

Post Policy Issues: The Future of the Post Office Network

Authors: Andy Burrows and Robert Hammond

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The Future of the Post Office Network

- In November 2010, Government set out its strategy for the post office (PO) network, at the heart of which lies a radical restructuring, with 6,000 branches converting into new operating models (Post Office Locals and Post Office Mains). PO Locals are typically counters located in existing retail premises, with PO services being provided as a secondary offer. It is expected that 2,000 subPOs will convert into Post Office Locals. By 2015, a further 4,000 branches will convert into Post Office Mains – a new operating model for High Street branches. These are expected to be the largest and busiest branches in the network.
- Post Office Ltd (POL) has advised Consumer Focus that it intends to bring forward the restructure exercise, to start in summer 2012. POL has advised CF that it expects around 1,200 conversions during 2012/13, and approximately 2,400 changes each year during 2013/14 and 2014/15. It was previously envisaged the bulk of the conversions would take place in 2014.
- CF recognises that change is necessary in order to maintain consumer access on a universal basis to important social and economic services offered through 11,500 post offices. Any change must be implemented in a way which can meet consumer needs.
- There are significant and increasing risks that the rollout cannot and will not be driven by these needs, and that the timescales for implementation will not allow for significant concerns to be addressed, prior to rollout. These include the robustness of the operating models, whether consumer needs will be satisfactorily met by them, and whether these represent a viable long-term model suitable for wider rollout.
- While it is clearly important that the lessons of the ongoing pilots of PO Locals are learnt, with changes to the models being implemented as necessary, POL has been slow to undertake review activity. There are no formal arrangements for POL to review the pilots, prior to the rollout going ahead. Neither are there arrangements to determine whether it is appropriate for the new models to be introduced in a significant number of additional locations.

Action for the Board

- The Board is asked to endorse CF's proposed policy priorities in the rollout of PO Locals and Mains, including the adoption of four 'stress tests' against which the proposed restructure exercise, and the suitability of new operating models, can be judged;
- The Board is asked to agree a set of principles to inform the design and rollout of the restructure programme;

- The Board is asked to note the resource implications associated with the anticipated start of the programme from summer 2012.

Background

- The proposed restructure of the post office network is unprecedented in size and scope, with over half the network likely to convert to new operating models before 2015. The decision to proceed with PO Locals and Mains was taken to enable the PO network to be run on a more cost-effective basis while maintaining the overall size and reach of the network. However it will inevitably result in very significant changes in local provision.
- If the rollout is not implemented effectively, there is a high risk that the potential consumer benefits of the model will not be realised.
- PO Locals provide a core range of post office services from existing retail premises which include convenience stores, petrol stations or corner shops. Transactions are undertaken from the main retail counter, and are conducted by general retail staff as opposed to dedicated post office staff. It is envisaged that PO Locals will offer consumers a restricted range of products and services, with some large parcel services, banking transactions, bill payments not currently being offered.

CF research has demonstrated significant problems with the operating model which will be challenging to resolve before the rollout commences next summer. The key issues arising out of the Local but Limited? research were:

- In-branch customer experience – Due to their nature, convenience stores and other retail outlets can often be small and busy, with a poor layout, leading to privacy issues at PO Locals, with some customers no longer visiting the PO Local branch because of their concerns over privacy. Limited space and poor branch layout have also led some consumers to have concerns over accessibility and security.
- Products and services - Although Locals offer a core range of post office products and services, the research found that consumer satisfaction of the range of products and services on offer at a PO Local was low, and there is still consumer demand for a number of products that are not currently offered through a Local, such as car tax and passport renewals.
- Access to cash - The qualitative element of the research threw up a specific area of concern with PO Locals in relation to access to cash. Six focus groups were held in different locations across the UK, and in a number of these, participants told us that the PO Local Operator had placed a cap on the amount of cash or pensions and benefits that a customer could withdraw. In some cases, the PO Local had actually ran out of money altogether.
- Opening hours - Despite the potential for PO Locals to provide post office products and services over greater opening hours, our research and on-the-ground monitoring has found that this is not always the case. In some instances, although the retail outlet may be open until late, post office products and services may only be available for a limited period.

- Staff knowledge and experience - The capability and experience of the staff in PO Locals is reported to be variable, and their knowledge of post office products and services can be considered patch. Consumers' also have concerns over the suitability of retail staff to be undertaking financial, and other, more complex, transactions.
- We believe that it is imperative that POL addresses these concerns and agrees to a strategic framework for implementing the restructure, rather than what appears to be an emphasis on a short-term cost-reduction strategy, at the expense of building a long-term sustainable and affordable network which is built around the needs of its customers.
- Both Government and POL expect relatively few branches converting to PO Locals to remain in current premises. As a result, the majority of consumers impacted by these changes will experience the closure of their current branch, with services transferring into other premises.
- PO Mains are a new operating model for the largest High Street branches, with extended opening hours, increased automation, and investment to tackle service standards, including queue times. The introduction of the PO Mains concept should be largely beneficial for consumers, if and when the conversion exercise is successfully completed.
- However, it is likely that a significant proportion of conversions into PO Mains will also result in the physical re-location of the branch – in some instances on a planned basis, but in the majority because the new operator contract will not be commercially attractive to existing operators. It is therefore likely that around 3,000 of the 6,000 planned changes, affecting both PO Locals and Mains, could result in branch relocations
- This will inevitably be a challenging undertaking for POL. It also presents significant resource and transition implications for CF. It is imperative that in implementing these changes the potential benefits to PO Mains and Locals for consumers are unlocked.

How should Consumer Focus proceed?

- It is recommended that the Board endorses a set of four 'stress tests' against which the proposed restructure exercises, and the suitability of the operating models for wider rollout, should be assessed.
- These tests reflect the areas where there are significant risks, around both the robustness of the model and the proposed implementation process. In adopting these tests, Consumer Focus will be able to frame our concerns to POL and Government around the direction of the proposed rollout and for the rollout to focus on achieving potential consumer benefits
- We propose to undertake and publish an assessment of whether these tests have been met no later than May/June next year. We would also encourage POL to commit to its own assessment of the robustness of the Local and Mains operating models, and their suitability for wider rollout, against pre-agreed criteria with Consumer Focus and other stakeholders. We would also impress upon POL and Government the need for significant improvements both to the model and proposed implementation in order to avoid significant consumer detriment.

- **Test 1: are the new operating models robust?** New operating models should only be introduced only when POL can demonstrate they are robust, and when lessons from the pilots have been demonstrably learnt. Consumer Focus research suggests that the PO Local model is capable of meeting consumers' needs, but that a number of issues remain to be addressed before a wider rollout takes place, eg rationing of cash can impact on pension and benefits recipients.
- **Test 2: will the roll out reflect consumer needs?** POL has advised Consumer Focus that it envisages branch changes under the 'Network Transformation' exercise to be shaped heavily by subpostmaster preference. This is different to the principles of the previous post office closure programme where changes were planned on a strategic basis, implemented on an area-by-area basis, and shaped by and subject to specific criteria relating to consumer access and the local needs of users.
- This presents considerable consumer risks. We recommend that Consumer Focus should look to challenge such an approach if it is likely to result in detriment to consumers. Previous restructure programmes underline how critical a strategic, area-based approach is e.g. the 'Urban Reinvention' programme which had to be halted in the face of considerable opposition from MPs, local authorities and other stakeholders, and subsequently restarted on a strategic footing.
- Currently the task of tracking the changes in the post office network would be taken forward by Consumer Focus. There are serious risks that in the transitional phase of the implementation of the new consumer landscape arrangements, insufficient resources and expertise are available to ensure that the impacts on consumers are properly recognised and appropriate interventions undertaken. Such risk could further arise in the aftermath of the consumer landscape changes and in the absence of adequate policy expertise. Postwatch received heavy criticism for its failure to secure a strategic programme, and to ensure changes were delivered on this basis. However, it was applauded for its considerable early influence in the subsequent restructured Network Change programme. The timing of consumer landscape changes could jeopardise effective consumer engagement in the change programme.
- CF must also address whether a consumer representation role should be embedded into the restructure process, and what these arrangements should look like. Although complicated by the consumer landscape review, there are potential risks without the embedded input of an engaged consumer body– this applies to the scrutiny of specific proposals, but arguably even more so in respect of the monitoring and being hardwired into POL's planning and decision making processes.
- Given the scale and interplay of the proposed changes, it is questionable whether the existing Code of Practice functions, which operate in respect of business-as-usual changes to the PO network, would offer sufficient consumer protections. In any event, these arrangements are not designed for the anticipated scale of activity the programme will generate.
- **Test 3: are the new operating models viable and capable of delivering sustainable, long-term provision?** As the Local but Limited? research demonstrates, the viability of the PO Local operating model is still to be fully demonstrated, with potentially significant implications for both the immediate rollout and the long-term viability of the Locals model.

- While our priority is ensuring that the model meets consumers' needs, the operating model must be commercially attractive to the combination of large-scale retailers, such as the Co-op, Spar and Martin McColls, who currently run almost 1,500 post offices, and to representatives of independent retailers such as the Rural Shops Alliance and Association of Convenience Stores. None of these retailers have so far opted to participate in the pilots, and it is increasingly likely many major multiples may refuse to participate in the conversion programme.
- It is difficult to envisage a successful conversion programme if major existing operators refuse to run the new model, and independent operators are unable to operate a Post Office Local on significantly less preferential terms. If the concerns of operators are not addressed, it appears increasingly likely that the range of potential operators for the rollout will be significantly reduced – a major constraint on POL's ability to introduce Locals in suitable premises and locations.
- There are also concerns regarding the introduction and long-term viability of PO Mains. It remains uncertain whether sufficient subpostmasters will agree to convert to Mains status, because of significant changes to their contracts and pay from a salary to transactional pay only.
- **Test 4: do the new models offer adequate standards of service?** Our 'Local but Limited?' research, published in May 2011, highlighted significant concerns regarding the service standards offered through PO Locals, including the quality of product advice, poor levels of service offered by part-time or casual staff, inconsistent opening hours, and in many instances, PO consumers being made to wait whilst priority is given to customers on the retail side of the business.
- We are currently tendering for two additional research projects: the first of these will provide updated data on the consumer experience of using PO Locals, including consumers who regularly use post offices but do not use PO Locals because of gaps in the product range, concerns about the suitability of the branch environment, or who are concerned about the quality of product and pricing advice in Locals branches. The second will explore concerns raised in our previous research and assess the quality of pricing and product advice for a range of post office transactions..
- Concerns about service standards could significantly complicate the implementation process, even if POL is persuaded to commit to an area-based, strategic approach. Our research suggests that a significant proportion of consumers are likely to use PO Locals, but may need to visit other branches in order to complete more complex or lengthy transactions. POL will therefore need to develop a sophisticated understanding of its customer base, including the ability to model customer migration based on a wider range of factors than previous restructure exercises.
- If such a challenging restructure process is not handled effectively there is inevitable potential for unplanned and unmanaged migration to other branches, leading to quality of service concerns across the network, and not just in the branches which directly convert to the PO Locals model.

Next steps

- Subject to Board agreement, the stress tests will be developed, made more precise and communicated to POL and Government, and we should set out our concerns that each of these may not be met. It is envisaged this should draw emphasis and additional resources to ensuring improvements are made to the PO Local operating model.
- Separately, CF will discuss with POL the development of a framework for its own assessment of whether the model is robust. Specified criteria against which the model can be assessed should be agreed in advance, with Consumer Focus and others being invited to input into the development of the criteria and the review exercise.
- We should look to set out our core principles for the rollout, and set out the consumer risks if these are not adopted – we propose early meetings with BIS and POL to express our concerns and to undertake supporting public affairs and parliamentary activity as may be necessary.

We shall need to address the significant spike in work generated by this transformation and, as with past programmes, seek additional resourcing, as well as factor in the implications for work planning and transition arrangements in 2012/13. This additional work is likely to involve far wider scrutiny of the network transformation beyond the business as usual monitoring and interventions currently undertaken by Consumer Focus. A full scoping of the additional work envisaged and the costings will have to be undertaken and a separate application made to BIS for further funding.