experienced closures above the national average and those of other regions.

We would therefore urge you to respond to the consultation and to lobby the Secretary of State, as we are doing.

For your information the House of Commons Statement can be viewed at:

<http://www.dti.gov.uk/about/dti-ministerial-team/page36059.html>

The Post Office Network Consultation document including the Consultation Response Form can be viewed at:

<http://www.dti.gov.uk/consultations/page36024.html>

Thank you for your support in this important matter.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Steve Packham'.

Steve Packham
Chief Executive Officer

12.5



INVESTOR IN PEOPLE



2003-2004
Quality of the Built Environment

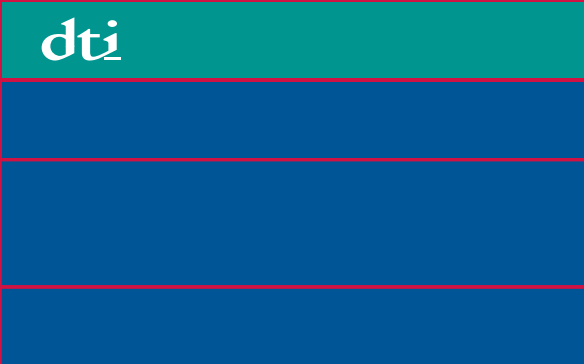
Post Office Closures

Source: House of Commons Library (1/11/06)

<u>Constituency</u>	<u>1999</u>	<u>2005</u>	<u>Change</u>	<u>% Change</u>
Basildon	18	15	-3	-17%
Billericay	18	14	-4	-22%
Braintree	31	23	-8	-26%
Brentwood & Ongar	25	23	-2	-8%
Castle Point	14	10	-4	-29%
Colchester	23	17	-6	-26%
Epping Forest	19	17	-2	-11%
Harlow	11	8	-3	-27%
Harwich	29	25	-4	-14%
Maldon & East Chelmsford	30	27	-3	-10%
North Essex	47	38	-9	-19%
Rayleigh	19	12	-7	-37%
Rochford & Southend East	23	13	-10	-43%
Saffron Walden	51	38	-13	-25%
Southend West	19	9	-10	-53%
Thurrock	20	17	-3	-15%
West Chelmsford	24	16	-8	-33%
Total Essex	421	322	-99	-24%

Ranking of Post Office closures by percentage

Constituencies covering Chelmsford	73	55	-18	-25%
Constituencies in Essex	421	322	-99	-24%
Total England	14416	11104	-3312	-23%
Total UK	18374	14556	-3818	-21%
Wales	1402	1195	-207	-15%
Northern Ireland	627	550	-77	-12%
Scotland	1929	1707	-222	-12%



Section 1:

A National Network

The Post Office network plays an important social and economic role in the communities it serves. The Government has made substantial investment of over £2 billion in the network since 1999 and it will continue to maintain a national post office network.

- 1.1 From a peak of some 25,000 offices in the mid-1960s, the network began to decline in size as early as 1970 and has continued to do so since then with some 6,000 ad hoc closures having taken place by 1997. Until the first restructuring of the network on a managed basis under the Urban Reinvention programme between 2002 and 2005 and the introduction of a £150 million annual subsidy for the rural network in 2003 there was no policy or support to help the network adapt to wider changes in society.
- 1.2 Since 1999, the Government has made a very substantial investment in the Post Office network of more than £2 billion to help it adapt to the changing needs of customers and to the marketplace in which it operates. This included £500 million investment in the Horizon project to bring modern computer systems into every post office in the country for the first time – enabling Post Office Ltd to launch a range of new products and to open its counters to potentially over 20 million bank customers. It also includes the funding of £150 million a year, £750 million in total, to support the rural network for five years from 2003 to 2008.
- 1.3 A key element of this approach has been Government's recognition of the important social and economic role post offices play in the communities they serve and particularly among the more vulnerable customer groups who rely on them as a lifeline. Because of the depth of its geographic reach, the Post Office network is uniquely placed to provide key services including access to cash and benefits, bill payment facilities as well as to postal services in remote areas.

- 1.4 Maintaining a national network with national coverage remains our priority and we therefore want to enable Post Office Ltd to modernise and refresh the network to tackle the challenges of the future, so that the network remains well used.

Section 2:

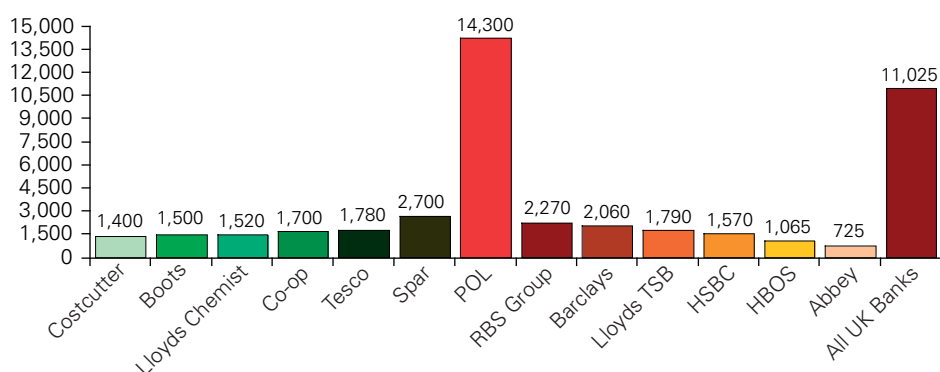
The Challenges

With new technology, changing habits and a wider choice of accessing services, people are visiting their post offices less often. Some 4 million fewer people are using the post office each week than two years ago. The network lost £2 million each week last year, rising to £4 million this year.

- 2.1 The market in which the Post Office network operates has changed beyond recognition over the last ten to fifteen years. Traditionally, the post office was where people went to post a letter, to pay their utility bills and to collect their benefits. Many still do. But increasing numbers of people choose to send an e-mail or text; pay bills by direct debit or Internet banking; and have benefits paid into their bank accounts. Stamps (which were once synonymous with the Post Office) can today be bought in 50,000 other retail outlets. They can even be bought, and personalised, over the Internet.
- 2.2 The way people choose to access their money, pay their bills or use government services is changing. 75% of all benefit recipients now choose to have their payments made into bank accounts. Nationally, 8.7 million out of a total of 11.2 million pensioners now get their pensions paid into a bank account. Online access to other services is proving very popular: for example over 3 million people have renewed their motor vehicle licence online this year. Clearly customers have embraced these new methods of payments which they find flexible and convenient.
- 2.3 As a result of this new technology, changing habits and lifestyles and wider choice of accessing services, people are visiting their post offices less and less. Though post offices served 24 million customers each week last year, some 4 million fewer customers visited a post office branch each week than two years earlier.

- 2.4 If the network is to survive it must face up to the very real challenge of adapting to the different ways people are choosing to access services. Post Office Ltd has made major strides in developing new areas of business such as financial services and telecommunications offerings to help offset declining demand for traditional products and services, but a substantial and growing gap remains between revenues and the costs of maintaining the network.
- 2.5 The Government is providing a social network subsidy of £150 million a year to support rural offices. With an average of 7 million customers a week using the rural network this represents an annual subsidy of just over £20. Despite this the network still lost on average £2 million a week last year with total losses of £100 million over the year before taking the social network payment into account. In the current financial year, losses are forecast to reach around £4 million every week or £200 million over the year and to meet Post Office Ltd's cash requirements, the Government's total funding will amount to more than £7 million a week.
- 2.6 The post office network is by far the largest nationwide retail network in the country compared with other commercial networks as shown in the table below. It has 8 times more branches than Tesco, and more branches than all the other UK banks put together. As those companies are constantly innovating and competing to offer more services, they present a constant challenge to the Post Office network. The network's scale of coverage, heavily underpinned by public subsidy, is a considerable asset, but nevertheless the costs associated with maintaining it make it increasingly hard for Post Office Ltd to compete effectively for business against lower cost, more flexible competitors.

Size of Retail and Bank Branch Networks



- 2.7 With the exception of the 480 Crown post offices, all other post offices are privately owned and operate as agencies or franchises under contract with Post Office Ltd. Historically these branches have been located where the subpostmaster chose to set up in business rather than on a strategic decision on the part of Post Office Ltd. Over time this has left an oversized network not always best placed to serve its customers or to exploit available commercial opportunities.

- 2.8 In both rural and urban areas, too many branches are competing for the same customers and some branches are hardly used at all. Last year, on average the 800 smallest rural post offices served just 16 people a week at a cost to the taxpayer, whatever the level of transaction, of £17 per visit. 1,600 branches served fewer than 20 customers a day and losing £8 for every transaction they made. More than half the rural network has fewer than 500 customers each week and more than 80% of the rural network is unprofitable to Post Office Ltd.
- 2.9 Although Post Office Ltd's Urban Reinvention Programme helped to reduce levels of over-provision in some urban areas where there were too many offices competing for the customers available for them all to thrive as businesses. It is clear that with viability continuing to decline, more needs to be done to place the urban network on a sustainable footing and to protect the overall geographical reach of the network.
- 2.10 In addition to the branches operated by subpostmasters, Post Office Ltd directly operates and manages some 500 Crown post offices, mainly in the centre of our towns and cities. These Crown Offices conduct a fifth of all Post Office Ltd business. But last year they lost £50 million (and are expected to lose £70 million this year), with the agency offices located in deprived urban areas collectively losing a further £5 million.

Section 3:

Need for Change

The network is unsustainable in its present form. It needs to adopt more flexible and cost effective ways of delivering services and responding to customers' needs.

- 3.1 There is now widespread consensus between Post Office Ltd, the National Federation of Subpostmasters, Postcomm and Postwatch that change is needed to modernise and adapt the Post Office network to meet the needs of customers in today's digital age. The recent all party Trade and Industry Committee also recognised that consensus reporting in its Ninth Report published on 30 October 2006 that "There appears to be widespread, if reluctant, acceptance among our witnesses that a network of 14,500 branches is unsustainable."³
- 3.2 It is clear that the Post Office Network has a continuing and important role for the future. It provides one of several channels for delivery of Government services. It acts as a social hub in many areas.
- 3.3 On a purely commercial basis it would not be possible for Post Offices to continue to play these roles. Post Office Ltd has indicated that a purely commercial network would comprise only around 3,600-4,000 offices. Recognising the social role played by post offices, however, the Government believes there is a need to retain a national network beyond what is affordable on a purely commercial basis. In order to do this in a way that is sustainable for the future Post Office Ltd will need to adopt new, more flexible ways of delivering its services which are able to respond to the changing needs of its customers.

3 Link to the Trade and Industry Ninth Report on Royal Mail Group can be found at:
<http://www.publications.parliament.uk/pa/cm200506/cmselect/cmtrdind/1556/155602.htm>

- 3.4 A national network is required which provides for those in need, delivers services more cost-effectively, adopts innovative methods to better align demand and supply and which ensures convenient access for communities with real social need.
- 3.5 Where there is over provision threatening the livelihoods of subpostmasters this needs to be addressed. Where full-time offices exist to serve small customer numbers alternative ways of delivering services, such as the partner deals with other businesses or mobile units trialled by Post Office Ltd over the last 18 months, need to be considered.
- 3.6 We intend to provide support to enable Post Office Ltd to halt the losses from the Crown Office network and to modernise and improve the service offering these offices provide to customers. To fulfil its role as the commercial core of the business, the Crown office network must be restored to profitability. This will involve franchising some of these operations. But it is recognised that a core network of Crown offices is key to delivering transformation of the business and helping Post Office Ltd develop a strong presence in new areas of business. This will be achieved through a programme of refurbishment and investment.
- 3.7 Continuing Government support has to be aimed at enabling Post Office Ltd to modernise the way that it delivers services to its customers and to provide a stable platform for the future while keeping a national network.

Section 4:

The Future Shape of the Network

We will maintain a national network with national coverage – ensuring adequate safeguards for those most in need.

- 4.1 There is a need for a national Post Office network providing reasonable access to all communities, including those in remote areas. Post offices provide a valuable service for the vulnerable in our society (particularly the elderly, disabled and socially excluded) and it is important that the network continues to do so.
- 4.2 However, Post Office Ltd's financial position is critical and continues to deteriorate. There is wide recognition that there are no quick or easy solutions to the core problem of bridging the gap between costs and revenues. Government recognises the urgent need to put in place a financial package to modernise and restructure the network placing it on a stable footing.
- 4.3 The Government is therefore intending to make a further substantial investment to put the network on a stable footing by 2011. The Government's objectives for any restructuring of the network are as follows:
 - To keep a national network national, paying particular attention to the needs of remote rural and deprived urban communities across the country within the framework of clear and understandable standards of access to post office services;
 - To focus on services to customers rather than bricks and mortar and to introduce more flexible, innovative ways of providing services for remote communities, for example, mobile post offices and other Outreach models using modern technology;
 - To invest in new equipment and automation to modernise the service delivery to customers in the major Crown offices – transforming them into flagships of the Post Office brand;

- To focus on a range of products and services that customers expect and need from their post offices and how they can forge a sustainable business;
- To address the issue of over provision of offices with low footfall so that customer demand better matches the supply of offices and, where appropriate, enable the subpostmaster to leave on compensated terms;
- To provide certainty for customers on future access and greater clarity and stability for staff and subpostmasters.

- 4.4 As most people recognise, this will require some reduction in network size, particularly among the least used offices and those making the biggest losses, but this will be carefully managed to ensure that communities with the greatest social needs do not lose access to post office services. The Government will set criteria for access to ensure coverage at an appropriate level and will provide funding for Post Office Ltd to enable this to be delivered. The Government's proposals for delivering the national network are outlined in the next chapter.
- 4.5 Modernisation of the network will require significant effort on the part of Post Office Ltd. It needs to focus on working to bring the Crown offices back to profit, transforming them through refurbishment and investment into the flagships of the Post Office brand. Post Office Ltd is working closely with staff and Unions to develop a strategy to achieve this. The proposals centre on a small number of closures and continued franchising of directly operated branches by pursuing link-ups with well established, respected retailers that share the Post Office's commitment to excellent customer service. The result will be a smaller profitable national chain of Crown offices operating to modern retail standards, also setting standards for customer service throughout the network and pioneering the use of new technology such as self-service channels. The company's priority in developing its strategy for the Crown office network is to work constructively with staff on implementation. The transformation of the Crown office network will be achieved through a carefully managed programme of conversions and closures and through improved productivity. In addition, significant reductions in administrative overheads and staffing levels are planned across the business.
- 4.6 Post Office Ltd also needs to minimise its losses by focusing on improving the products and services it offers and on adopting new and more flexible business models. Rather than focusing on traditional facilities, Post Office Ltd will explore Outreach (provision of services by a core subpostmaster to outlying communities which do not or no longer have a permanent post office as described at 4.7) and other innovative ways to deliver the right services to people who need them.

4.7 With Government funding, Post Office Ltd has been successfully trialling Outreach services in rural areas in all parts of the United Kingdom to test the potential for subpostmasters who run larger offices also to offer services in smaller communities. The trials include using mobile post offices, delivering postal office services directly to people's houses and hosting post offices in other businesses such as pubs, community centres and village halls. The introduction of Outreach services helps to keep costs down while helping people gradually to adapt and to accept changes in how services might be delivered in the future. The Outreach approach is designed to provide delivery of 'value for money' rural post office services that can be tailored to meet different circumstances and situations. Under the trials Post Office Ltd has been running, a core post office serves a number of Outreach sites using one or more of four Outreach options. These are:

- ***Hosted*** – a full service offered by the subpostmaster (or a fully trained employee) of a nearby post office at a "host" site such as a shop, village hall or church.
- ***Partner*** – a basic service with access to cash, bill payments, stamps, weighing and leaving parcels being provided by another retailer alongside their main business such as a petrol station or pub overseen by the core subpostmaster who would provide the site with the products required.
- ***Home service*** – a limited service offered via telephone or on-line ordering, with the subpostmaster arranging delivery in person to the customer's home or to a local delivery point.
- ***Mobile*** – a full service is offered by a mobile post office visiting a number of locations at set times on a regular basis.

4.8 The Post Office has many examples of imaginative ways of providing post office services to small communities as recognised in their annual 'Best Post Office Awards', which this year reflected the changing ways in which people are willing to deliver and receive post office services. A small branch in Cnwch Coch, near Aberystwyth, which is run from a working farm, was named the most innovative branch in the UK. Whilst the Rosebush post office in Carmarthenshire, run from a cowshed on a farm making cheese, was runner-up. There are also examples of community run village shops combined with a post office as in the co-operative venture at Bicknoller in Somerset. Examples of initiatives introduced in the Outreach pilot trials are set out below.

- In Frittenden, Kent the community welcomed the return of access to Post Office services lost after the closure of the local shop. The Bell & Jorrocks pub volunteered to become the location for a new automated Partner service with the Core branch being at Staplehurst meaning that locals now have the chance to get cash and stamps, as well as refreshments and a spot of lunch, all under one roof.

- In Fife the sub-post office at Leven also provides services through village shops in the communities of Windygates and Collinsburgh, demonstrating the opportunities for existing businesses to play host to a post office for a part of the week, which not only maintains services but also brings the benefit of added visitors to the host business. And the scope for working with communities to find solutions isn't limited to using commercial businesses. The village hall is used to host to a satellite post office for the small community of East Stour in Dorset.
- The subpostmaster of the Llandeilo branch is showing how a single Core branch can help maintain service to a number of communities and provides a service using portable equipment hosted at Carmel village hall as well as at the village shop in two other nearby communities. The same subpostmaster also operates a satellite branch in the isolated village of Bethlehem, which famously receives a much-needed boost to custom every Christmas time from those wanting to send greetings cards bearing the distinctive postmark.
- The Post Office has also been successfully testing imaginative new ways of bringing services to communities by using distinctive Post Office vans. In Durham, the Mobile service operated by the Post Office branch in Tow Law is a welcome visitor at nine communities in the area. In Northern Ireland the idea of a post office on the move has even been taken one step further where the Post Office has linked-up with a mobile library service. And in Suffolk, the subpostmaster of the Core branch at Aldeburgh is helping provide post office services to the door for six small communities in the surrounding area.

- 4.9 To improve their cost effectiveness, the hours for the Outreach services can be set at a level more appropriate to the level of business generated in that community, ending the current situation where many subpostmasters are open for long periods of time with little or no custom. In many cases the range of services available is extended, through access to the Core site's product range, meaning many customers will have access to the likes of motor vehicle licensing and passport check and send services for the first time.
- 4.10 In addition to network restructuring, Post Office Ltd is developing a transformation plan for the business. Their vision is of the Post Office as a trusted advisor and helping hand for both consumers and small businesses as they manage their households, their money and their enterprises. Post Office Ltd will extend its services with new mails and financial service products tailored to customers' needs and with more convenient access. The business is focusing products and services in four key areas:

- *Mails* – Building on its traditional products and its position as the retail arm of Royal Mail, the Post Office aims to be the place to go for all mail needs, providing advice and expertise as well as a full range of products. For example it is looking at how to provide customers greater convenience for picking up packets and is working with eBay and mail order houses to provide additional high-convenience mails products.
- *Financial Services* – Post Office Ltd also aims to build on its successful launch into financial services as the fastest growing entrant in Car Insurance selling on average 1,000 policies a day, £1.2 billion invested to date in the Instant Saver Account, expand its range of banking, personal finance, travel (for which it is the market leader in foreign exchange provision) and bill payment products, introduce 4,000 new PayStation electronic terminals and offer 4,000 free to use ATMs across the network.
- *Telecoms* – Post Office Ltd has built a significant business in the telecoms area with both HomePhone and now the number two player in the UK for mobile top-ups. The business is looking to launch further products in this area such as a broadband offer.
- *Government services* – Post Offices will continue to provide a broad range of Government-related services, simply and conveniently and will seek to work in partnership with a range of Government departments to look for opportunities to deliver services on their behalf via post office channels.

- 4.11 In addition to continuing to build products and services for consumers, Post Office Ltd also plans to extend its services and convenience for small business customers. It has plans to transform the customer experience in accessing the Post Office, and in addition providing more convenient access through multiple channels such as Internet or telephone, making it easier for customers to access Post Office products and services in a way that best suits them as well as increasing opening hours where there is a clear customer demand.
- 4.12 Within the mails area, Post Office Ltd is reviewing a range of initiatives to improve service and convenience to customers. A key area of opportunity will be providing customers with the ability to pick up parcels they have ordered through mail order companies or via Internet services from post office counters. The business is currently carrying out some trials in this area and is working with other parts of the Royal Mail Group to develop propositions for large clients including mail order companies, retailers, and other businesses which have a need to get parcels to customers in the most efficient and convenient way. Post Office Ltd and Royal Mail are working closely together to provide end-to-end solutions for its major customers in this area.

- 4.13 As well as the planned programme to refurbish Crown Offices outlined below, Post Office Ltd is also developing new ways of working with and supporting its subpostmasters and franchise partners, again with the objective of meeting customer needs more consistently. These include up to 4,000 free to use cash machines (ATMs) across the network and another 4,000 PayStation terminals will be rolled out across agencies and franchise offices, enabling subpostmasters to provide a greater number of services electronically and with more flexibility. Post Office Ltd expects about 20% of its sales to come through direct channels by 2011, and will be investing in its website and call centres to give customers the best possible Post Office experience beyond the branch. Nevertheless for those customers preferring to visit a post office, a national network of offices will continue to provide national coverage in line with clearly specified access criteria. Customers of the smallest offices which cannot be retained will however have the choice of using direct channels or visiting a nearby office.
- 4.14 Crown offices, in common with much of the rest of the network, have long suffered from lack of investment. Where Crown offices directly managed by Post Office Ltd can be improved, this needs to be delivered by investment in the premises, in new technology and in improved customer offering but in some cases conversion to a franchise operation may be a more appropriate way forward, Post Office Ltd will also invest in improvements to the premises and the layout and operation of customer services to bring standards up to those customers expect of a modern retail business. Crown offices will act as flagships setting standards for customer service across the network and pioneering the use of new technology such as new automated self-service facilities.
- 4.15 In addition to Post Office Ltd's efforts to transform the business, the Government remains committed to allowing people to access their pension and benefit in cash at the post office if they choose to do so, and there is a range of accounts which make that possible. The current POca contract ends in March 2010. The Government has considered and decided that it will continue with a new account after 2010. This new account will include similar features to the POca. It will be available nationally and customers will be eligible for the account on the same basis as they are now. EU procurement rules leave us with no option but to tender competitively for this product, and we must ensure that the best value for money for the taxpayer is achieved, but Post Office Ltd is well placed to put in a strong bid given the size of the network and the access criteria that we are now introducing. In addition, cash will be available at the post office through some 4,000 free to use ATMs which are being introduced across the network as well as a range of interest accounts which will be attractive to the general public as well as those POca users who choose to build up balances on the Card Account.

Section 5:

A Restructured National Network

Restructuring of the network will be undertaken within the framework of access criteria which safeguard rural and deprived urban coverage and will ensure that a national network is maintained. Outreach will provide services in many rural areas.

- 5.1 The Government recognises the important social and economic role post offices play, particularly in rural and deprived urban communities, and also accepts that where such post offices role can never be commercially viable there will a need for an ongoing social network payment of up to the current level of £150 million a year. The restructuring of the network will reflect this.
- 5.2 To enable Post Office Ltd to deliver a stable national network, Government plans to introduce a set of key criteria defining the minimum access requirements to post office services across the United Kingdom. These criteria will set a standard for national coverage and will be supplemented by additional criteria to safeguard rural and deprived urban coverage. We therefore propose to task Post Office Ltd with restructuring the network to establishing one that meets the following access requirements to an outlet⁴
 - *Nationally*, 99% within 3 miles and 90% of the population to be within 1mile;
 - In *deprived urban areas*⁵, 99% of the population to be within 1 mile;
 - In *urban areas*, 95% of the population to be within 1 mile;
 - In *rural areas*, 95% of the total rural population within 3 miles.
 - In remote areas, 95% of the population in postcode districts⁶ within 6 miles.

4 an "outlet" can be a fixed branch or a location at which outreach services are available

5 deprived urban communities are those in the 10% most deprived super output areas as identified by the Indices of Multiple Deprivation

6 a postcode district is the first part of the postcode e.g. SL9. There are 2,795 nationwide of which 38 do not currently meet this criterion. These 38 will continue to be exempt but we will not allow any further postcode districts to be exempt.

The Government recognises that across the country as a whole there cannot be a 'one size fits all' approach to access criteria and that Post Office Ltd will need to take in to account local conditions on a common sense basis to reflect obstacles such as rivers, mountains, valleys, motorways and sea crossings to islands to avoid undue hardship and ensure that the principles behind the access criteria are adhered to.

- 5.3 The current policy of preventing the avoidable closure of post offices in rural areas will be replaced by a new policy of maintaining the coverage levels set out above. After the restructuring programme, there will continue to be changes to the network as a result of natural exits (for example when the subpostmaster retires or moves on). Any closures resulting from natural exits would be subject to the access criteria above and, depending on local circumstances, services would need to be maintained or replaced with alternative service delivery methods.
- 5.4 In rationalising the network, we would require Post Office Ltd to ensure that no one part of the network or no particular group of people is significantly more adversely affected than any other. We expect that rationalisation will principally affect a combination of least used branches and non-commercial branches in areas of over-provision where people can find alternative branches nearby.
- 5.5 We will provide support to Post Office Ltd to compensate subpostmasters who are obliged to leave the network under the restructuring programme on a similar basis to the Urban Reinvention programme (under which compensation of 28 months remuneration was paid. The average payment to urban subpostmasters was £60,000 per office). It is clear that significant numbers of subpostmasters want to leave the network under a structured programme that compensates them for not being in a position to sell on their business.
- 5.6 We will be asking Post Office Ltd to develop local plans that fit within this framework. Whilst decisions on specific closures and their locations will be a matter for the company, we will limit Post Office Ltd to a maximum of 2,500 compensated closures nationally. They will also need to ensure that network restructuring is completed within the designated funding package as well as meeting the required access criteria.
- 5.7 In developing Post Office Ltd's proposals, branches that are specifically required to meet either the Universal Service Obligation for access to postal services or the Government's new criteria for national and remote area coverage will require special arrangements. Depending on circumstances, these will either be excluded from closure proposals or their closure will be mitigated through the introduction of Outreach delivery methods.

- 5.8 We will encourage Post Office Ltd to build on the success of the Outreach service delivery model to help maintain services to more remote communities. A significant number (about 500) of new Outreach will be put in place helping to mitigate the consequences of the managed rural closure programme following consultation with subpostmasters and local communities. Over time, Post Office Ltd, where it makes commercial sense and takes due account of local sensitivities, could employ this new business model extensively in future as branches closing through natural attrition are replaced in accordance with the new national coverage criteria. Together with existing Outreach delivery points and additional ones mitigating some of the closures which will arise through natural exits. Such delivery points will, by 2010-11, play an increasing role in delivering continued services to remote communities where conventional offices are not economic.
- 5.9 Drawing on experience of the Urban Reinvention Programme, we would expect that Post Office Ltd's approach to closures and other service restructuring measures will be to consult on area proposals based on groupings of adjacent Parliamentary constituencies and will be planned and consulted on the basis of putting forward proposals for all closures and other related changes in that area at the same time to better capture and reflect the needs of customers. Implementation will be programmed in the most efficient manner. Area proposals will be developed within the framework of the relevant access criteria and with the participation of subpostmasters and Postwatch. Members of Parliament and of the devolved administrations will be informed of the proposals before being put to a six week public consultation amongst customers and other organisations.
- 5.10 Because Post Office Ltd will be developing its closure proposals on a strategic basis in compliance with the access criteria, it will be a compulsory scheme. But, wherever possible, we expect them to match closures with offices where the subpostmaster has indicated his or her willingness to retire from, or leave, the business, thereby minimising the numbers of closures where subpostmasters have not indicated a wish to close their business on the compensated terms basis of the restructuring programme.
- 5.11 Against this background, Post Office Ltd will not be consulting on the principles of change as these will have been established by Government policy and covered as part of this national policy consultation. The role of Postwatch at this stage will be to check that the right people are consulted, their views properly gathered and subsequent decisions effectively communicated.

Section 6:

Conclusions

- 6.1 The Government is committed to a national network of post offices. We believe that the range of measures in our proposed forward strategy, set out in this consultation document, will place the restructured network which emerges on a stable footing for the foreseeable future. We also believe that the proposed measures strike a balance between the cost to taxpayers in financing the social role of post offices and the needs of the most vulnerable groups of customers, particularly in rural and deprived urban areas. We have worked closely with Post Office Ltd over the past months and our proposals reflect the company's investment case to Government. We will continue our discussions with the company in the coming months and will look to reach final decisions after we have considered responses to this consultation.
- 6.2 The Government's proposed further investment will provide Post Office Ltd with an opportunity to modernise and restructure the network and put it on a stable and more sustainable footing by 2011. Beyond that point, it is important that the shape and coverage of the network continues to reflect and adapt to local needs. It is the people "on the ground" who best understand the value of a post office to the local community and Local Government is also well placed to understand local concerns and needs. Their involvement may enable more regular appraisals of the level of post office coverage that is required to meet local needs. The Government wants in the longer term to devolve greater responsibility for local decisions to a local level and to provide greater flexibility for local funding decisions. Government therefore intends to investigate what role both Local Authorities in England and the Devolved Administrations in Scotland, Wales and Northern Ireland might play in influencing how the postal services are best delivered in the future.

- 6.3 This consultation paper sets out the Government's proposals for restructuring the post office network to put it on a stable footing for the longer term. We welcome comments raised on the issues raised in this document and specifically welcome responses to the questions listed below.

Summary of Questions

In this consultation the Government invites responses to the following questions:

1. Do you think the Government's forward strategy for the post office network addresses all the key issues and challenges the network faces?
2. Are there other significant factors affecting the future of the post office network which appear to have been overlooked in the Government's proposed approach?
3. Do you have comments on the national access criteria proposed?
4. Do you have comments on the access criteria proposed for deprived urban and rural areas?
5. Do you have any suggestions as to how services might be better delivered through the post office network?
6. Do you have any comments on Outreach arrangements as a means of maintaining service to small and remote communities?
7. Do you have comments on the practicality of community ownership of parts of the post office network, which might involve the transfer of assets to community organisations and/or the establishment of local mutual or co-operative organisations to own and run local services?