

House of Commons
London
SW1A 0AA

25 January 2012

Dear Colleague,

On 24 January, I tabled a written ministerial statement on the progress, over the last year or so, on the Government's plans for securing the post office network's future whilst maintaining it at around its present size.

Separation of Post Office Ltd and Royal Mail – new 10 year agreement

My statement noted that a new 10 year agreement between Post Office Ltd and Royal Mail had been signed in line with the pledges given by both the businesses and the Government last year during the passage of the Postal Services Act. The new agreement ensures that the full range of Royal Mail products will continue to be available to customers across the post office network for the long term.

Front Office for Government

The Government's policy statement of 9 November 2010 'Securing the Post Office Network in the Digital Age' noted that a significant proportion of the £1.34 billion funding package to 2015 would support a challenging investment programme to modernise the network and transform the underlying economics whilst maintaining accessibility and size. This includes Post Office Ltd building new sources of revenue, including its ambition to provide more face to face services where required to complement Government's plans for channel shift, and introducing new financial products and services. The Post Office has also recently been the successful bidder for a UK Borders Agency contract to collect digital data – fingerprints and photographs - for Biometric Residence Permits, worth up to £36million. Other progress includes Royal Bank of Scotland (including NatWest) customers being able, since September, to access their current and business banking accounts over Post Office counters, meaning that around 80% of UK High Street bank customers can now access their accounts in this way.

Network Transformation: Mains and Locals

The 2010 policy statement also recognised Post Office Ltd's need to modernise the network to meet the changing needs of customers, to compete in today's fast changing commercial environment and to sustain a more viable network. In ensuring a sustainable network into the future, the Government's policy and the Post Office's business strategy involves introducing new operating models for post offices. The Main model - for larger branches - offers customers longer opening hours, self serve options, and special arrangements for SMEs, in a refreshed modern environment. The Local model - for smaller branches - moves the Post Office counter to the retail position, often leading to greatly extended opening hours and the potential of significant savings for the operator.

These models are designed to be both more sustainable and to improve the offer to customers. To be absolutely clear, there will be no programme of closures. Our approach is to invest in and develop the network and to maintain its size.

The focus of this letter is the voluntary programme of progressively introducing new operating models to the network which I know will be of particular interest to you at a local constituency level. The roll out of this programme will begin in the summer following extensive pilot trials, which have been under way for 18 months and which are yielding crucial data on which the programme will draw. The programme has the strong support of the National Federation of Subpostmasters which has been closely involved in its development. It envisages that by 2015, within an overall network of a similar size and accessibility to present (over 11500 branches meeting all the Government's current access criteria), there would be around 4000 branches running on the 'Main' operating model and 2000 on the 'Local' operating model. The rest of the branches will continue to operate as they do today, providing crucial services to their communities. As businesses, they will benefit from the overall Post Office strategy of maintaining the network, attracting customers and growing revenues in key new business areas.

The £1.34 billion funding in place for the post office network contains a substantial provision for ongoing subsidy to maintain the network at around its current size as changes are being implemented. As, if not more importantly, there is provision for substantial investment in the network. Much of this investment will go into current locations but there may be some cases where a relocation of post offices services to a nearby site within the community makes sense to the current subpostmaster, best serves the needs of the particular community and provides continuity of service.

In these cases the proposal will be subject to consultation before any such change is made. This consultation will engage with the local MP, the local authority and with local residents under the terms of the code of practice agreed between POL and Consumer Focus.

Before Christmas, some media reports incorrectly and misleadingly interpreted the plans for Post Office Locals as a programme to close rural post offices and to replace them with branches offering a limited 'substandard' service. This is a far from accurate picture. Independent research into the Local model conducted by Consumer Focus in 2011 found that the Local model has the "clear potential to modernise the network, and to protect post office services". It is important to be clear that the Local model currently offers over 95% of the total volume of transactions that are undertaken by post office customers. It is also important to recognise that many of the services not currently available at Post Office Locals, such as DVLA motor vehicle licence renewals or passport applications, are already only available across a proportion of the present network. I would also emphasise that all post offices, whatever the operating model, will continue to provide access to pensions and benefits in cash, as well as comprehensive bill payment, mail and parcels services for both small business and personal customers.

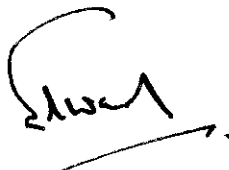
Recent independent research conducted for Post Office Ltd shows that the Post Office Local pilots have been very well received and are generating high levels of customer and operator satisfaction. The most recent research drew on interviews of over 1000 customers in November 2011, and found that 96% of visitors were satisfied with the overall level of service found in the branch. The most significant benefit of the Post Office Local operating model is the extended opening hours. A traditional Post Office is typically open 46 hours per week or less. The average for the Post Office Locals currently being piloted is 81 hours per week and these additional hours are proving very attractive to customers. The latest Post Office research suggests a third of the customers of the Post Office Locals are visiting the Post Office in the early morning or later in the evening, outside of the traditional core hours. These longer opening hours appear to be cutting queues. The survey also found that 68% of Post Office Local customers were served with no wait and of those who did have to wait to be served, 89% found the waiting time acceptable.

There will also be investment to help develop the Post Office Mains operating model. This carries the improvements of longer opening hours, greater sustainability and refitted premises into larger Post Office locations. Investment in these larger branches will help provide better customer environments and the potential for more customer friendly equipment such as 'Post and Go' machines that enable quick self-service.

The activity over the next few years is therefore a real opportunity to provide real benefits to customers of the Post Office network. And critically this is constructive programme of investment to develop the network. It is not a programme of closures.

Post Office Ltd will shortly be writing to all MPs about their network investment plans. This will cover the current piloting work on new models and the subsequent careful development of the network over the next three years along the lines I've outlined in this letter. It will also explain further opportunities for briefing and dialogue over the coming months and I hope you will be able to take advantage of these.

Yours,

A handwritten signature in black ink, appearing to read 'Edward Davey', with a horizontal line underneath it.

EDWARD DAVEY