



FINAL REPORT OF THE

Post Office Network Business Development Group

Refresh - Renew - Reinvent

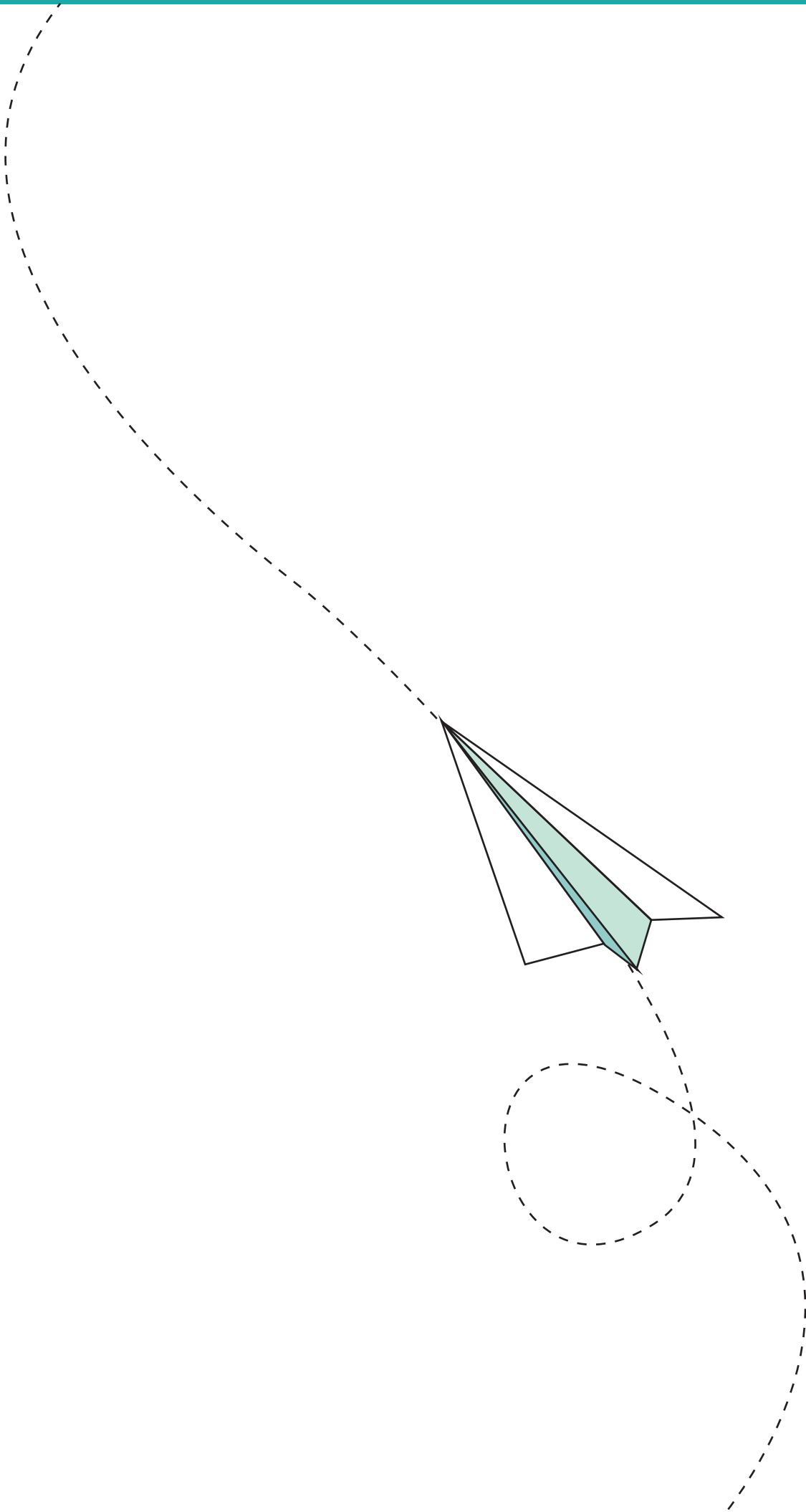
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FOREWORD

I take great pleasure in presenting this report to Alex White T.D., Minister for Communications, Energy and Natural Resources. Since my appointment in December 2014 the Business Development Group has worked hard to develop a suite of proposals that will help secure the future of the Post Office Network. It is fair to say that the process has been more challenging than I had anticipated, the structural changes facing both the industry and the Network are profound and not to be underestimated. The key message to emerge from our deliberations was that all parties clearly understand the challenges, are seeking confidence over future income streams and are actively looking for a means to engage in charting a new direction for the Network.

Over the past 12 months I have met a great many people, all of whom have shared their stories and experiences of the Post Office. Some were optimistic, some fearful but all had a sense of belief that the Post Office can continue to play an important role in Irish society. That to me is the key message that I believe needs to be highlighted. Everyone I met was fully aware that Irish society was changing and that the Post Office needed to follow suit; there were few dissenters on this

point. This is a positive starting point for the Company as well as the Postmasters and ultimately, the Government. There is a will amongst customers to see the Post Office flourish and now it is up to all stakeholders to harness this goodwill and convert it into a sustainable future.

It is clear from our conversations with interested parties that the Post Office retains a special place in the hearts of many people. I tend to view this as both hugely positive as well as a barrier that needs to be overcome; it's a positive attribute in that people are generally supportive of their local post office and would like to see it thrive. For a commercial organisation this is a huge opportunity that can't be ignored. However, the high regard for the Post Office also holds it back. The rosy view of the Post Office of the past is for a Post Office that doesn't exist anymore. I recognise that this is a challenging statement and may be hard for many to accept, but I am firmly of the opinion that if the Post Office is to have a viable future then it needs to change people's perceptions of it. This message is as relevant for those working within the Network as it is for customers.

There are some important learnings to emerge from our deliberations. Firstly, the structure of the Post Office Network needs to change. This is unavoidable, but necessary for the future viability of the Network. Using An Post's existing corporate planning process as a starting point, the five year strategy for the Network should be reviewed and amended, taking on board the Group's recommendations. This process should be independently chaired and facilitated and will, in my view, be the foundation for the transformation of the Network. Secondly, the contractual relationship between the Postmasters and An Post is not fit for purpose and needs to be redesigned as soon as possible. This is a critical success factor but the implementation challenge should not be underestimated. Thirdly, the consumer experience of visiting the post offices also needs to change. Post offices should be bright, attractive places that people want to visit and conduct business. While I recognise that there are very many post offices around the country that look well, there are too many not being maintained at a level that I would expect. Local post offices are franchises run by Postmaster who need to understand that they are as responsible for the future viability of their businesses as An Post. The ambience and presentation of their business needs to improve, alongside the development of new product and service offerings. However, for this investment to happen, there needs to be confidence in future income potential from existing and new sources; no-one invests in a business unless they can see a return.

I have been struck by the commitment of An Post and Postmasters to the future of the business and their acceptance of the significant challenges facing the business. While I acknowledge that there has been

success in developing new business over the years, I believe that An Post, with the input of the shareholder, needs to re-consider how it articulates the vision for the Network. What does the company want it to be? How and where does it want to be? And what does it want to offer? These are questions that I have constantly asked myself throughout this process. Having visited the UK I was struck by the fact that they have grappled with similar issues and embarked on a journey, with significant Government support, that has resulted in greater segmentation of the Network and investment in post offices. This is an exercise that needs to take place in Ireland.

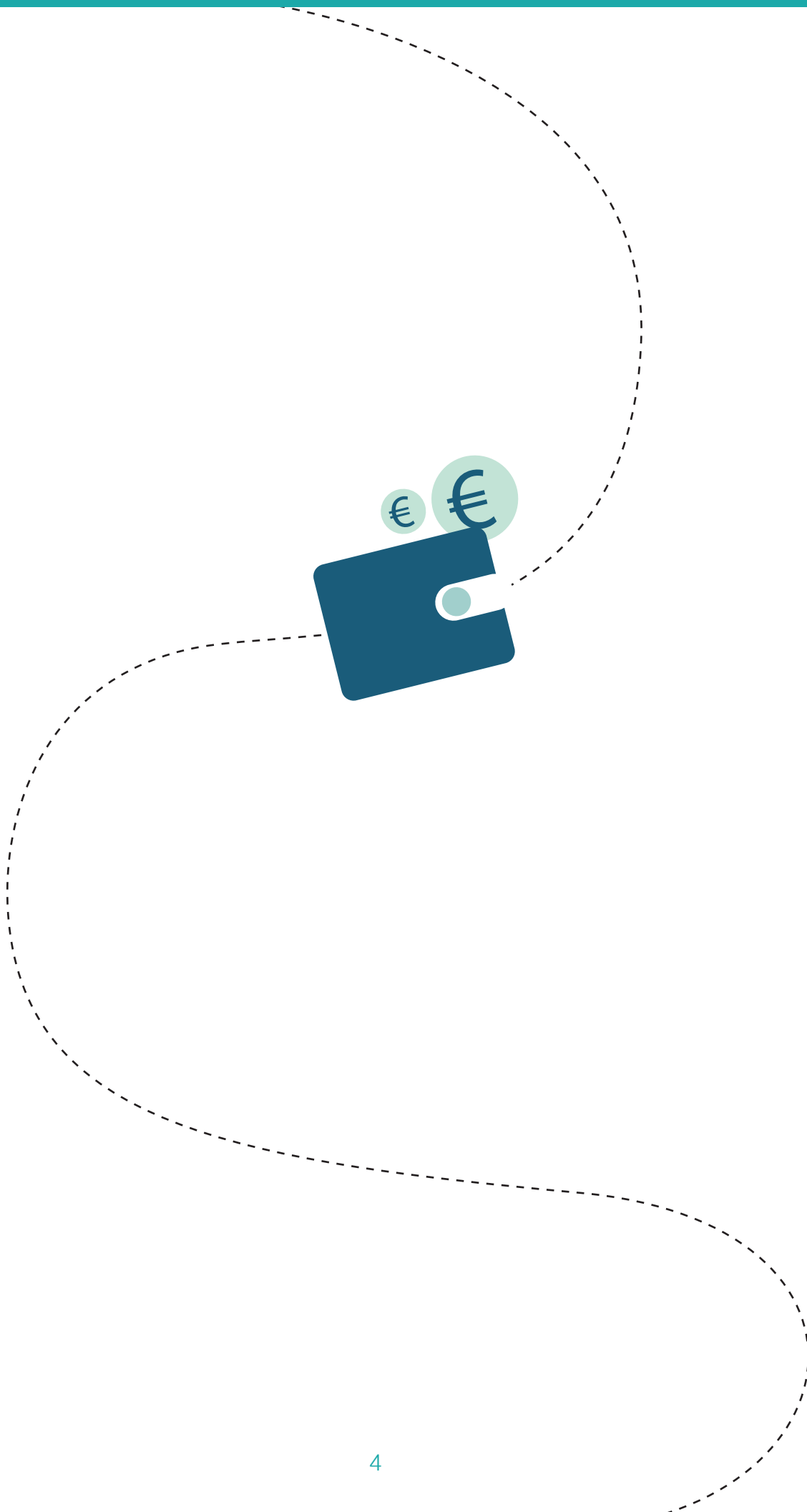
On behalf of the Group, I would like to acknowledge all of the input that we have received throughout the process. We spent a hugely informative day in the UK meeting representatives from the Postmasters Federation, the Post Office and the Shareholder Executive. The UK is our closest neighbour and largest trading partner, culturally similar and with postal systems that have evolved from similar origins. As a result, it is a useful comparator in many respects. I would also like to place on record my thanks to everyone that made time for us in London. I would also like to thank Stephen O'Donovan for his input on the Credit Union movement and Mark Fielding of ISME, as well as the many people that have taken the time to discuss their hopes, ideas and aspirations for the Post Office.

Ultimately, I am filled with hope for the Network, despite all the challenges that they face now and into the future. There are many Postmasters and Postmistresses across the country that have dedicated their lives to what they see as almost a vocation. They play a vital role in the fabric of Irish society and should rightfully be acknowledged.

Lastly, I would like to thank all of the Group Members for their contribution on bringing this report to this point and take this opportunity to encourage everyone to use their local post office as without our support we are in danger of losing this vital national asset.

Bobby Kerr

December 2015



EXECUTIVE SUMMARY

For the past 300 years the Post Office Network has been an integral element of Irish society; at the forefront of economic and social activity in towns and villages across the country. But evolving technological and behavioural changes place the future of the Post Office Network under increasing pressure. Despite these trends working against An Post, there are reasons for optimism. As other industries consolidate and contract, gaps are emerging that An Post and Postmasters can take advantage of, provided they can identify commercial business models and act quickly and effectively.

Income for the Post Office Network is driven by two primary sources of business – the Department of Social Protection (DSP) social welfare contract and the NTMA State Savings contract. Taken together, they make up more than 55% of revenue. The dependence of the Post Office Network on the DSP revenue stream has always been critical to the sustainability of the Network, even more so in recent years. The Government's digital strategy is moving rapidly towards electronic payment of all Government monies, including ultimately DSP payments. While customers will ultimately choose which option they prefer

in the long run, in the short term this strategy has the potential to move DSP business from post offices to the banks. While it would be futile, and inappropriate to suggest that the Government should consider rolling back its digital strategy, the Group recognises that the strategy constitutes a threat to the Network.

To ensure the viability of the Network a solution must be found whereby Post Offices continue to perform a key role in the provision of DSP payments on behalf of the Government. This can involve a mixture of continued cash payments and the development of a Basic Payment Account.

It is evident that all parties involved in the Group fully understand the challenges that the Network faces and are actively looking for a means to engage in charting a new direction for it. Perhaps the biggest challenge facing An Post, the Postmasters and ultimately, Government is that with falling mail volumes and changing consumer preferences the Network may simply be the wrong size and shape for modern Ireland. Before coming to this conclusion, the Group discussed this issue extensively and assessed a wealth of data prepared by An Post. One of the most

telling statistics is that 48% of post offices only completed 12% of the business undertaken by the Network.

The Group believes that it is important that An Post, following consultation with Postmasters, and the Shareholder, should review and amend the five year strategy for the Network, taking on board the Group's recommendations. This process should be independently Chaired and facilitated. In advance of this activity being completed, the Group has attempted to broadly categorise all post offices into three groups – **Retail+, Service+ and Community** post offices.

The Retail+ grouping is made up of post offices with the largest footfall and accounts for 66% of the retail business. The second group, Service+, is made up of post offices whose activity levels place them in the range of loss making to marginally profitable. This category accounts for 26% of the business. The final grouping, Community post offices, is made up of all other post offices where the economic rationale for their retention is less compelling. This is not to say, or recognise, that there may be strong social reasons for their retention, but it is more a recognition that their continued viability may be more a reflection of the individual postmasters' desire to retain the service in the community rather than a compelling financial reason to keep them open. Post offices in the Retail+ and Service+ categories should co-locate with other services in order to ensure their continued survival.

The importance of financial services was recognised early on by the Group as fundamental to the future viability of the Network. Financial services are a critical business area, accounting for 76% of the retail business revenue earned by the company and

68% of transaction earnings of Postmasters.

The biggest opportunity for An Post and the Network lies in the provision of an extended suite of banking/financial services. To date, the Company has focused on providing third-party services while examining whether to provide products such as the Basic Payment Account. The Group believes that An Post need to develop their own portfolio of products and services over which they could maintain greater influence than third-party services.

Government services have long been a vital element of the revenue generation for post offices. However, in recent years it is proving more difficult to secure government contracts that are put out to tender. The Group recognises that there are huge savings to be realised by moving service delivery online. This is the nature of societal development and the Group is not suggesting that this progress be halted, but Government should also plan for those that are unable or unwilling to choose this way of interacting with Government. In many respects, the Network is ideally placed to deliver personal services to citizens in a trusted environment.

In addition to the services already provided by the Network, there are a number of other Government services such as maintenance of the Electoral Register, CAO grants/payments and jobseeker sign-on that could be provided via the Network. The Post Office could be an alternative channel in the Government's strategy of promoting online access to these services, thereby increasing access for customers, while maintaining, or even reducing, the cost of the service provision.

As the demographics of rural Ireland have evolved in recent years, rural decline has left localities struggling to maintain their identity

and community, the significance of the local post office, as often the last remaining place for local interaction has become paramount. The Group recognises the value of the post office as a key piece of rural infrastructure that could revitalise rural communities and is proposing that post offices could act as 'Hubs', around which local social and economic activity would revolve. While the primary responsibility for developing the concept doesn't rest with An Post, the local post office can play an important role in allowing people to access State and commercial services, either directly in the case of financial or government services, or indirectly through the facilitation of other service providers essential to local identity and quality of life.

The Hub concept is driven out of recognising that depending on the level of services available to each community, the role of the

post office can change and evolve alongside the demand from the community. By evolving to meet the existing and future needs of the community, the post office, with appropriate training, can play an increasingly relevant role in the local community.

The Group identified in the Initial Report that there appeared to be a clear opportunity around white labelling, assuming that products and services could be identified that would closely align to the An Post brand, which is jealously guarded given its position as one of the most trusted brands in Ireland. If An Post can develop a commercial financial services offering, starting with the Basic Payment Account, and also come up with a white label broadband option this could help leverage its position as the preferred supplier of services, especially in rural Ireland.

Key Priority Actions

The Group has identified 23 recommendations, which are listed below, of these 9 have been

identified as central to the future sustainability of the Post Office Network. These are:

Number	Action
1	Network Renewal
8	Basic Payment Account
13	Motor Tax
9	Financial Services Strategy
10	Credit Unions
11	Social Value
7	SMEs
22	Procurement
23	White Labelling



01 THE STORY SO FAR

For the past 300 years the Post Office Network has been an integral element of Irish society; at the forefront of economic and social activity in towns and villages across the country. But evolving technological and behavioural changes place the future of the Post Office Network under increasing pressure. This pattern is not new, just accelerating. From 1,907 Post Offices in 1992 to the 1,135 that we now have, the gradual decline in the number and distribution of Post Offices reflects changing demographics in the first instance, but also the nature of how people want to shop. The move to internet-based transactions is ongoing and inevitable. Every year a greater number of services and products are transacted online, increasingly via smartphones, which puts pressure on traditional retailers to maintain relevance and find a place in the economic landscape of Ireland. In a report for the Department of Communications, Energy and Natural Resources, Indecon estimated that the internet/digital sector contributed €7.1 billion or 4.4% of Irish economy GDP in 2012.¹ The report also suggested that 53% of the population used the internet to research

goods and services, while the percentage of individuals purchasing online in Ireland reached 46% in 2012.

As a consequence of the evolving retail landscape, the high street in every town and city in Ireland has also changed dramatically in recent years. Regrettably, we are used to seeing empty and boarded up shops on every main street in nearly every town and village across the country. The nature of retail has shifted, from the centre to out of town locations. The lesson is clear, without careful attention and a coherent strategy for the Network post offices may go the same way. However, despite the trends working against An Post, there are reasons for optimism. As other industries consolidate and contract, gaps are emerging that An Post and Postmasters can take advantage of, provided they can identify commercial business models and act quickly and effectively. An obvious example of which is the ongoing move by the main retail banks to minimise their handling of cash. This can, and will, form a significant opportunity for Postmasters and the Network.

¹ Indecon “Assessment of the Macro-Economic Impact of Internet/Digital on the Irish Economy”, 2013.

The Post Office Network

An Post is a commercial state company which runs the Irish postal system. There are two main elements to this system - the “mails” business which involves the collection, sorting and delivery of letters and other postal items and the “retail” business which involves postal and other counter-based financial services provided via the Post Office Network.

An Post’s retail Networks are the amongst the largest in the country with 1,135 active post offices, 123 postal agents and almost 2,000 PostPoint retailers. The Post Office Network employs over 4,000 people, most of which are in offices operated by independent Postmasters. Post offices serve approximately 1.7 million customers every week. Despite Ireland’s low population density in rural counties, post offices are within a relatively manageable reach of the vast majority of households. Around 93% of the population lives within 5 kilometres of a post office and nearly 99.9% of the population live within 10 kilometres. The principal services provided through the Network are:

- The processing of payments for the Department of Social Protection (DSP);
- Handling the full operation of the State Savings products for the National Treasury Management Agency (NTMA);
- Billpay transactions for electricity, gas, telephone, waste etc.;
- Licence collection on behalf of a wide number of public bodies including TV Licences and An Garda Síochána;
- Money transmission services;
- Agency banking transactions on behalf of retail banks;

- Foreign exchange services;
- Selling and acceptance of postal services;
- Other retail products such as gift vouchers, mobile top ups, Passport Express, iTunes vouchers; and
- PostMobile.

Retail income is driven by two primary sources of business – the DSP social welfare contract and the NTMA State Savings contract. Taken together they make up more than 55% of the revenue to the Post Office Network.

The dependence of the Post Office Network on the DSP revenue stream has always been critical to the sustainability of the Network, even more so in recent years. As more people choose to receive their welfare payments via electronic channels there is a strong likelihood that the current DSP contract model may result in some Postmasters exiting the business as their customer base gradually erodes. Some estimates suggest that only 10-20% of new DSP beneficiaries choose to receive payments in post offices. It is also worth noting that in the UK, an annual subsidy was introduced to ensure the retention of the approximately 3,500 community and outreach post offices following the withdrawal of welfare services from the Post Office.

Closely aligned in importance to the DSP contract is the administration by An Post of the 2 million State Savings customer accounts on behalf of the NTMA. Collectively, this fund, including Prize Bonds, is worth over €19 billion and generates revenue to An Post of approximately €53m annually.

The postal sector is facing an uncertain future both at home and abroad, with mail volume decline common in many jurisdictions. Ireland is no different, with the mails business at the heart of An Post and the key driver of turnover (63.5% in 2014). Since 2005 mail volume has declined by more than 27% with projections expecting this to reach 43% by 2019². There are three key challenges facing An Post:

1. Continuing to manage the impact of the significant mail volume reduction.
2. Securing new revenue sources for both the mails and the Post Office business.
3. Maintenance of a sustainable Post Office Network.

In the face of such environmental upheaval, postal operators in many countries have responded by making structural changes, prices rises, innovation & evolution. An Post has responded to the challenge and successfully introduced new business activities such as banking, foreign exchange, Western Union and PostMobile, and there is a strong willingness within An Post to continue

to innovate around new products and services for the Network, even if it is unlikely that there are potential revenue streams of a similar magnitude to the DSP contract. It is therefore noticeable that An Post returned to profitability in 2014 after a challenging few years.

Despite the changes and upheavals that the Post Office has witnessed in recent years, the Network remains hugely important for Irish society and its economic and social infrastructure. The services provided by An Post enable many people who may be on limited or fixed incomes to budget their expenditure and plan for future events. Many of the services offered by An Post are also used by many of the “New Irish” who recognise the Post Office as a trusted service provider. Given the age and income characterisation of many An Post customers, the services they provide allow people to fully participate in modern society. Many customers of the Post Office have limited or no access to the internet, which restricts their ability to use online services and fully participate in the economy; the Post Office may be a focal point for weekly face-to-face interaction and communication.

The Business Development Group

The Business Development Group (the ‘Group’) was established by Minister Alex White in January of this year on foot of a review by the Cabinet Committee on Social Policy to explore potential commercial opportunities available to the Post Office Network. The Group has engaged with a variety of stakeholders, including those in the public sector, commercial bodies, post office customers and other interested parties. The Group’s membership was drawn from the

Irish Postmasters Union (IPU), An Post, the Minister of State for Gaeltacht Affairs, the Minister of State for Rural Economic Development and the Department of Communications, Energy and Natural Resources (the ‘Department’). The membership of the Group and the Terms of Reference can be found at Appendix 1.

The Group prepared an Initial Report for Minister White in May 2015. After receiving

² An Post (2015), An Post Annual Report 2014.

the Report, the Minister felt it important that the wider community got an opportunity to consider the full implications of the situation facing An Post and the Postmasters. Following a discussion with the Chairman it was decided

that the best consultation mechanism would be for the Minister to seek public input into the Group's Initial Report, compile the responses and submit them to the Group for their consideration.

Consultation

The Initial Report was published on 6 June, with the consultation exercise running until 28 July. The objective of the consultation was to provide people with a deeper understanding of the issues facing Post Offices and seek input into seven key questions that dominated the thinking of Group members. A total of 16 responses were received and a summary report compiled and made available on the Department's website. Although the Group was slightly disappointed with the number of responses received, nevertheless there were a number of interesting points made, which have been summarised in the paragraphs below.

The first two questions focused on reasons why people used the Post Office and their experience of doing so. An important starting position for the company has to be retaining and leveraging its existing customers, as well as reaching out and attracting new customers. There were few surprises in the services that people availed of - postage, social welfare payments, bill payments, stationary, passport applications and buying licences. Convenience, accessibility and trust were the reasons provided for why people use the Post Office. Perhaps of more interest were the reasons why people indicated that they didn't use the Post Office. Respondents noted that the opening hours are not suitable for people working regular office hours or that it was more convenient to access some services elsewhere, such as online banking

& bill payments. It was also remarked that "smaller rural post offices are used less as people travel to local towns for their shopping and use the post offices there. These larger post offices may have better services. This can become a self-perpetuating circle".

Financial services were identified early on by the Group as being of vital strategic interest to the Network. The consultation paper asked respondents to identify the services that should be offered by post offices:

A basic bank account including services such as debit cards, bank giros, international and domestic money transfers, direct debits, cash withdrawals, foreign exchange, bank drafts and lodgements;

- Provide cash handling facilities (lodgements and withdrawals) for all banks and credit unions;
- ATM services;
- Access to online banking; and
- Micro-Credit options (that may reduce activities of "loan sharks").

Interestingly, external ATM services are very profitable for UK post offices, partly due to the specifics of the UK banking market and the nature of their relationship with Bank of Ireland.

It was also suggested that post offices should capitalise on their existing 1.7 million customer visits per week, their local know-your-

customer advantages and when combined with the departure of many rural bank branches to become the rural provider of banking services. Micro-Credit could be offered to SMEs through the partnership of post offices and Credit Unions which could yield significant economic and social dividends. These issues, as well as the potential introduction of a Basic Payment Account are examined in greater detail in Chapter 3.

The next question asked whether people would be prepared to pay for services in the future that are currently provided to customers free of charge. The general sentiment was that all services must include a realistic margin for An Post and the Postmaster or retail agent to cover the cost of providing the service. Some respondents suggested that there should be a free basic bank account option, paid for by the State if necessary to encourage all individuals to hold a bank account. One respondent suggested that

“I believe that with proper banking facilities, there would be associated fees, but I do not believe that consumers would be prepared to pay for financial services in post offices that are freely available elsewhere.”

Government services have long been a vital element of the revenue generation for post offices. However, in recent years it is proving more difficult to secure government contracts that are put out to tender. This follows a similar path to the UK, where there is a declining revenue stream associated with Government

services. Suggestions by respondents for services that could be provided by post offices included the following: property tax, motor tax, local authority charges, hospital charges, CAO, Department of Education examination fees, court fines, Department of Agriculture payments, traffic fines, medical card renewals, Electoral register, driving licence applications and renewals and septic tank registration.

Such services are provided by multiple state bodies, which have differing levels of technical ability. Other ideas identified in the responses to the consultation that would maximise the utility of such a Network include: public and school transport ticketing, providing a citizens' information service, acting as tourist information centres drawing on post offices' local expertise and their close interaction with local communities, paying for birth/death certificates, OSI maps or print-on-demand services for Department of Social Protection forms. The Group believes that the IT infrastructure available in Post offices is sufficiently flexible to interact with the majority of Government agencies. This presents opportunities for both An Post and the Government to improve access to Government services to all customers as well as satisfying requirements for efficiencies in public service provision. The Group is aware that An Post has presented a number of proposals to Government Departments and would recommend that it continues to demonstrate its abilities in these areas.

Question six sought the views of respondents on the potential to expand the role that post offices could play in the community. A number of suggestions were received including, that post offices should offer shared community services and act as a multi-purpose space for the community (something that happens in the US and elsewhere). Post offices could also play a role as a hub for the development of social

enterprise, displaying local art, food, and other products and in this way contribute to the economic sustainability and development of rural Ireland. The post office could be a centre of office technology in the local area, offering services such as photocopying, scanning and broadband.

The final question that was posed to respondents was to ask what role the Post Office could play in the rollout of the National Broadband Plan. This was an important question as telephony services are a key revenue stream for the Post Office in the UK and is an area that the Group felt there may be potential in. Respondents suggested that post offices could provide printing and internet facilities or information points for national broadband rollout, and offer registration and services for paying internet fees. Similarly, post office staff could help inform members of the local community when they can expect to have broadband available in their local area.

The consultation also provided the opportunity for people to make general comments about the future of the Post Office Network. The emphasis from respondents was clearly on the important social and community role that

the Network plays in rural Ireland, far above its economic value to the country. Irish Rural Link called for the introduction of a “Rural Protocol”. This is identified as “a voluntary code entered into by stakeholders involved in the provision of services to communities. It challenges the proposers of closures to manage it in a way that allows the community to have an input. It starts by engaging with the area in question in the task of conducting a socio-economic analysis in terms of reasons for closure and the consequences of same. It also allows the community to examine the issues involved and perhaps put forward proposals that could offset the need for a closure. It equally puts some obligations on the organisation, government or private company that proposes closure”. Potential closures of post offices can be emotive subjects for communities, but the Group is clear that the main determinant for the existence of a post office must be customer demand. This, combined with a number of other reasons, including the nature of what alternative arrangements could be provided if a Postmaster wishes to hand back their franchise, is why the Group feels that a review of the closure protocols as part of a wider Network review is merited.

Work to Date

Since the publication of the Initial Report and the conclusion of the consultation exercise, the Group has continued to meet and examine each of the areas that were identified as having potential, including:

- The provision of a Basic Payment Account;
- Potential collaboration with Credit Unions;
- Producing a workable list of government services suitable for the Post Office Network;
- Identification of white label products such as extension of insurance products, broadband and energy which can be badged and sold as An Post products; and
- Examination of the social value of the rural post office so that the service can be understood and monetised.

The Group also studied the UK model closely and met with the UK Postmasters Federation, the Post Office and the Shareholder Executive team in the Department of Business. All of those that met the Group gave freely of their experience and opinions, which made the visit extremely beneficial. One of the key lessons to emerge from the Group's visit to the UK was that any ideas or new services that emerged needed to be strongly customer-driven and designed to meet an identifiable need.

It is clear to the Group that the change brought about by emerging technologies, which have facilitated changing consumer dynamics, has meant that customers are less likely to visit a post office, and those that do tend to be older. However, in recent times younger users of the Post Office have been attracted back to collect social welfare benefits and avail of services such as Gift Vouchers, PostMobile, FX, and mobile top-ups. However, it is probably likely that younger customers have less loyalty to a single retail chain, as they might have in the past, and would use multiple retailers or channels. The continued reliance on the DSP is a worry. Without this business the Network, in nearly any formation would be largely unsustainable.

The membership of the Business Development Group represents those that are most impacted by the changing market conditions; those with the greatest stake in the future viability of the Network. It is clear that all parties understand the significant challenges facing the business and would welcome more confidence about future income streams, the future of the Network and their role within it.

If the Network is to have a sustainable future, An Post and the Postmasters both accept that change is required, both in the way in which the Network operates but also in the nature

of how the relationship works. As a pointer towards identifying a starting point for the review of the Network both sides were asked for their view of what that changes are required. It is clear that there are a number of points of commonality. Equally, there are a number of places where the two parties diverge.

The elements that An Post and the IPU are agreed upon are:

- There is a need for a new contract that incentivises growth and improves customer service standards;
- Both parties require greater clarity on the future direction of the Network (both at a strategic and operational level, including size and levels of service and grading structure);
- Both are keen to see the survival of the Network, although survival may mean different things to the two organisations;
- Both An Post and the Postmasters recognise the need to change in light of customer changes in order to grow and prosper; and
- Both parties are agreed that it is a major challenge, but one that both are prepared to undertake.
- Both Parties are agreed that the Shareholder has a big part to play in determining the future direction of the Network.

The key priorities for An Post are that:

- Significant changes are needed to the Postmaster payment system;
- Postmasters need to actively sell branded An Post products to customers;
- Postmasters need to accept sales and revenue targets with commensurate rewards and penalties; and

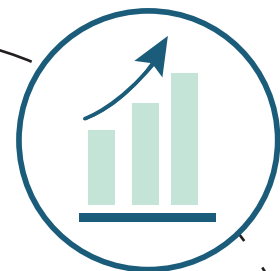
- Postmasters need to accept new contracts which impose new standards, suitability of premises, quality of service and customer experience.

The key priorities for the IPU are that:

- A blueprint for the post office Network for the future – 5 year business plan;
- Every postmaster should have option, at the end of the transition period, to avail of a defined exit package on par with UK offering or change to the new contract on offer;
- Post office income levels should be protected over the course of the Network transformation programme;

- A greater level of transparency around Network costs and profitability;
- A strategy for succession planning / exiting from the business (addressed via new contract);
- Security around the DSP business; and
- Discontinuance of the post and pay pilot.

The Group has discussed these issues and believes that as part of the proposed Network review process, these issues could be addressed.



02 NETWORK RENEWAL AND REVIVAL

The challenge presented to the Group at the outset was to identify new economic opportunities for the Post Office Network. While that doesn't explicitly imply that an analysis of the Network was required, the Group's discussions inevitably kept circling back to the Network. As a consequence, the Group felt that it was appropriate to make a number of recommendations that could contribute to future Network viability. This was due in part to the realisation that any new income opportunities are unlikely to equate in value terms to the existing core activities, such as DSP payments, and as a result additional operational measures needed to be addressed. In the event of significant reductions to key existing activities, the Network would not be commercially sustainable based on the current model.

The discussions amongst Group members have been frank and honest, which reflect the significance of the subject matter and recognition that the reliance on the DSP contract and the NTMA business is both a potential strength and weakness for the Network. The Group recognises that both sides are aware of this over-reliance and it may be a source of friction between the

Postmasters and An Post. To an extent, it is natural that there is tension between the company and its franchises, as there would be in any equivalent relationship. The Group welcomes the commitment of both sides to work together more closely in the future.

As a first step, the Group believes that it is important that An Post, following consultation with Postmasters, should review and amend the five-year strategy for the Network, taking on board the recommendations of the Group. This process should be independently Chaired and facilitated, and will require discussions with the shareholder on the direction the Government wishes An Post to take in the future. As part of this process everything to do with the Network should be examined in an open and transparent manner, as appropriate to the relationship between the parties. Items that should be looked at include: the number of branches, spatial distribution of branches, office grading system, Postmaster payments, products, criteria for opening and closing offices, training and qualifications for post office employees. The Group recommends that this work should take no more than 6 months and be the starting point for fundamental and lasting change to the Network.

The current remuneration system (scaled payments) has been in place for more than 100 years. It is testament to the quality and foresight of the original designers that the system has survived this length of time. However, due to the tiered payment system in place it could be argued that it actively discourages profit maximisation or re-investment in the business to improve premises, staff training etc. On the other hand, the existing model does have one significant positive attribute – the Group recognises that the scaled payments model provides for significant cross-subsidisation of the Network, which thereby leads to a broader Network. Without this cross-subsidisation An Post could not operate a national Network under the current model. However, the Group is of the opinion that a new system needs to be introduced, one that incentivises profit maximisation and that is flexible to the changing business environment.

The Group is convinced that to persist with the current system in the face of changing consumer demands would be the wrong decision. To enable change, An Post will need to become more transparent with postmasters about the relative profitability and losses attributable to different categories of products and post offices, as appropriate to the relationship between the parties. Likewise, Postmasters will need to accept the changing commercial environment and recognise the role that they have to play in growing the

business as part of a commercially sustainable model. As part of the review An Post should consider whether any legislative changes are required in order to facilitate potential joint ventures or business tie-ups, such as with the Credit Unions.

One point that was striking from the Group's visit to the UK was the extent of similarity between the two countries' experiences. Their postal Network is approximately 10 times the size of our Network, 11,500 to 1,135. Given their significant loss of Government business, in particular welfare payments, over the last ten years, a full review of their business was required which has resulted in significant changes to their network. As a result, they are probably ahead of An Post in terms of the transformation of the Network. It is also worth noting that the UK Government has financially underpinned the transformation of the Network as income levels for UK Postmasters are significantly less than in Ireland. What was interesting was that everyone we met fully understood the difficulties faced by postal operators that will inevitably test the business fundamentals at the heart of some of Europe's oldest companies. As a consequence, change comes slowly and with some resistance – but it must come if these institutions are to survive. While nobody can predict the future, all those that we met in the UK are of the opinion that their modernisation plan gives the UK Post Office a better chance of a sustainable future.

CASE STUDY: UK MODERNISATION PROGRAMME

The Group explored the approach adopted in the UK towards their modernisation programme. Broadly speaking, the UK is working towards having four categories of post office and maintaining a Network of around 11,500 post offices:

- Crown post offices, which are directly run and staffed by the Post Office, of which there are around 320. All are in the process of being modernised at the cost of the Post Office.
- Mains, of which there will be around 3,200, these are the larger Agency branches that require dedicated post office space. Again, the Post Office pays for the modernisation of these offices. In return the owners move from a fixed and variable payment to fully variable remuneration but with enhanced commission rates. There is also a guarantee that their income will not be less than they would have earned for three years.
- Locals, of which there will be around 4,800. These offices are required to co-locate and must have a successful retail offer to demonstrate economic sustainability. They move to fully variable remuneration with no fixed pay element. Transactional payments are at a commission rate slightly lower than mains offices. There are no fortress positions which creates more profitable retail space and these branches are less costly to run due to the closer integration of post office and retail activities. The postmaster is therefore able to restructure his/her business to maintain overall profitability. Integration means that Post Office opening hours match retail opening hours – creating a dramatic increase in Post Office opening hours. As part of the conversion exercise they receive investment to re-configure their premises and a one-off lump sum equal to turnover for the last year.
- For those post offices who wish to leave the business and for those cases where the postmaster cannot demonstrate sufficient retail for future sustainability, and where there is another suitable business in the village, the post office may move to be co-located with that alternative business with the existing Postmaster receiving remuneration equal to 26 months gross turnover.
- Community and outreach post offices, of which there are about 3,300 (approximately 1,000 of which are mobile or outreach offices). These are post offices where there is no other retail business within a half a mile radius - the last shop in the village. These post offices remain on the existing contract and retain the fixed element of remuneration. They also have the opportunity to access investment to benefit the future sustainability of their business or to benefit their post office customers through a £20m community fund.

The case study of the UK is interesting in that they have broken down their Network into different segments, by business volumes and commercial or geographic criteria.

The challenge for An Post and the Postmasters is to remain relevant to the customers of today and tomorrow, to improve peoples' perceptions of the Network and the value that it can bring to their daily lives. The first step in this process is the Network review, which will also need to examine the products and services that consumers want, where they want them and through what channels. The Group is suggesting that some rationalisation or streamlining of the product/service offering may be required according to the various grading of the post office. This activity needs to be followed by the preparation of a modernisation plan for the Network and how it wishes to present itself to consumers. It is noticeable that in the UK many local post offices have done away with the 'Secure Facility Positions' (the security glass and locked room) with no increase in attempted thefts (the safes preclude quick release of money). This allows the post office to not only change the dynamic of the interaction with the customer but also increase the opportunity for selling a different suite of products and services. While this approach is not appropriate for all locations, particularly those that handle large amounts

of cash, it may be suitable for a number of smaller post offices where a mix of secure and open positions might be possible, recognising that post offices in Ireland generally handle more cash than their UK counterparts.

Perhaps the biggest challenge facing An Post, the Postmasters and ultimately, Government is that with falling mail volumes and changing consumer preferences the Network may simply be the wrong size and shape for modern Ireland. Before coming to this conclusion, the Group discussed this issue extensively and assessed a wealth of data prepared by An Post. The most telling statistic is that 48% of post offices only completed 12% of the business undertaken by the Network. So where does that leave these post offices? In our opinion, the review of the Network is of fundamental importance not just for the immediate viability of the Network but also for its long-term sustainability. Such a review has the potential to impact DSP and will require their input.

In advance of the review being undertaken, the Group has attempted to broadly categorise all post offices into three groups – **Retail+**, **Service+** and **Community** post offices. It is useful to restate the Post Office Business by Size of Office Table that was previously published in the Initial Report, as condensed into the three categories.

Table 1:
Post Office Business by Size of Office (2014)

Offices	Number of Offices	Cumulative Number of Offices	Number of transactions per category	Cumulative Number of Transactions	% Offices	% Business
Retail +	300	300	87,466,842	87,466,842	26.4%	66.0%
Service +	400	700	34,356,594	121,823,436	35.2%	25.9%
Community	435	1135	10,643,436	132,466,872	38.3%	8.0%

A Retail+ grouping is made up of post offices with the largest footfall and account for 66% of the retail business. They are profitable, have significant potential for growth and should be used to drive the overall profitability of the Network. They should also have incentives and growth targets. This would equate to the Crown and Main post offices in the UK.

A second group, Service+, would be made up of post offices whose activity levels place them in the range of loss making to marginally profitable. This category would account for 26% of the business.

The final grouping, Community post offices, would be made up of all other post offices where the economic rationale for their retention is less compelling. This is not to say, or recognise, that there may be strong social reasons for their retention, but it is more a

recognition that their continued viability may be more a reflection of the individual postmasters' desire to retain the service in the community rather than a compelling financial reason to keep them open. Such post offices may often be co-located, in which case the post office is making a contribution to the overall business rather than as a standalone entity. One takeaway from the Group's visit to the UK was that their strategy clearly involved a post office being attached to another business, rather than the other way around – which had been the norm until the commencement of their transformation programme. This is a model that the Group is recommending for all post offices in the Service+ and Community post office categories. Retailers in these instances should view the income generated from the post office as a complement to the existing business rather than as a means of sustaining their retail business.

The following Table 2 provides an overview of the breakdown between co-located premises across each of the three categories:

Table 2:
Co-located Post Offices

Category	Stand alone	Co-located
Retail+	190	110
Service+	232	168
Community	160	275
Total	582	553
Percentage	51%	49%

Although Retail+ post offices are equally threatened by a reduction in Government business, they have potential for growth given their high footfall. However, the existing model does not encourage these post offices to develop to the extent that they might. An Post should, as part of the review, look carefully at the relationship with these offices and put in place structures that will ensure the maximum value is extracted from them. These offices should also be assessed from a customer experience perspective and given a fresh look. While the Group recognises that, as long as the post office business remains concentrated on cash transactions, it is unlikely that many secure facilities can be removed from busy offices, it may be possible to introduce some open counter areas as well as secure facilities.

Service+ post offices should be encouraged to maximise the opportunities that are available to them. In the first instance, those not already co-located with commercial retailers should be encouraged to co-locate. The second element that needs to be considered is the customer experience and whether there is a requirement to retain all of the secure facilities or is there a possibility to introduce some open counter areas? A third element that should be assessed is the level of products and

services that are on offer and whether certain offices should focus on specific elements of the portfolio. Postmasters need to recognise that they also have a responsibility to grow the business rather than rely on An Post and Government to protect their income levels.

Community post offices by their very nature struggle for commercial viability. If they can't co-locate or modernise to the extent where they reach defined criteria then it raises clear questions over their future. It is worth noting that the decision to close post offices is not based on consumer demand, rather it is the Postmaster that decides when they are handing back the franchise, leaving An Post with a decision to identify a replacement provider or to consider closing that outlet.

Without having considerably more detail it is impossible to predict how many offices should be classed as Community post offices. The suggestion of the Group is that other options should be looked at where it is uneconomic to retain a fulltime post office presence. One of the concerns that the Group has for a number of these offices is that given the age profile of many Postmasters it is likely that when they choose to vacate their position, An Post may struggle to attract a new Postmaster in the

current model, assuming the office is required for the future.

In support of the above categorisation exercise, An Post has produced, as a starting

point, an indicative outline of what products and services could be offered in each category of post office in Table 3 below. Any analysis of products and services should highlight the profitability of each product in each branch.

Table 3:
Products and Services by Category

Product	Retail +	Service +	Community
Social Welfare	X	X	X
Billpay	X	X	X
Postal Money Orders	X	X	X
AIB Transactions	X	X	X
NIB Transactions	X	X	X
Ulster Bank Transactions	X	X	X
POSB	X	X	X
Mobile Phone Top Ups	X	X	X
Stamps	X	X	X
Mails	X	X	X
Packets & Parcels	X	X	X
Mobile Phone Top Ups	X	X	X
Garda Fines	X	X	X
Licences	X	X	
Business Bank	X	X	
Gift Vouchers	X	X	
Western Union	X	X	
Other money transfer	X	X	
Other Savings	X	X	
Prize Bonds	X	X	
Foreign Exchange Card	X	X	
Foreign Exchange Cash	X		
Postshop	X		
Postmobile	X		

The Group believes that there is also an opportunity to provide additional SME services as these companies tend to have requirements for cash services – an area that An Post specialises in. The Group recognises the potential of the Network to facilitate to support and facilitate social and private enterprises by providing local access to expertise, cash and other services. One such example is in South County Dublin where Beaufort, a day care facility for the elderly, now deposits the cash it collects from clients in the local post office, rather than in the nearest bank, both because the post office much closer, but also easier to use. This is a great example of what the Group believes needs to happen elsewhere, namely local organisations helping each other and the local economy. Local post offices should be incentivised to actively canvass organisations in their area to identify what services they can provide for them. There are also obvious opportunities if an online system for handling weekly/monthly fees or subscriptions, can be

integrated with physical cash handling.

The Group reached out to the Irish Small and Medium Enterprises Association to provide some input on services that might be of interest to their members, or that are offered in other countries. Areas identified for further consideration by An Post could include:

1. A drop and go branch service for parcels – a fast track service for SMEs;
2. Business banking - including international payments;
3. eCommerce solutions for small businesses to trade online;
4. Business Insurance - self-employed, homeworkers, shopkeepers, property owners, van, office and surgery;
5. Selling office supplies and equipment;
6. Click and Collect (and returns); and
7. Facilitation services for local mailings.

Recommendations

The Group has identified the following 12 recommendations relating to the operation of the Network and what measures can be taken to improve its operation in the future.

Recommendation 1: Network renewal

The Group recommends that An Post should, on foot of this Report, review and amend, where appropriate, the five-year strategy for the Network over the next 6 months with the input of the Shareholder, Postmasters and others (such as DSP) where appropriate. At a minimum, this strategy should address the following: the number and spatial distribution of branches, streamlining of products and services, grading system, Postmaster

payments and contracts, products & services, training and qualifications for post office employees. The Group recommends that this work should start as soon as possible.

Given the importance of the Post Office Network to the local community, the Group are concerned that during the transition that is envisaged in the proposed new strategy, the remuneration of post offices may reduce and their survival will be threatened. It is vital that the Network is not undermined during this transitional stage and the approach to remuneration in the UK Post Office Network be adapted to suit, with the necessary Government support given to the process.

Recommendation 1a: Network Modernisation: Refresh, Renew, Reinvent

The Group recognises the work that An Post has undertaken to date on how it presents to the public. However, the Group is recommending that there is a need for the Network to continue to improve and modernise. The Group recommends a similar process be examined for Irish post offices to that followed in the UK. In the first instance, the preparation of a modernisation plan for all post offices needs to take place. In line with the proposed re-grading of post offices into Retail+, Service+ and Community categories, post offices falling into different categories should be modernised in different ways in order to best fit the community that they reside within. Improvement and modernisation should be not be optional, all post offices should be expected to reach a defined standard.

Recommendation 1b: Performance targets for post offices

It is important that every post office plays its part within the Network. While the Group recognises that every post office is different, it is imperative that An Post identify, agree, implement and actively manage performance targets for all post offices. These targets should be appropriate to the size of post office and the level of transactions that they undertake. It is important that Postmasters play an equal part in growing the business.

Recommendation 1c: Co-location

It is evident that for the majority of post offices unless they co-locate with other services, be it a shop or otherwise, there is little prospect of them surviving and thriving. The stark choice is to modernise, co-locate or vacate. Rather than viewing this as a threat to the status

quo, it should be seen as opportunity for renewal and growth. Co-locating post offices need to be with retailers which are already commercial entities. The post office business needs to be seen as incremental rather than the main income source, with the details around ownership, including co-ownership or otherwise, would be dealt with as part of the new Postmaster contract.

Recommendation 1d: Where possible, remove secure facilities from smaller post offices

Modern post offices need to create a new image for consumers. It is noticeable that the majority of the banks, as they reduce their cash transactions in branches, are starting to move away from facilities that are dominated by secure facilities, with an increasing number of staff moving to ‘front of counter’ and increased automation of services. This approach is more accessible and engaging for the customer. Aligning this to the development of a modernisation plan, An Post should look at removing secure facilities from those post offices that don’t handle large amounts of cash on a daily basis. Evidence from the UK shows that there is no increased risk of theft or robbery as the safes preclude large amounts of cash to be withdrawn quickly. This enables smaller post offices to be better integrated with the businesses within which they are co-located.

Recommendation 2: Extended opening hours

For post offices there is an imperative to be open at times when the customers wish to avail of services. Where appropriate, Post Offices should be open for longer hours, including lunchtime opening. Integrating post office tills with Point of Sale terminals

for some services may serve to reduce costs and ensure out of hours service provision. The Group recognises that for some smaller post offices, additional opening hours will need to be balanced with the potential for greater business. It should also be noted that in the UK that some Community Offices do not open every day or are serviced from alternative premises including mobile units.

Recommendation 3: Recruitment, Training and Development

Given the age profile of Postmasters, the Group believes that there is a clear need to ensure that the human resource capital of the Network is actively managed and developed. For many, the public face of the company is the local post office. As a consequence, An Post needs to continually review its processes to ensure that areas such as the recruitment of Postmasters, training and accreditation, and service quality standards are developed and maintained. There is a real opportunity to capture and utilise the knowledge and experience of postmasters. An Post should also continue to ensure that new postmasters are recruited with the necessary retail and customer service skills. Postmasters need to actively embrace new training and products and, in particular, be willing to be more sales and customer service focussed.

Recommendation 4: Develop new closure protocols

There is no policy to close post offices. This is a statement that has been repeated often by the Government yet has failed to disseminate widely. The opening and closing of post offices should be driven by customer demand and not anything else. As part of the 5 year strategy, An Post will have to address the issue of post office closures and develop a policy in regard to

postal services where this arises. Postmasters will need to work much closer with An Post to ensure a smooth transition if they intend to terminate their contracts. Closure procedures and protocols should also be reviewed as part of the new Postmaster contract.

Recommendations 5: Alternative Approaches to Service Delivery

Consent was reached throughout our engagements and over the course of our analysis that it is difficult to see some post offices surviving changing demographics and consumer preferences. This is reality and should be considered part of a natural social and economic cycle. At the same time as these changes impact the country, An Post needs to recognise that there are different ways to reach customers and that multiple channels need to be developed to better deliver services, such as through working with Credit Unions. An Post has recognised this and has developed other channels such as PostPoint and online channels, and while these may be suitable for certain situations greater attention needs to be given to ensuring that there are multiple models of delivering postal services to customers depending upon their needs. In this regard, the Group recommends that An Post should develop alternative arrangements, potentially including traveling services, part-time services for some offices and voluntary/co-operative models. This approach has been followed with some success in the UK in rural areas.

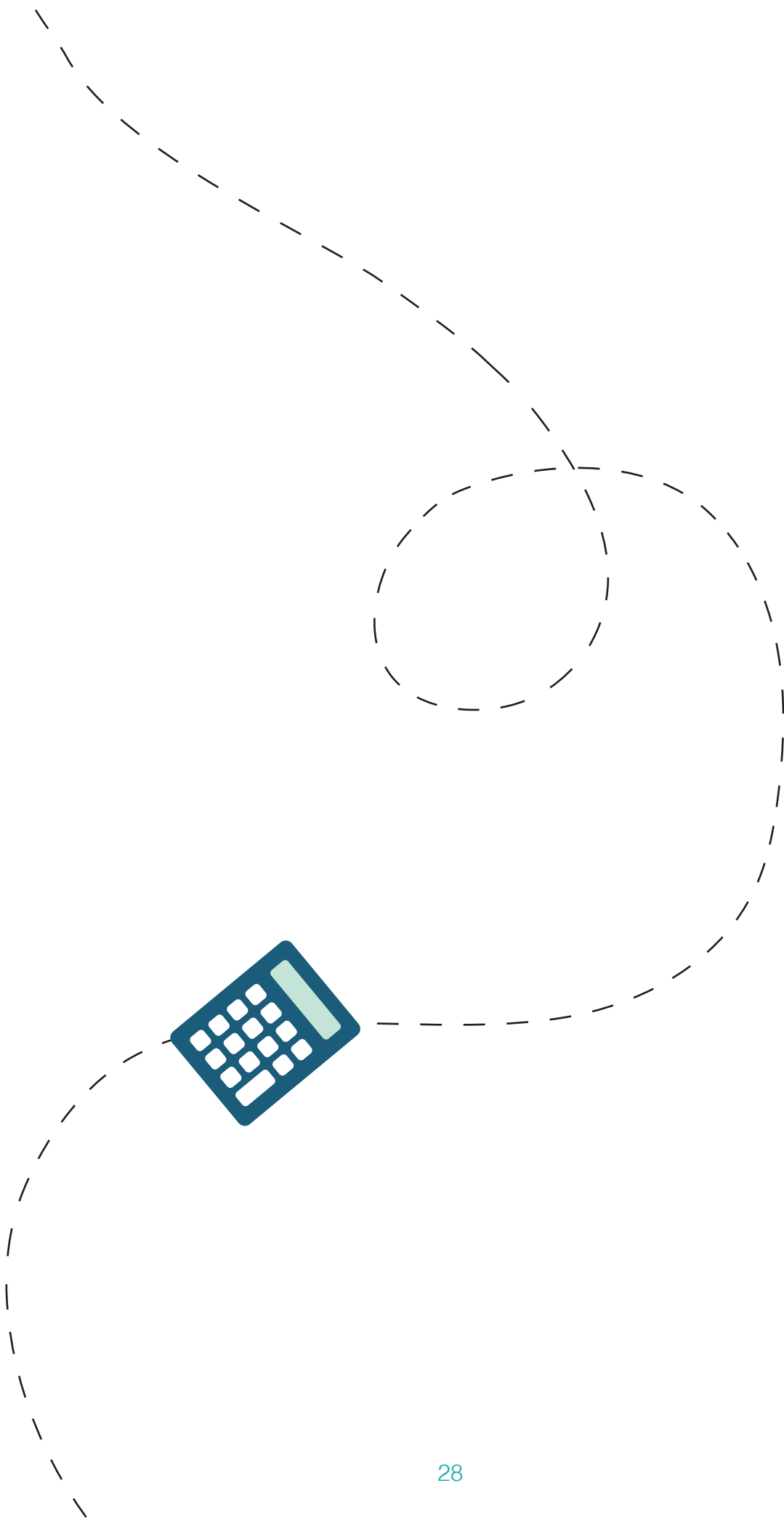
Recommendation 6: Introduce a new form of Postmaster franchise that encourages Postmasters to develop their business.

Postmasters, as small business owners, need to be encouraged to develop their business side-by-side with the post office franchise.

A greater emphasis on co-location will naturally spur this activity but the introduction of a formal development programme is recommended. A new commercial contract is needed between An Post and Postmasters to recognise the commercial environment in which post offices operate and to incentivise and reward correct behaviours.

Recommendation 7: Services to SME Customers

The Group recommends that An Post investigate whether it could provide additional services to SME customers through the Post Office Network, such as a parcel drop and collection service or additional banking facilities.



03 FINANCIAL SERVICES

The importance of financial services was recognised early on by the Group as fundamental to the future viability of the Post Office Network. Financial services are a critical business area, accounting for 76% of the retail

business revenue earned by the company and 68% of transaction earnings of Postmasters. Financial services available in post offices currently include:

Table 4:
Financial Services in Post Offices

Service	On Behalf of	Proportion of Retail Income 2014	Proportion of Postmasters' Commissions
Payment of Social Welfare payments	DSP or BOI (Cheques)	28.7%	35.1%
State Savings Services	NTMA	26.7%	9.7%
Bill Payments	Utilities, local authorities, Garda Fines, etc	9.7%	15.5%
Money Transmission	Postal Money Orders Western Union	3.7%	2.9%
Foreign Exchange	FX Cash FX Cards Sterling Drafts	3.7%	1.1%
Banking Services	AIB, Ulster Bank and Danske bank	3.2%	3.4%
Total		75.7%	67.7%

Over the past ten years the revenue earned from financial services has increased by 33%, with growth experienced across all of the areas listed in Table 4. While positive, the main threats to the profitability of the Network come in the same areas. These challenges are so severe that they pose a serious threat to the size and composition of the Network unless action is taken. There are of course opportunities, but many of these will require active Government support. One such opportunity is the Basic Payment Account that An Post is developing, which could be used to help drive the Government's Financial Inclusion Strategy.

The Group is of the opinion that financial services will continue to increase in importance to An Post's bottom line and recommends that the Company, as part of its Strategy review, continue to develop and communicate a clear financial services strategy for the next five years. This strategy should include providing services on behalf of third parties as well as to becoming the owner and 'brand' of products, one example of which is the Basic Payment Account. An Post needs to identify what services can be developed and implemented in the short, medium and long-terms. The opportunity exists for An Post to become a new banking force in Ireland.

Welfare Payments

Welfare payments are currently the lifeline of the Network, accounting for 29% of all retail income, and more importantly, 35% of what is paid to Postmasters. However, activity levels are currently in decline due mainly to two reasons. Firstly, post offices are attracting a very small share of new DSP recipients, in particular those receiving pension and Child Benefit payments. An Post estimate that between 10-20% of new recipients choose the post office as their preferred location for receiving their payments; instead they choose Electronic Funds Transfer (EFT) to their bank accounts as the majority of people reaching pensionable age already have a bank account. For example, it is Government policy to pay serving or former public servants by EFT.

The second reason why revenue from DSP is facing downward pressure is due to falling Jobseeker numbers, while of course welcome from a national viewpoint, it means less transaction and footfall in post offices. The

Post Office Network services approximately 680,000 DSP customers weekly and approximately 160,000 Child Benefit recipients monthly.³ In 2014, transaction numbers reduced by over 5%; and it is expected that this year they will fall by a further 6-8%.

One of the central pieces of information that emerged from the Group's Initial Report was the importance of transactions by DSP customers to the other business activities undertaken at post offices. It is common for DSP customers to undertake other financial and retail transactions such as bill payments, savings and mobile top-ups. Loss, or a significant diminution, of the welfare business will inevitably lead to a corresponding drop in the level of transactions being undertaken in other areas.

The decline in transaction activity that started in 2014 is very likely to continue as customers increasingly choose to receive their payments

³ There is some cross-over between these figures.

via EFT, which is in line with Government and DSP strategy to reduce cash payment levels and encourage financial inclusion for all. Without a payment account offering the level of welfare payments made at post offices will reduce very significantly in the coming years, with a corresponding reduction in the level of income for both the Company and Postmasters. Reduced DSP payment levels will also continue to impact on the ability of An Post to recruit replacement Postmasters. The provision of a Basic Payment Account through post offices could help to reduce the inevitable decline in income from welfare payments.

An Post has expended significant time and expense in investigating the feasibility of offering their own payment account into which DSP payments could be credited. The Company has concluded that providing such an account is a viable opportunity, a view that is strongly shared by the Group. The Company has completed a tender process to identify suppliers with whom it could work to introduce such a facility. However, given the company's financial position, An Post is not in a position to offer such a payment account free

to customers or even at a reduced cost when compared with the current cash payment model, which is paid for by DSP on behalf of their recipients.

The Group understands that An Post has been in ongoing discussions for the past few months with a number of Government Departments to try and identify a potential business and funding model that would see the introduction of such an account. The Group is of the opinion that the provision of such an account is of fundamental importance to the viability of the Post Office Network and that every effort should be made for the account's introduction as soon as possible. Notwithstanding this, the Group is also aware that while the payment account may be the solution to assist in the transition to a cashless society for DSP customers, the remuneration model for Postmasters will need to evolve to match the changing nature of the service being offered. The Group recognises that this will be challenging for Postmasters to accept, but feels that it is inevitable that a discussion around remuneration will need to take place.

State Savings

This business is second only to DSP in its importance to funding the Post Office Network. It is important that this business be retained by An Post and that the Government continue to ensure that future funding of the

National Debt would include funding from Irish citizens through the State Savings products, sold through An Post and the Post Office Network.

Bill Payments

Bill payment in post offices remains a very important business activity with almost 24 million transactions in 2014, the majority of which (86%) are paid by cash with an average bill amount of €70. The high incidence of cash payments is not surprising given that much of these payments take place on foot of DSP transactions. However, like DSP payments, this business is in decline with numbers down approximately 5% in 2015 on the previous year.

This is caused by several factors, including:

- Utilities preference for customers to pay their bills by direct debit. Some utilities offer preferential rates to such customers with discounts not available to customers who chose to pay by cash;
- Customers moving to online and mobile payments; and
- Loss of some key clients who decided to cease using the post office channel in mid-2015 due to an inability to renegotiate costs to reflect market conditions.

On a positive note, An Post has been able to attract new business, such as Irish Water, to offset some of the impact of the above.

It is inevitable that more and more customers will choose to pay their bills in the future by electronic means, using mobile phones, online, etc. However, it is important to recognise that the high level of existing payments in post offices around the country indicates that there remains a strong demand for the service.

Money Transmission / Foreign Exchange

The Group recognises the advances made by An Post in these areas in recent years. The Post Office channel now enjoys a strong market position in the foreign exchange (FX) and Western Union markets. The Company should continue to grow these market offerings including potentially offering multiple currency

options available on a single FX card and make them available at much wider number of post offices. In addition, the company should examine the feasibility of introducing a currency ordering service for smaller post offices, which do not offer the FX cash business.

Banking Services

The biggest opportunity for An Post and the Network lies in the provision of an extended suite of banking/financial services. To date, the Company has focused on providing third-party services while examining whether to provide own brand products such as the Basic Payment Account. The Group believes that An Post need to develop their own portfolio of products and services over which they could maintain greater influence. The Group noted the financial services strategy in the UK and believes that An Post could examine the

adoption of a similar approach, even potentially looking to provide more advanced products such as mortgage services either directly or via a third party arrangement at some point in the future.

We recognise that the level of income earned by An Post in Financial Services already exceeds significantly the level of income earned in the UK post offices, as illustrated in the following Table.

Table 5:**Table 5: UK Post Office v An Post Retail 2014**

Income	Stg £m	Euro €m	Population adjust to Irish Numbers €m	An Post Retail €m
Mail Services	340	466	34	31
Retail and Lottery	48	66	5	3
Financial Services	290	397	29	94
Government Services	141	193	14	70
Telecoms	120	164	12	1
Other Income	37	51	4	1
Total Earned Income	976	1,337	97	200
Population	63.5 Million			4.6 Million
Exchange rate	0.73			

The Group recognises the value in the services that the Company already provides for AIB, Danske Bank and Ulster Bank, all of which are critical for customers in areas where banks have closed branches in recent years. Without the local post office, many customers of these banks would be forced to travel long distances to avail of banking services, be they personal or SME customers. Both personal and SME banking services have seen good year-on-year growth in activity levels, much of it in offices positioned in areas where the banks have remained. While not as significant a contributor to the bottom line as the DSP and NTMA contracts, these contracts are important for An Post and the Post Office Network, not only because it helps to bring in additional customers which leads to increased activity in other areas, it also provides a good base to build a suite of financial services.

The UK Post Office provides similar services for almost every bank in the UK. A similar arrangement could be popular with customers here as well as providing more potential earnings for Postmasters and An Post. The technological infrastructure available at all post offices can easily facilitate links with all financial institutions. The Group is aware that An Post has previously attempted to negotiate a similar arrangement with the banks and would urge them to maintain open lines of communication and attempt to increase the number of banks using the post office channel.

In the UK the Post Office has entered into a very profitable arrangement with Bank of Ireland to provide (in the main) external ATM services. The Group recognises that part of the reason why this is profitable is down to the market position of Bank of Ireland vis-à-vis other UK banks. The Group strongly recommends that this area be examined to see whether a model could be identified to work in the Irish market.

Insurance

An Post owns a profitable subsidiary company, One Direct, which offers a diverse range of insurance products through various channels, including having staff directly located in some company staffed post offices, a call centre and website.

One Direct provides the following services:

- Motor insurance;
- Home Insurance;
- Life Assurance;
- Travel insurance;
- Gadgets insurance; and
- Motor finance.

They are also actively examining other products. All post offices are encouraged to refer customers to One Direct which results in a payment to the post office if that referral results in a sale of an insurance product.

The Group believes that an enhanced level of insurance services could be offered at post offices. Regulation plays a large part in what can be offered and where, however the following

services are being investigated by An Post:

- The possibility of a hub and spoke infrastructure where One Direct personnel visit post offices on scheduled days to meet the customers of that office. The Postmasters could set appointments for their customers.
- The possibility of some Postmasters undertaking the appropriate financial examinations and becoming regulated to provide insurance services on behalf of One Direct in their area.
- The possibility to enhance the current referral system so that more information could be provided to customers.

If financial services are to play an increasing part of the future for An Post, then the Group recommends that the Company actively consider identifying a number of post offices that could develop into more advance financial providers, similar to the approach adopted in the UK where approximately 200 Crown Post Offices have qualified financial advisors. A number of Retail+ post offices would be a good fit for an enhanced insurance offering.

Credit Unions

The Group identified early on the potential for a link-up between An Post and the Credit Unions as both organisations are in the midst of significant structural and environmental change. Both An Post and the Credit Union movement are under pressure to maintain service delivery in the face of changing market dynamics and a move to digital service provision – made more complex for credit unions not having a single IT infrastructure. But developing a coherent, and profitable,

digital platform presents challenges for both organisations, not least cost concerns. How best to attract and retain customers in a crowded environment when bigger, more technologically advanced companies are entering the financial services space? This is the question that both organisations are asking themselves. By working together, they could potentially pool resources and develop products and services that are closely aligned. The Credit Union movement has over €11

billion available to lend. With a combined Network of over 1,400 branches a tie-up could potentially offer enhanced customer offerings in the financial services sector. The recent collaboration on Micro-Credit, working with DSP, is testament to the strong relationship that exists and the potential for this to develop further.

In the eyes of many, the two organisations are naturally complementary, although the Group does recognise that they are in competition in areas such as savings, Billpay, foreign exchange, etc. In addition, both parties are either providing or proposing to offer Debit Card products. However, given that a third banking force has not materialised in Ireland, even after the fundamental structural changes that have taken place in the last 8 years, it suggests there may be an opportunity to create a customer focused, trusted, national movement. This is a message that was posited to the Group by many people active in both the banking sector, as well from the Credit Union movement.

One of the recurring questions that the Group kept coming back to was, why collaborate? Ultimately, there were a number of elements that collectively make us believe that there may be an opportunity. Firstly, both organisations' purpose is the provision of "essential" services to members and citizens, as opposed to being "traditional commercial entities". Secondly, to assist the preservation of community based financial services, particularly in rural Ireland and under-banked urban areas. Thirdly, both organisations are struggling to compete against better funded competitors; sharing costs could potentially be a smart way to develop. However, ultimately the overriding reason to collaborate is that it would have to be to both organisations mutual benefit to collaborate rather than compete.

The Group believes An Post and the Credit Union movement (either collectively or a group of interested Unions) should formally examine a range of options and determine if there are viable potential collaborations to be pursued.

Opportunities for Collaboration

The Group has set out below a number of potential initiatives that the Group believes could be examined by both organisations.

Sharing physical spaces within existing properties;

1. Servicing of each other's customers;
2. Selling some of each other's products, including the provision of loans through the Post Office;
3. Credit Unions being appointed as Postmasters in instances where the service may be otherwise lost to the community;

4. Explore the possibility of Credit Unions using BillPay service to accept Customer lodgements;
5. Collaboration on the general insurance offering; rewarding referrals; and
6. Co-Branding & marketing on the back of a formal linkup.
7. Rolling out a Debit Card product across both Networks;

The Group recognises that for any of the above suggestions to come to fruition there are a number of barriers that will need to be overcome. In the first instance, a formal tie

up between An Post and the Credit Union movement will require modest legislative change to enable An Post Services to be sold through Credit Union facilities. Likewise, An Post would need to devise a means of allowing Credit Unions to operate as a Postmaster. None of these barriers are insurmountable

should a strong rationale for working together emerge. In the market that exists today, with an accelerated move to digital platforms, both companies need to embrace change and the opportunities that present themselves to reinvigorate their **raison de-être**.

Recommendations

The Group is recommending the following four actions in respect of financial services:

Recommendation 8: Basic Payment Account

The Group recommends that the Government and An Post finalise their discussions and agree on a business model to facilitate the introduction by An Post of payment accounts to DSP clients, amongst others. The introduction of the account is of critical importance to the Post Office Network and should be designed to actively incentivise users to transact in post offices. Ideally, this will allow post offices to not only retain an important revenue stream from this business, but also grow the level of footfall from these customers and the additional business that brings. This payment account must include:

- Debit card;
- Full access to ATM and point of sale worldwide;
- Standing orders and direct debits;
- Jam jars to facilitate budgeting; and

- Internet, phone and App based banking.

A marketing plan should be introduced to underpin the rollout of the new accounts and signify the arrival of An Post as a new banking force.

It is also important that DSP continue to offer the cash payment at post offices option to their clients and the Group recommends that the cash option has the same status as EFT payments in all DSP claim forms.

Recommendation 9: Financial Services Strategy

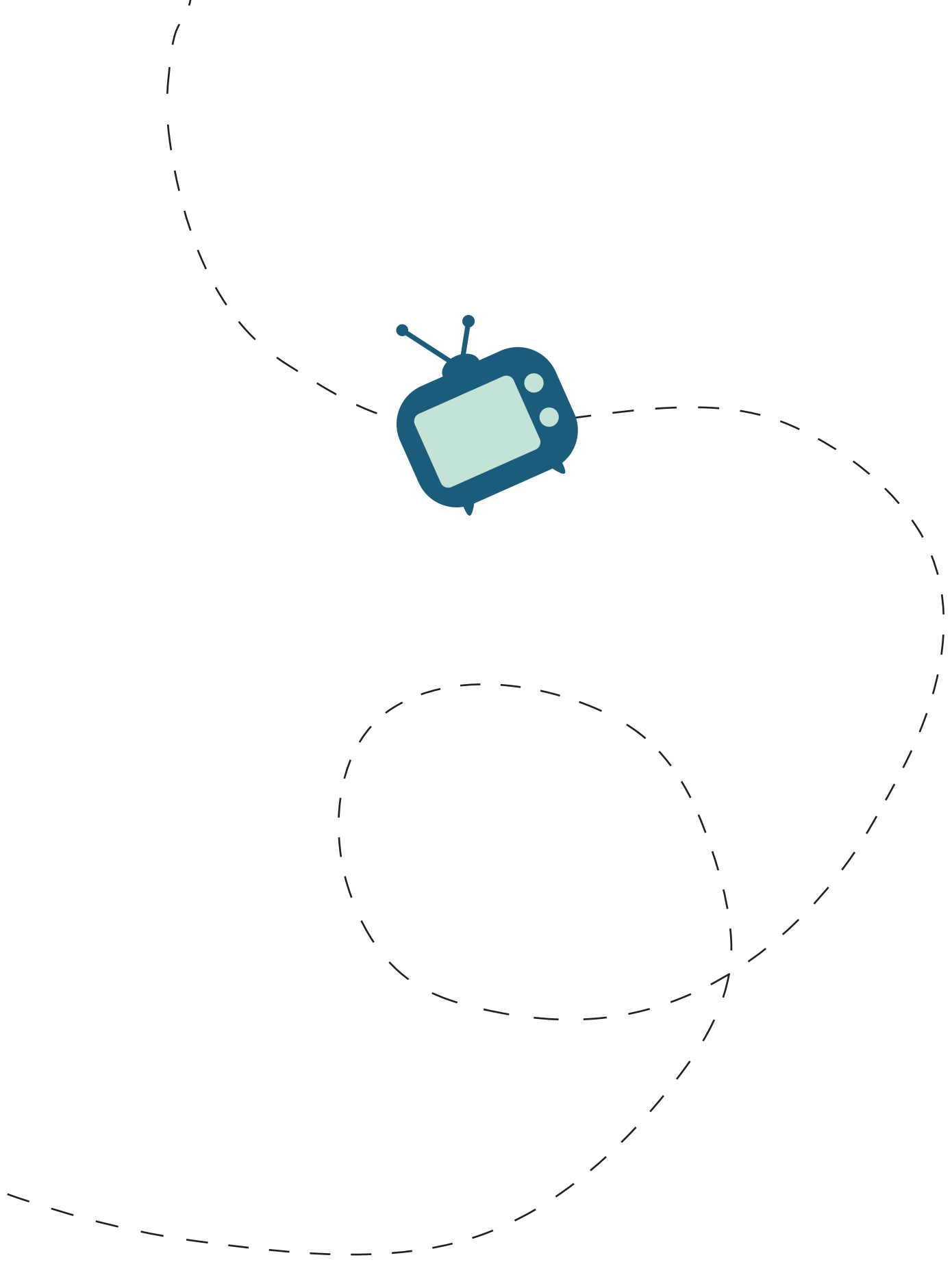
The Group recommends that, as part of the 5-year strategic plan review, An Post, with the input of Postmasters and the Shareholder, develop and articulate a clear financial services strategy that would set out its ambitions for the area over the short-term (12 – 18 months), medium-term (18-36 months) and long-term (36 months+). This strategy should be aligned to the ongoing evolution of retail financial services in Ireland and the move towards a better customer experience.

Recommendation 10: Credit Unions

The Group recommends that An Post develop a formal structure with the Credit Union movement, either through a representative organisation or interested unions, to establish what, if any, scope there is for linkup.

Recommendation 11: ATMs

The Group recommends that An Post examine the potential for introducing external ATMs into post office premises to establish whether a model could be identified that would work in the Irish market.



04 GOVERNMENT SERVICES

The existing Post Office Network underpins the economic structure of many communities in rural or economically deprived locations. As banks and other institutions move away, these communities become more vulnerable. The Post Office, and to a lesser extent Credit Unions, are often the last remaining commercial entities in the area. In order to arrest this economic decline and to bring Government closer to the people, the opportunity exists for a suite of Government services to be provided by post offices.

An Post provide a number of services to Government Departments, agencies and local authorities, including:

- TV Licences
- Dog Licences
- Firearms Licences
- Garda Fines
- Passports

The challenge for governments generally is the provision of services in a digital age. There are huge savings to be realised by moving service delivery online. This is the nature of societal development and the Group is not suggesting

that this progress be halted, but Government should also plan for those that are unable or unwilling to choose this way of interacting with Government. In many respects, the Network is ideally placed to deliver personal services to citizens in a trusted environment that is already viewed by many as a part of Government.

The Network has a number of critical strengths in relation to the provision of Government services:

- The Network provides a vital infrastructure that local economies need to prosper;
- An Post is widely trusted by its customers for providing high quality secure services which makes it the natural home for the provision of Government services;
- The scale of the Network ensures that these services are in easy reach of the entire community;
- The improved access to Government services empowers communities to generate increased local economic and social activity;

- Postmasters and their staff already provide advice and assistance to their communities in relation to Government services;
- Efficiencies can be realised by viewing Government services collectively rather than piecemeal, and rather than all Government bodies having to provide or pay for different systems, using a multiple provider approach would reduce overheads and inject competition into the market; and
- The breadth of the Network would see a greater Government presence in the community, resulting in easier access to essential services.

There is obvious merit in the provision of greater physical access to Government services through the Network. However, the Group is

aware that there are contractual, procurement and, potentially, state aid implications involved. Nevertheless, the Group believes that there is a strong rationale for a greater focus on providing Government services through the Post Office. Government could reconsider the reliance on single provider contracts. Where the scale of activity allows, Government could be better off allowing multiple vendors to provide the service. Not only would this drive competition amongst providers, but it would also allow Government to clearly identify what costs it will be exposed to. An example of this approach was the payment of the Property Tax where customers can avail of the service at many different outlets including post offices. The main difference for providing this service is that the customer rather than the Government pays for the service. This approach may not be appropriate for all services but may be suitable for some.

Government Service Opportunities

There are a number of clear opportunities to provide Government services to the public through the Network, including potentially through mobile units (discussed previously). The most financially valuable part of the Post Office Network's business is delivering DSP payments on behalf of Government. Postmasters are paid for delivering these payments on a per transaction basis with approximately 50% of all social welfare transactions taking place via cash payment at post offices, accounting for 29% of the total retail business. A valuable component of the payment process is fraud deterrent, which requires a person's presence at a post office.

The Government's digital strategy is moving rapidly towards electronic payment of all Government monies, including ultimately DSP

payments. While customers will ultimately choose which option they prefer in the long run, in the short term this strategy has the potential to move DSP business from post offices to the banks. While it would be futile, and inappropriate to suggest that the Government should consider rolling back its digital strategy, the Group recognises that the strategy constitutes a threat to the Network.

To ensure the viability of the Network a solution must be found whereby Post Offices continue to perform a key role in the provision of DSP payments on behalf of the Government. This can involve a mixture of continued cash payments and the development of a Basic Payment Account, as discussed previously. There is potential to redress some of this threat through the provision of other Government

services through the Network, including:

- Motor tax;
- Documentation and identity verification;
- Government Information services and form completion;
- The provision of driving licences;
- Maintenance of the Register of Electors;
- Jobseeker 'sign on'; and
- Other Government payments.

CASE STUDY: MOTOR TAX

The provision of motor taxation in post offices is a realistic option for increasing the number of Government services that could be offered in post offices, while providing customers with a greater choice of locations to renew their tax. The Network could easily facilitate motor tax payments using cash, cheque, debit card or credit cards, while reducing administrative costs associated with the processing of motor tax transactions. An Post estimates that it can provide a motor tax service at an equivalent cost to the existing channels.

Grant Thornton estimated in a report for the Postmasters in 2012 that there was the potential to generate an additional benefit of over €63 million over 5 years; with over €46 million attributed to the Government and a further €17 million for An Post. The net potential annual savings could reach approximately €20 million (PV year 5 in Table 6 below). While the Group recognises that these numbers need to be fully tested, the numbers appear compelling and worthy of further scrutiny.

Table 6:
Potential benefits – motor tax

Benefits (Network and Government)		2013	2014	2015	2016	2017
€'000						
Total		Year 1	Year 2	Year 3	Year 4	Year 5
Benefits						
Operating Income	19,720	1,360	2,720	4,080	5,440	6,120
Staff savings	73,444	4,896	12,241	14,689	19,585	22,033
Total Benefits	93,164	6,256	14,961	18,769	25,025	28,153

Benefits (Network and Government)	€'000	2013	2014	2015	2016	2017
Costs						
Service charge	19,720	1,360	2,720	4,080	5,440	6,120
IT costs	122	122	0	0	0	0
Staff costs	661	660	0	0	0	0
Bank charges	1,183	82	163	245	326	367
Postage	5,610	374	935	1,122	1,496	1,683
Total Costs	27,296	2,597	3,819	5,447	7,262	8,170
PV Benefits	89,581					
PV Costs	26,246					
NPV, Benefit/ Cost ratio	63,335	3.41				

As the banks close offices across rural Ireland they remain subject to 'knowing-your-customer'. When combined with an increasing move to the provision of services online, there is a growing need for an identity verification service. The Group believes that there will be a clear need for a structure to be put in place that allows people a means of verifying their identity online, across multiple platforms. The Network would appear to be an obvious partner in such an endeavour given the presence of 1,135 active post offices across the country. There are also some Government programmes, such as SAFE, the identity verification service for the Public Services Card, which could also be addressed through the post office channel.

For many people the post office still represents the State and rather than ignoring this opportunity, Government should embrace

the potential that this offers. If the Post Office was afforded the opportunity to be paid for providing assistance and advice to people looking for information on Government services then it would help reinforce the role of post offices in modern Ireland.

There are a number of other Government services, such as maintenance of the Electoral Register, CAO grants/payments and jobseeker sign-on that could be provided via the Post Office. The Post Office could be an alternative channel in the Government's strategy of promoting online access to these services, thereby increasing access for customers, while maintaining, or even reducing, the cost of the service provision.

An Post currently maintain Billpay services for domestic customers, which are eminently suitable for the payment for all Government services e.g. HSE payments, local authority

payments etc. and can facilitate the full- or part-payment of charges and assists in money

management and household budgeting.

Recommendations

The specific recommendations arising from our review of the Government services area are as follows:

Recommendation 12: Multiple Vendor Solutions

The Group recommends that the Department of Communications, Energy and Natural Resources work with the Office of Government Procurement to identify what contracts could potentially be put out as multiple vendor solutions and work with Government bodies to devise a timeline that would see this approach implemented.

Recommendation 13: Motor Tax

The Group is of the opinion that the feasibility of the provision of additional motor tax payment channels should be considered. Providing that additional (or alternatives to) the current channels for the payment of motor tax are deemed to be cost effective, that the provision of an additional channel should be examined.

The provision of motor taxation in post offices is a realistic option for increasing the number of Government services that could be offered through the Network and, providing it is cost competitive, should be given the opportunity to develop a representative pilot programme in 100 post offices, the results of which should inform a potential wider rollout.

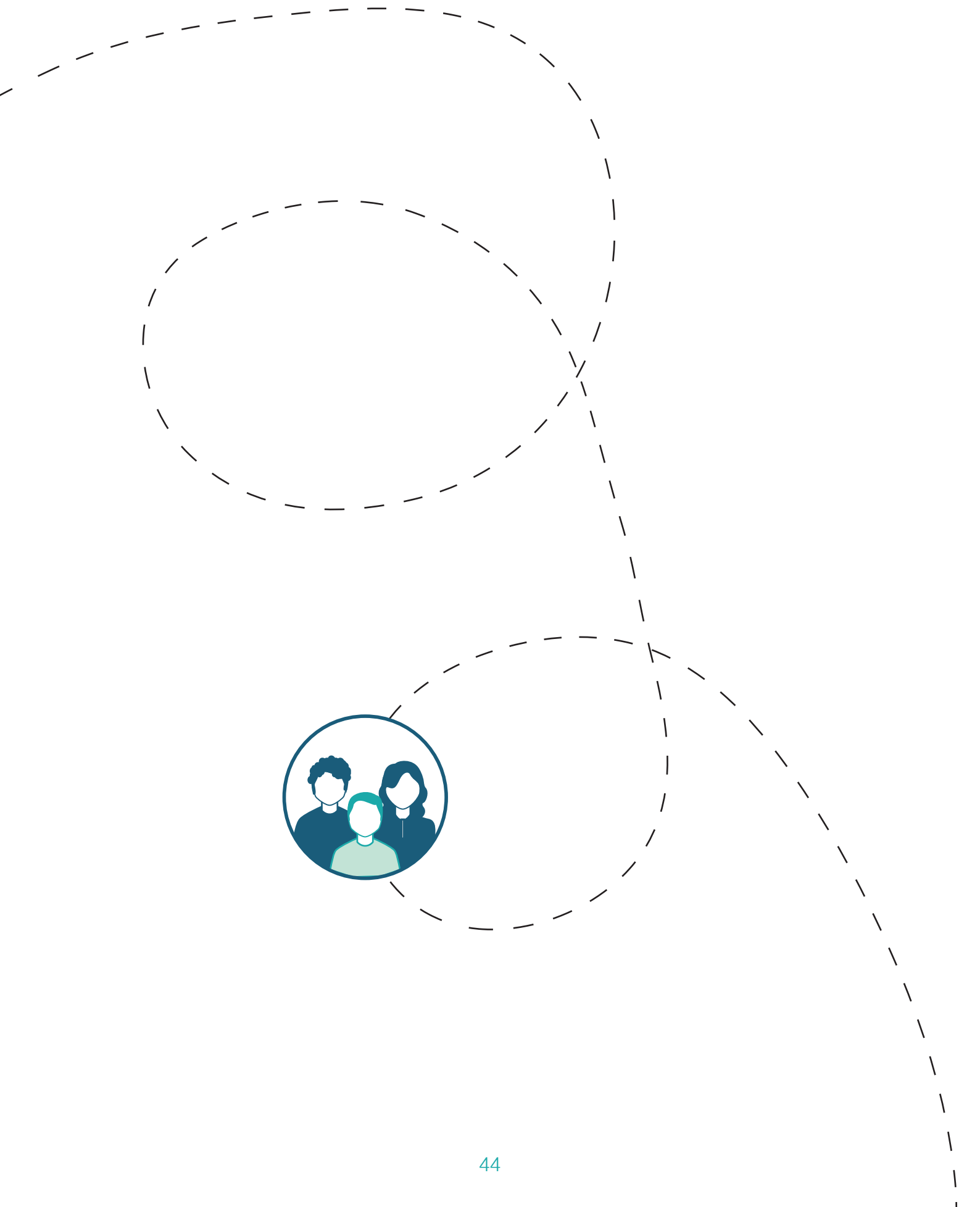
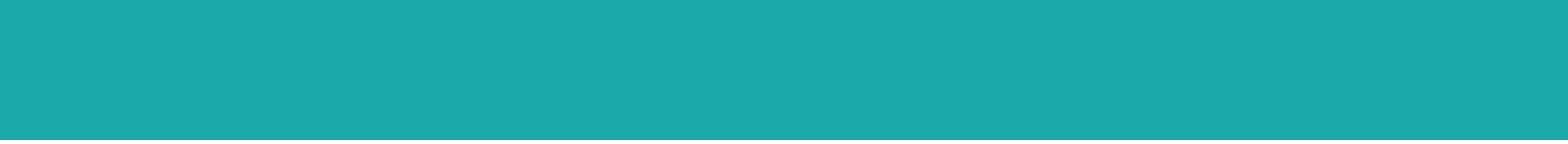
Recommendation 14: Provider of Choice

The Group recommends that the Post Office Network should become a provider of choice

and the front office for all relevant Government services; recognising the value that the Post Office can offer Government. If the rural post office is to survive, Government must have services available in rural post office locations. In line with the categorisation of post offices, a range of government services should be agreed with each category of post office.

Recommendation 15: Identity and Verification Services

The Group believes that there will be a clear need for a structure to be put in place that allows people a means of verifying their identity online and across multiple platforms. The Group recommends that An Post should be at the forefront of these efforts and work closely with Government in order to ensure widespread access to identity verification services.



05 SOCIAL CAPITAL AND ENTERPRISE

The local Post Office is a defining feature of towns and villages across Ireland. It serves as an essential service for facilitating communication and interaction in local communities. This attribute is recognised by the Business Development Group as social capital which, in our view, can be built upon to help develop the rural economy and rejuvenate rural Ireland.

The challenge that the Group set for itself on foot of the publication of the Initial Report was to examine ways that this social capital can be put to work to contribute to economic sustainability and development in rural Ireland. In order to assist us with this task we convened an Advisory Panel, the membership and terms of reference of which are attached in Appendix 2.

One of the features of the consultation exercise, combined with the many discussions held with interested parties, has been the sheer volume of ideas that people have for the Post Office Network – this is hugely positive as it demonstrates the connection that many people have with the service. However, the challenge that the sub-group set itself in assessing the social capital opportunity was

to turn this positive sentiment and wealth of ideas into a commercial proposition.

Clearly we weren't starting from scratch as the Commission on the Economic Development of Rural Areas (CEDRA) has completed work in this area, which is further complemented by an Inter-Departmental Group on Rural Affairs that is chaired by Minister Ann Phelan. This existing knowledge was used to formulate the proposals contained later in this Chapter. Furthermore, we were hoping to jump-start our analysis by engaging with those active in the area that contained a deep knowledge of issues of relevance to rural Ireland.

The 'Hub' concept emerged from these discussions was that the Post Office could act as a valuable facility to help people access and understand State services, utility billing, etc. In other words the local post office could act as a 'Hub' around which Government and community services could coalesce. The Group believes that if rural post offices can further embed themselves into rural communities they can develop new business opportunities. Ideally, this concept could be developed to establish the critical services needed in rural Ireland for communities to have a viable

social and commercial infrastructure. While a useful starting point, the concept needed to be developed into a practical proposition

that was tangible and could generate an economic return for both the Post Office and the community that it resides within.

Communities and the Rural Economy

The Post Office has a unique role in the local community as a service and facility that defines its community. At a time when other defining symbols such as banks may be closing, the Post Office retains its extensive coverage of being within less than 5km from 93% of the population and its status as the key hub for local community life. In this regard, the Post Office Network can play a critical role in addressing the decline of rural communities and the rural economy. The Advisory Panel has identified some of the challenges facing rural Ireland, which are attached in Appendix 3. This information was used to help formulate the 'Hub' proposal.

Existing Government programmes such as the Rural Development Programme (Leader) which targets sustained development inside and outside the farm gate, the Social Inclusion and Community Activation Programme which addresses community development needs, and labour activation programmes such TUS, RSS, Jobpath and Community Employment scheme are all attempts seek to address unemployment, social isolation and personal and community development at local level. It should be noted that the Local Government Reform Act 2014 established Local Community Development Committees in each local authority area, to enhance the strategic planning and coordination of local and community development activity. Local Community Development Committees comprise public and private sector members, including local authority members and officials, State agencies and private sector local and

community development representatives. The role of LCDCs is to:

- prepare the community elements of a 6-year Local Economic and Community Plan (the Plan);
- coordinate, manage and oversee the implementation of local and community development programmes as part of implementing the Plan, and
- coordinate generally local and community development activity within the operational area of the Local Community Development Committee for the purposes of reducing overlap, avoiding duplication and improving the targeting of resources.

Clearly structures such the Local Community Development Committees (LCDCs), introduced by Government, plan for social and economic development of the local authority areas and the Public Participation Network which is the platform for community involvement in decision making at local level through the 'bottom-up' approach, will energise local communities to address their decline, most especially in rural Ireland.

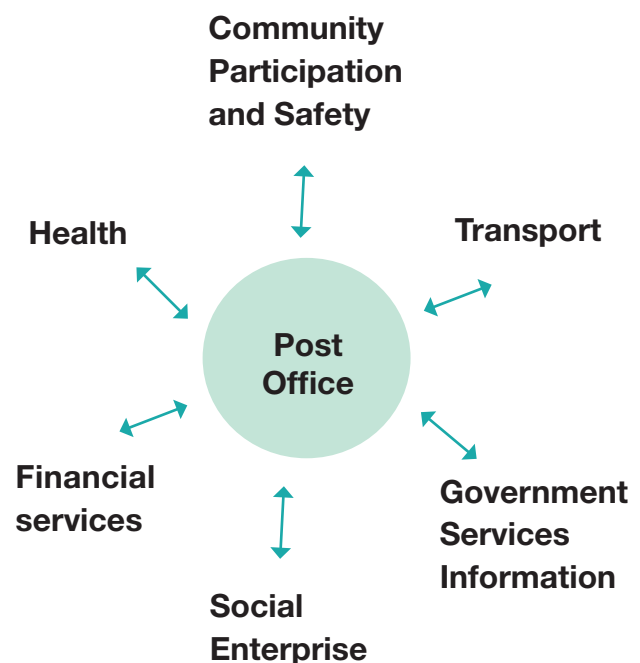
Building a Rural Hub for a Social Interaction and Enterprise Development

As the demographics of rural Ireland have evolved in recent years rural decline has left localities struggling to maintain their identity and community, the significance of the local post office, as often the last remaining place for local interaction has become paramount. The Group recognises the value of the post office as a key piece of rural infrastructure that could revitalise rural communities and is proposing that post offices could act as hubs, around which local social and economic activity would revolve. While the primary responsibility for developing the concept doesn't rest with An Post, the local post office can play an important role in allowing people to access State and commercial services, either directly in the case of financial or government services, or indirectly through the facilitation of other service providers essential to local identity and quality of life.

The Group also recognises the potential of the Network to facilitate the development of social and private rural enterprises by providing local access to expertise, cash and other services. For example, the Network could be used by the Local Enterprise Offices to reach rural areas and communities, or by banks and credit unions to act as local satellite services for rural enterprise promotion. The Network could be utilised as a strategic mechanism for commercial enterprises to access communities in rural Ireland and help its social and economic recovery.

The Advisory Panel looked at what elements make up a community and what services are required in order for the community to thrive. Six areas were identified where the local post office could play an increasingly

important role in the social and economic life of a community. While the Advisory Panel recognise that these services can be provided without the involvement of the local post office, the Network is strategically placed to facilitate these essential services. The key areas identified are as follows:



1. Postal Services

The Post Office lies at the heart of the Hub concept, with the other elements interacting in a variety of ways. Some elements, such as financial services or government information may be provided directly, while others, health or transport could be facilitated through the local post office.

2. Community Participation and Safety (rural isolation)

In addition to having a strong local knowledge,

Postmasters often serve as a trusted key contact point for a community. They therefore may be uniquely placed in being able to facilitate effective Neighbour Watch and Community Alert systems. Such schemes have been in Ireland since 1985 and are operated by community volunteers with active involvement and oversight by An Garda Síochána. Research on Irish initiatives has shown that they are effective in making people to feel more secure and part of a community which is especially important for the elderly and the most vulnerable members of a community. They also can have a role in helping prevent crime, reduce fear and discourage anti-social behaviour.

3. Transport

Rural transportation is a key enabler to combat both social isolation and economic activity in rural Ireland. While post offices may not be directly involved with the provision of rural transportation, it may act as a facilitator (such as retailing bus tickets, booking taxis or car-pooling). Not least because it may increase footfall into their office, but also because of the positive contribution it could make to rural communities. Examples of the type of rural transport initiatives that could be facilitated include Ring a link and the Kerry flyer.

4. Government Services Information

Access to, and assistance with Government services is seen by many as a key function that post offices could usefully provide. As technology advances many people find it increasingly difficult to deal with Government, online or in person. There is merit in the idea that post offices could operate a number of services on behalf of Government, including print on demand, form completion or even engaging directly with government services.

5. Social Enterprise

First and foremost each post office is a business and may have skills and experience that could be of assistance to fledgling entrepreneurs. This could be leveraged into facilitating social enterprises in rural communities. Furthermore, post offices could develop additional expertise to help guide rural companies through their formative years.

6. Financial Services

As the banks retreat from rural Ireland there is a clear opportunity for the Post Office to fill the void. Not only does the Post Office have the largest physical footprint in the country but it also has the necessary technical infrastructure, combined with the knowledge and experience built up over the years of handling complex financial transactions.

7. Health

Access to appropriate health services is an important element of wellbeing – be it a GP, A&E or specialist expertise. As rural demographics change, the health needs of the population evolve. In a number of countries rural post offices with spare space facilitate regional clinics for health professionals, as well as police, entertainment or community activities. In addition, many Postmasters already look out for their elderly customers, ensuring that they receive their payments and check on them if they don't see them for a while.

While it is unrealistic to expect that every community has immediate access to all of these services, these elements play an important role in the ability of rural communities to survive and thrive. The Hub concept is driven out of recognising that depending on the level of services available to each community, the

role of the post office can change and evolve alongside the demand from the community. By evolving to meet the existing and future needs of the community, the post office, with appropriate training, can play an increasingly relevant role in the local community.

We have identified three strands to the Hub concept. Strand one towns are where all of the essential services are present and are accessible within clearly defined towns and their environs. In these situations, the post office has a strong and viable future and should be expected to develop the full suite of postal, financial, social enterprise and government services. Typically, these post offices will be located in the Retail+ category.

Strand two towns are where the majority of services are available, but some services may be absent or require travel to reach or access. These towns are typically smaller with a lower population density. To remain economically viable, the Post Office will need to consider carefully the choice of services on offer and the merits of co-location to share costs and drive footfall. Post offices that fall into this category will typically fall into the Service+ category.

Strand three towns or villages are the smallest category of hub and represent areas where there is likely to be few of the services available bar the Post Office. In these situations, Post Offices will struggle to survive without co-location with other services or a grocery/convenience store or other community services such as community centres. Post offices that fall into this type of category will typically fall into the Community categories.

Post offices located in areas that fall into strand one-type towns or areas should be self-sufficient. They have the size and access to customers that should mean that they

are economically viable. The issue becomes more complex for strand two towns. In such areas, there may be a number of services that are only available some distance away. As a result, there is an opportunity for the post office to fill the void by offering additional services, potentially in a location that may be more convenient for customers. Co-location with other service providers and/or economic actors may act to share costs and increase footfall. Obvious examples of this might be to partner with Credit Unions, enterprise spaces, community centres etc.

In strand three towns and villages, the post office will typically be the remaining economic actor in the village. In this scenario the post office is part of the social contract with society. It is unlikely that the post office can ever return an income that is sustainable on its own. In such instances, the community and An Post should work together to identify how the demand for post office services can be met through alternative means. This should result in new ways of delivery such as community-ownership, co-operatives, part-time services etc.

It is important to recognise that there is a tendency to view the Post Office as a thing, a place of bricks and mortar, when in fact the element that makes it unique is the set of human experiences and relationships that revolve around a series of economic transactions. In developing a solution for the Post Office Network we can't ignore that the thing that we are trying to protect is the social interaction that is facilitated by the economic exchange, or in the future, the economic exchange might be facilitated by the social interaction. Inextricably linked with the economic function, the Post Office contributes to the social fabric of small villages and towns and it can play a central role in a wider social contract between

the State and local communities about a suite of essential services that are needed for local rejuvenation. The Post Office may not be able to provide these but it can facilitate their provision.

An idea that has been implemented in the UK in recent years, and which the Group believes could have a substantial impact in Ireland, is for public bodies to introduce greater social criteria in procuring goods and services, i.e. rural distribution of access to services. The aim of the Public Services (Social Value) Act 2012 is to require public bodies, for the first time, to consider how the services they commission and procure might improve the economic, social and environmental well-being of the area. The Act applies to public service contracts and those public services contracts with only an element of goods or works over the EU threshold. This currently stands at £113,057 for central government and £173,934 for other public bodies. This

includes all public service markets, from health and housing to transport and waste.

A second element of the procurement discussion was to make contracting authorities ask themselves a more fundamental question – is it in my organisation's interest to award a single contract? Where a service is revenue generating, could the contracting body simply invite as many competent bodies to provide the same service under common terms and conditions, and in the process introduce competition to drive compliance, and hence revenue. An example is the provision of licence services. Is the public body better off awarding a contract for the provision of license services to a single entity or multiple entities, with an incentive structure to increase the level of activity? In this way competition is introduced on an ongoing basis with a clearly defined cost structure in place for the public body, which should drive compliance activities.

Recommendations

The Group is recommending the following actions on foot of the input of the Advisory Panel:

Recommendation 16: The 'Hub'

Based upon our analysis, the Group believes that the Hub concept, while still at an early stage of development, has merit and is an alternative way of looking at the vitality of rural Ireland. In this regard, the Post Office could play an important role in rural rejuvenation as a key hub for local interaction and enterprise support. The Group proposes that the Hub concept be explored further and consideration given to rolling out pilot projects (>25) in 2016.

Recommendation 17: Establishing the social value of the Post Office Network

We understand that where post offices provide additional support services that facilitate social and economic development such as local IT access, local access to State agencies and forms and a suite of additional services, an economic value will be required for this additional workload. The Group recommends that the social and economic value to the local community and that the social and community services that local post offices already provide should be quantified and that a monetary value be placed on both the existing unpaid and any proposed new services.

Recommendation 18: Remaining Retail Units

Where it can be clearly demonstrated that a Community post office is the last remaining retail unit in a village, some form of transitional special status will need to be provided if such post offices are to remain open.

Recommendation 19: Embedding within the Community

While it is widely recognised that post offices form an important part of the fabric of Irish society, unless people actually use them it is hard to justify the retention of the Network in its current size and shape. For rural post offices to thrive, they need to further embed themselves into the social and economic fabric of their communities and, just like any other business, become increasingly relevant to their customers. Anecdotal evidence suggests that many Postmasters go far outside their remit in order to contribute to their communities, which can have a positive impact on the profitability of their businesses.

Recommendation 20: Dissemination of Government Information

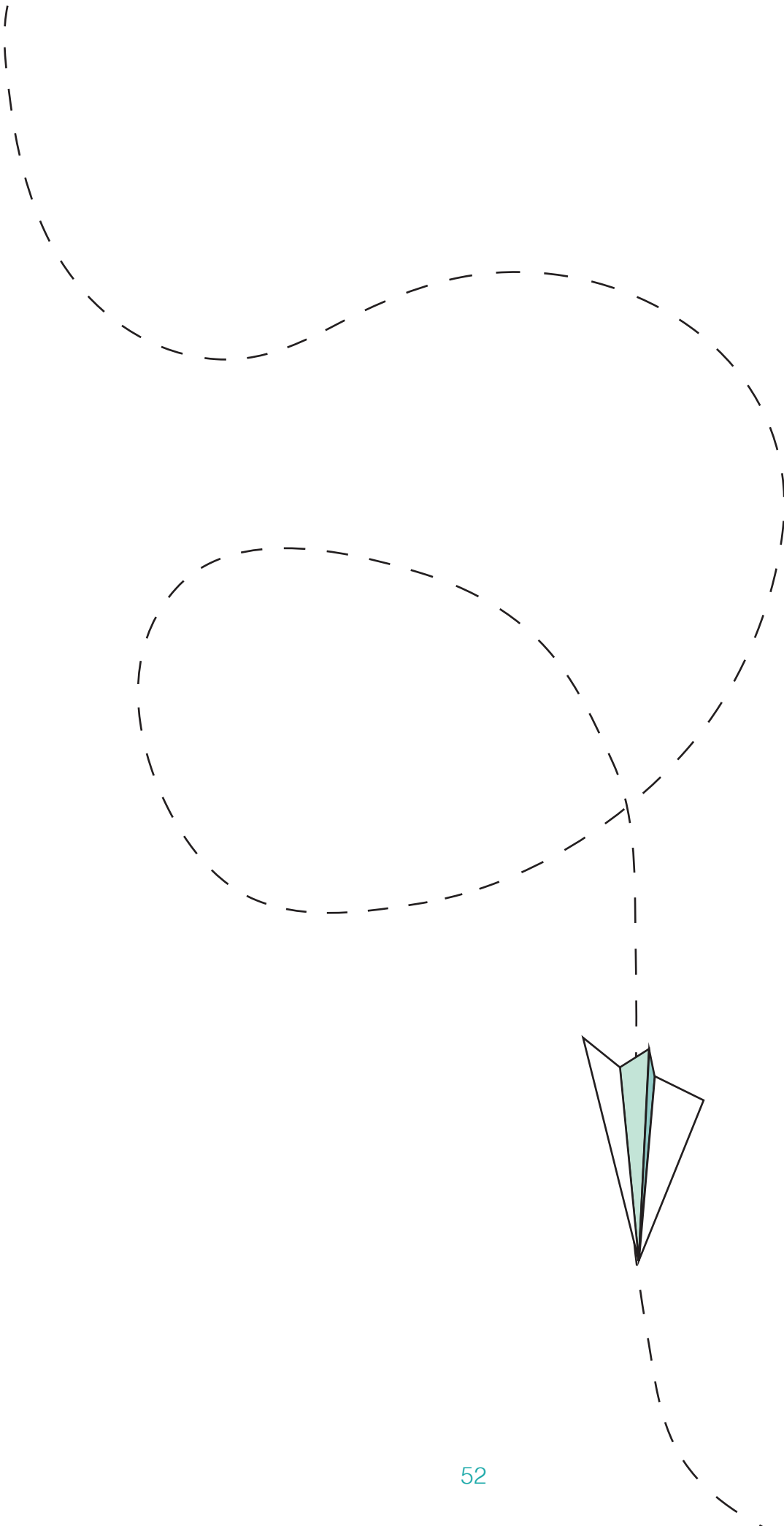
For many people the Post Office still represents the State and rather than ignoring this opportunity, Government departments should embrace the potential that this offers. If the Post Office was to be afforded the opportunity to be paid for providing assistance and advice to people looking for information on Government services then post offices could play an increasingly important role. This is particularly important in the digital age, when an increasing amount of people can feel left behind by the progression of technology.

Recommendation 21: Training and Service Delivery – No Wrong Door Policy

Building upon the previous recommendation, for Post Offices to be viable in the future they need to maintain, and ideally grow, the level of footfall. Activities that can generate greater traffic should be encouraged; developing a **No Wrong Door** policy in respect of government and tourism services would strengthen the local Post Office's role within the community and, if combined with concerted marketing and the integration of additional revenue-generating opportunities such as co-location it could attract new customers. In order to facilitate this policy, staff will need additional training, both in the context of service delivery but more importantly in issues of relevance to potential visitors (local items of interest, Government services, local services etc.).

Recommendation 22: Procurement

While the focus on public procurement is on delivering value-for-money, it is often highlighted as a way in which multiple policy goals can be delivered via a single instrument. The Group notes the work of the Office of Government Procurement in respect of social clauses in public sector and suggests that the OGP bring forward guidance on their potential application in public procurement.



06 WHITE LABELLING

White labelling is the practice of selling products and services from one company under a different brand, for example the mobile telephony sector is characterised with multiple retailers selling minutes, messages or data on larger Networks, such as Vodafone or 3. It is a long established business model and one that An Post already uses in respect of PostMobile.

A feature of white label products and services is that it is common for providers to have a full operational infrastructure in place, which only needs to be integrated or connected to, typically via a secure web browser. This reduces overheads and makes the cost of integration with the existing suite of An Post products and services low. The opportunity for An Post is to leverage their existing brand and infrastructure to deliver greater transactions and profit.

The Group identified in the Initial Report that there appeared to be a clear opportunity around white labelling, assuming that products and services could be identified that would closely align to the An Post brand, which is jealously guarded given its position as one of the most trusted brands in Ireland. The

Group met a large number of entrepreneurs, energy companies, financial service providers and telephony companies around this space to try and identify what the opportunity might be. There was a general consensus that there were many approaches that could be adopted by An Post depending upon the nature of the product or service and the extent of the interaction by Postmasters. At one extreme An Post could just provide the Brand, with the operator looking after everything else, including customer service. At the other end of the scale, An Post could work with a provider who supplies the back office infrastructure and An Post would 'own' the product or service and retail it via its different channels, including post offices.

The first, and most obvious, area that was examined by the Group was financial services. This is an area that An Post is already actively involved in with One Direct providing a number of insurance services through the An Post Network. Over the course of our deliberations, An Post announced they were planning on moving One Direct back under the An Post brand. This will likely result in a greater tie up with the Network and increase the opportunity for Postmasters to provide these services in

the future. Chapter 3 discusses the potential for other white labelled financial services, such as ATMs and the Basic Payment Account.

One of the other areas that the Group had identified in the Initial Report was telephony services and the potential to resell an offering that included home phone, broadband, mobile services and potentially television. Having renegotiated its mobile virtual Network operator agreement with Vodafone, An Post re-launched its mobile phone offering as Post Mobile in June of this year. This has been a success, which has seen growth in numbers of customers of 66% since the re-launch. The logical strategy for An Post is to build upon this success and examine the feasibility of developing follow-on packages for home broadband and phone to complement this offering. Increasingly, people are seeking out bundles as offering better value. This offers up significant potential for An Post if they can identify a suitable provider that would allow them to brand the product and retail it across the Network. While highly competitive, the market offers opportunities and with the Network the size and distribution that it is, An Post has a competitive advantage.

As energy providers start to innovate around their product, there is an increasing likelihood that they will move closer to telecommunication companies in how they market and position themselves. More recently, a number of commentators have speculated that there may be convergence of the industries at some point in the near future, which will create additional opportunities for those companies well positioned in the market. ESB's recent announcement in respect of the pricing for charging electric vehicles is a good example

of how ideas from one industry are cross-fertilising the other.

The Group met a number of energy companies to discuss the opportunities for An Post to white label energy services, and while there was huge willingness on the part of these companies to actively engage with An Post, it was clear that there would be some distance to travel before a viable business model could be identified. In saying this, the Group remains convinced that there may be an opportunity in the energy space, and recommends that An Post continue to engage with energy providers to see if a workable suite of energy services can be developed for re-sale across the Network.

It is clear that there is potential in a number of areas. If An Post can develop a commercial financial services offering, starting with the Basic Payment Account, and also come up with a white label broadband option this could help leverage its position as the preferred supplier of services, especially in rural Ireland. The Group believes the following areas represent the greatest potential for An Post:

- Financial services, including enhanced insurance offering;
- Telephony services; and
- Energy products.

If An Post is to further white label products or services it will require Postmasters to fully embrace a culture of selling other products through the Network and upskill to do it successfully. This should be feasible to do from within existing resources. This is reflected in previous recommendations and a key feature of the grading proposal identified in Chapter 2.

Strategic Alliances

It was a striking feature of nearly all the conversations that were held with commercial operators that there was a strong desire to work with An Post. To a company, they all recognised the hugely attractive brand and reach that An Post have, and all could see the potential benefit that could be realised through a strategic partnership. While this is very positive, the Group is fully aware of the need for An Post to carefully choose their partners and ensure they are the right fit for the brand. The Group recognises that the alliances and business opportunities need to be material in order to be introduced into the Network but encourages the use of pilots and

trials to establish demand for new products and services.

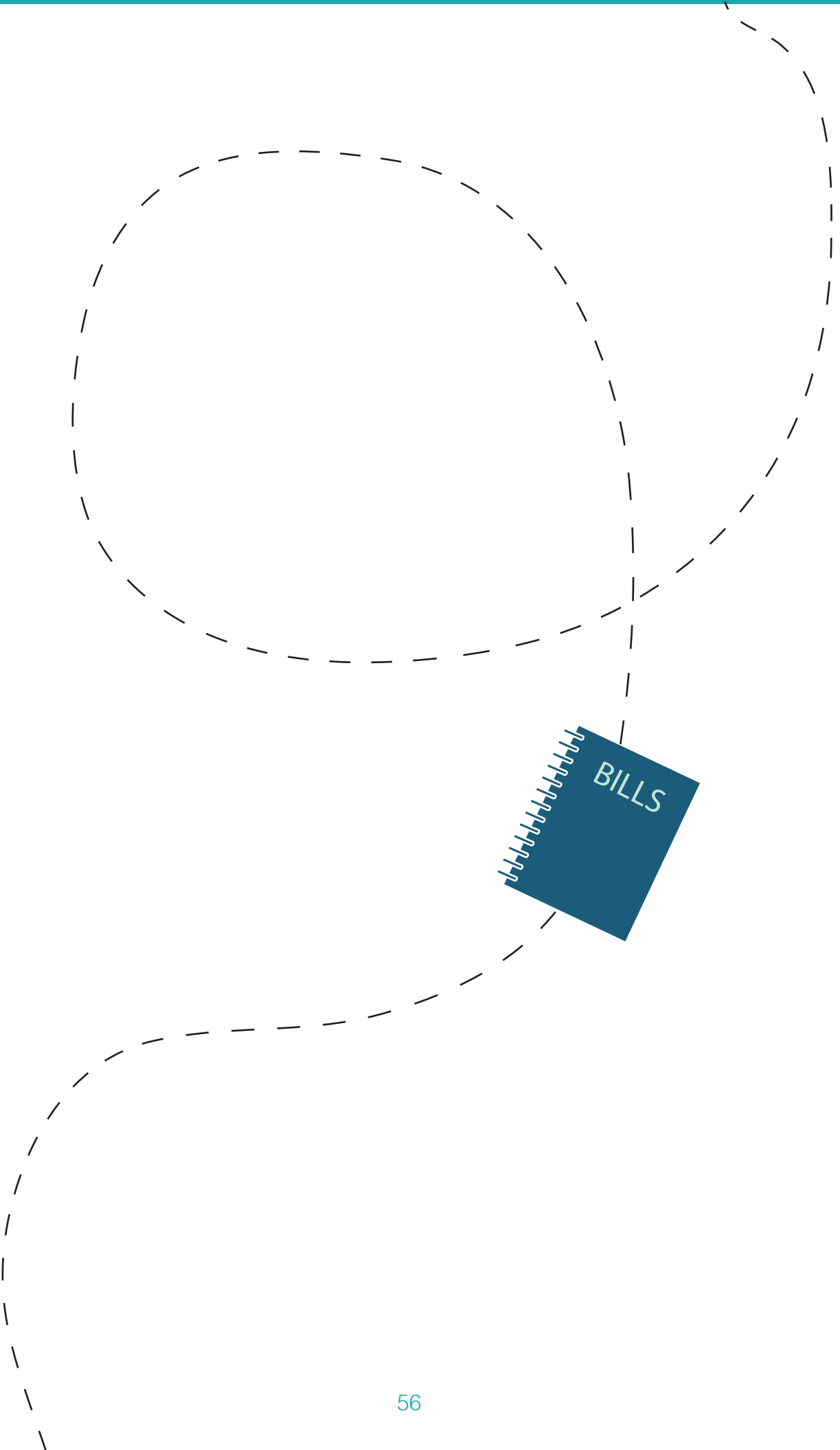
An Post will need to innovate around the number and type of strategic partnerships that it enters into for each area of its business. In financial services, An Post already has a number of ongoing relationships and the potential to develop more, such the prior recommendation to work with the Credit Union movement. For other areas, An Post should identify the nature of the opportunity and the route to market that best complements their existing skillset.

Recommendations

The Group is recommending the following action in respect of white labelling:

Recommendation 23: White Labelling

The Group recommends that An Post actively seek to complement their existing white labelling offerings with new products and services across the telephony, energy and financial services.



07 CONCLUSION

CONCLUSIONS ON BUILDING A SUSTAINABLE FUTURE FOR THE POST OFFICE NETWORK

Introduction

The Business Development Group has been on a journey these past nine months to develop a suite of proposals that will help secure the future of the Post Office Network. The process has been challenging, but not without interest or reward. The future for the Network is uncertain, that is clear, but the Group has attempted to bring a degree of clarity to what is an evolving and complex area. The key message to emerge from our deliberations was that all parties clearly understand the challenges facing the Network, are seeking confidence over future income streams, and are actively looking for a means to engage in charting a new direction for the Network.

Over the past nine months the Group has met a great many entrepreneurs, companies, Postmasters and citizens; all of whom have shared their stories and experiences of the Post Office and what it means to them. Some people were optimistic, some were worried, but everyone gave freely of their opinions and

contributed to the discussions that the Group had on the various aspects of the Network and how to create greater opportunities for those that work within the Network.

One point that came out forcefully in the consultation exercise, as well as our interactions with people was that the vast majority of people we spoke to were fully aware that Irish society was changing and that the Post Office needed to change also. There is also a clear will amongst customers to see the Post Office flourish in the new digital environment, providing that the service that is offered is attractive and competitive.

The local post office retains a special place in the hearts of a great many people across Ireland. This is both hugely positive as well as a barrier that needs surmounting. For any commercial organisation this is a huge opportunity that needs to be developed and monetised, neither can it be ignored. Customers won't stay loyal

forever if their needs and wants aren't being met. However, the positive view of the Post Office of the past is for something that doesn't exist anymore. The Group recognises that this is a challenging statement, which may be hard

for many to accept, but it needs to be said in order to allow the Network and those that work within it to develop a new vision, one that looks to the future more than it looks to the past.

The Network

Between post offices, postal agents and PostPoint retailers An Post's retail Networks are amongst the largest in the country serving approximately 1.7 million customers every week. Despite Ireland's low population density in rural counties, post offices remain within a manageable reach of the vast majority of households - around 93% of the population lives within 5 kilometres of a post office and nearly 99.9% of the population lives within 10 kilometres.

While the Group's Terms of Reference don't explicitly suggest an analysis of the Network was required, the Group's discussions repeatedly came back to the Network and a number of elements that precluded it from moving forward with greater optimism. As a result, the Group felt that it was necessary to establish what elements of the Network needed to change in order for the underlying framework to support the addition of new products and services. Without fundamental changes to a number of aspects of the Network, it is hard to see new products or services making a substantive financial impact on the future of the company.

The first step on the journey that all stakeholders need to take is also the most fundamental. The Group believes that An Post should review and amend the five year strategy for the Network, taking on board the Group's recommendations. This process should be independently Chaired and facilitated.

Undoubtedly, this will be an intensive process and one that all stakeholders of the Post Office Network will need to be actively engaged in. As part of this process everything should be examined in an open and transparent manner, as appropriate to the relationship between the parties.

The current remuneration system (scaled payments) has been in place for more than 100 years at this point. It is testament to the quality and foresight of the original designers that the system has lasted as long as it has. However, it could also be argued that it actively discourages profit maximisation or re-investment in the business to improve premises, staff training etc. On the other hand, the existing model does have one significant positive attribute – the Group recognises that the scaled payments model provides for significant cross-subsidisation of the Network, which thereby leads to a broader Network. Without this cross-subsidisation An Post could not operate a national Network under the current model. However, the Group is of the opinion that a new system needs to be introduced, one that incentivises profit maximisation and that is flexible to the changing business environment.

The changes facing all postal operators are immense and would test the business fundamentals of any company, particularly those that are well established over generations. As a consequence, change is

challenging – but it must come, and it must come fast if these institutions are to survive. There are plenty of examples of venerable companies that have ceased trading because they were unable to adapt to their changing environment; An Post and the Network is no different. While the Group recognises the successful initiatives and new business activities that have been introduced into the

post office Network in recent years, there is a continuous need to develop and implement modernisation plans that are in keeping with the type of customers and businesses they are seeking to retain as well as attract. The retail environment has changed dramatically in recent years and post offices need to continue to evolve into and create a new dynamic with new and existing customers.

Areas Examined

Financial services were recognised early on by the Group as fundamental to the future viability of the Post Office Network; accounting for 76% of the retail business revenue earned by the company and 68% of transaction earnings of Postmasters. The Group is convinced that not only will financial services continue to be an increasingly important business area for An Post but that it should be a major focus for the company over the next five years. The Group recognises that the company's previous foray into this area, PostBank, wasn't successful due to difficult market conditions, but the new financial services model that An Post has developed is lighter, more flexible and poses far fewer risks to the organisation than the previous model. This gives An Post a much greater ability to respond to customer needs, without having to make large capital investments.

An Post has expended significant time and expense in developing their own Basic Payment Account. This account could be used for DSP customers, many of whom are unbanked, to receive their social welfare payments. The Group is of the opinion that the Basic Payment Account holds strategic importance to the future sustainability of the company. At the same time, we are also very aware of the potential for the Basic Payment

Account to accelerate the move from over the counter transactions to electronic payments.

The potential for a business relationship to emerge between An Post and Credit Unions emerged early on in our deliberations through the proactive engagement of a number of individuals with the Group. Both organisations have experienced a challenging few years and face significant environmental change as they seek to maintain service delivery and develop digital platforms. In the eyes of many, the two organisations are naturally complementary, although the Group does recognise that the situation is complex and not without challenge. In many areas the two organisations compete with each other for savings, Billpay, financial services, etc. However, the Group believes that an opportunity exists for An Post and the Credit Union movement (either collectively or a group of interested Unions) to examine a range of options open to both organisations, and to determine if there are viable potential collaborations to be pursued. This may be as simple as sharing locations or facilities up to co-developing or linking products and services.

The opportunity for governments across the world of going digital is considerable, not only can it make services easier and

cheaper, but it can also improve the service that Governments can offer their citizens. This migration is inevitable and will continue. The Group recognises and accepts the nature of this reality, but is very much of the opinion that Irish society, like others, is in a transition phase where many people are comfortable with the digital service provision; equally, there is many that are not. The Post Office Network is ideally placed to help ensure that everyone in society can access Government services in a timely and efficiency manner.

For many people, the Post Office still represents the State and rather than ignoring this opportunity, the Government should embrace the potential that this offers. A first step would be for Government to encourage more revenue-generating contracts to be put out to multiple vendors, rather than relying on single providers. Not only would this approach drive competition amongst providers, but it would allow Government to clearly identify what costs it will be exposed to. Property Tax payments are one such example where multiple service providers offer a payment option to customers at a direct cost to the customer. Motor tax is another such contract that could also be quickly made available through the Network.

Public procurement is an area that the Group assessed. We believe that a shift in public procurement policy through the inclusion of social criteria would allow procuring organisations the opportunity to reflect the value of regional networks and distribution hubs. There is a clear parallel with what has been done in the UK, which is leading to procurement exercises taking a much more involved approach to the provision of services.

The Group identified in the Initial Report that there might be some potential around white labelling, given that the An Post brand is so strong. The Group met a large number of people around this subject and while we weren't able to identify clear opportunities, there was sufficient interest and enthusiasm amongst the people that we met to suggest that this is an area that An Post should actively examine.

There is an increasing regulatory emphasis for banks and other financial institutions to 'know-your-customer', yet many banks are closing rural branches and are actively seeking ways of minimising personal interaction and delivering services online. As a consequence, the Group believes that there may be an opportunity for An Post to develop a service that will allow people to identify and verify themselves online. The Network would appear to have an obvious advantage in this area given its size.

As rural demographics continue to evolve in the face of an ever-changing economic environment, the rural population decline has left localities struggling to maintain their identity and community. The local post office is often viewed as the last remaining hub for local social interaction. The Group recognise this value and have developed the 'Hub' concept as a means of further embedding post offices into the social fabric of their communities. Building a local Hub would allow for local people to access State services and commercial services in their locality, in the process strengthening local identity and improving quality of life.

The Network could also be utilised by the Local Enterprise Offices to reach rural areas and communities, or by banks and credit unions to act as local satellite services for rural enterprise promotion. This Network could be developed as a strategic mechanism to access local and rural Ireland and help its social and economic recovery to commence.

Key Priority Actions and Recommendations

The Group has identified 23 recommendations, which are listed below, of these 9 have been identified as central to the future sustainability of the Post Office Network. These are:

Number	Action
1	Network Renewal
8	Basic Payment Account
13	Motor Tax
9	Financial Services Strategy
10	Credit Unions
17	Social Value
7	SMEs
22	Procurement
23	White Labelling

A full list of the recommendations of the Business Development Group is provided below.

No.	Title	Description	Owner	Timeline
1	Network renewal	The Group recommends that An Post should, on foot of this Report, review and amend, where appropriate, the five-year strategy for the Network over the next 6 months with the input of the Shareholder, Postmasters and others (such as DSP) where appropriate. At a minimum, this strategy should address the following: the number and spatial distribution of branches, streamlining of products and services, grading system, Postmaster payments and contracts, products & services, training and qualifications for post office employees. The Group recommends that this work should start as soon as possible.	An Post	6 months from Report publication.

		<p>Given the importance of the Post Office Network to the local community, the Group are concerned that during the transition that is envisaged in the proposed new strategy, the remuneration of post offices may reduce and their survival will be threatened. It is vital that the Network is not undermined during this transitional stage and the approach to remuneration in the UK Post Office Network be adapted to suit, with the necessary Government support given to the process.</p>		
1a	Network Modernisation	<p>The Group recognises the work that An Post has undertaken to date on how it presents to the public. However, the Group is recommending that there is a need for the Network to continue to improve and modernise. The Group recommends a similar process be examined for Irish post offices to that followed in the UK. In the first instance, the preparation of a modernisation plan for all post offices needs to take place. In line with the proposed re-grading of post offices into Retail+, Service+ and Community categories, post offices falling into different categories should be modernised in different ways in order to best fit the community that they reside within. Improvement and modernisation should be not be optional, all post offices should be expected to reach a defined standard.</p>	An Post	6 months from Report publication.
1b	Performance targets for post offices	<p>It is important that every post office plays its part within the Network. While the Group recognises that every post office is different, it is imperative that An Post identify, agree, implement and actively manage performance targets for all post offices.</p>	An Post	As part of the rollout of the Network renewal strategy.

		<p>These targets should be appropriate to the size of post office and the level of transactions that they undertake. It is important that Postmasters play an equal part in growing the business.</p>		
1c	Co-location	<p>It is evident that for the majority of post offices unless they co-locate with other services, be it a shop or otherwise, there is little prospect of them surviving and thriving. The stark choice is to modernise, co-locate or vacate. Rather than viewing this as a threat to the status quo, it should be seen as opportunity for renewal and growth. Co-locating post offices need to be with retailers which are already commercial entities. The post office business needs to be seen as incremental rather than the main income source, with the details around ownership, including co-ownership or otherwise, would be dealt with as part of the new Postmaster contract.</p>	An Post / Postmasters	As part of the rollout of the Network renewal strategy.
1d	Where possible, remove secure facilities from smaller post offices	<p>Modern post offices need to conjure up a new image for consumers. It is noticeable that the majority of the banks are starting to move away from facilities that are dominated by secure facilities, with an increasing number of staff moving to 'front of counter'. This approach is more accessible and engaging for the customer. Aligning this to the development of a modernisation plan, An Post should look at removing secure facilities from those post offices that don't handle large amounts of cash on a daily basis. Evidence from the UK shows that there is no increased risk of theft or robbery as the safes preclude large amounts of cash to be withdrawn quickly.</p>	An Post	As part of the rollout of the Network renewal strategy.

		This enables smaller post offices to be better integrated with the businesses within which they are co-located.		
2	Extended opening hours	For post offices there is an imperative to be open at times when the customers wish to avail of services. Where appropriate, Post Offices should be open for longer hours, including lunchtime opening. Integrating post office tills with Point of Sale terminals for some services may serve to reduce costs and ensure out of hours service provision. The Group recognises that for some smaller post offices, additional opening hours will need to be balanced with the potential for greater business. It should also be noted that in the UK that some Community Offices do not open every day or are serviced from alternative premises including mobile units.	An Post / Post-masters	As part of the rollout of the Network renewal strategy.
3	Recruitment, Training and Development	Given the age profile of Postmasters, the Group believes that there is a clear need to ensure that the human resource capital of the Network is actively managed and developed. For many, the public face of the company is the local post office. As a consequence, An Post needs to continually review its processes to ensure that areas such as the recruitment of Postmasters, training and accreditation, and service quality standards are developed and maintained. There is a real opportunity to capture and utilise the knowledge and experience of postmasters. An Post should also continue to ensure that new postmasters are recruited with the necessary retail and customer service skills. Postmasters need to actively embrace new training and products and, in particular, be willing to be more sales and customer service focussed.	An Post / Post-masters	Ongoing.

4	Develop new closure protocols.	<p>There is no policy to close post offices. This is a statement that has been repeated often by the Government yet has failed to disseminate widely. The opening and closing of post offices should be driven by customer demand, not anything else. As part of the 5 year strategy, An Post will have to address the issue of post office closures and develop a policy in regard to postal services where this arises. Postmasters will need to work much closer with An Post to ensure a smooth transition if they intend to terminate their contracts. The current consultation process should be overhauled as part of this strategy. This will enable An Post to identify the most appropriate solution for the post office. Closure procedures and protocols should also be reviewed as part of the new Postmaster contract.</p>	An Post / Postmasters	As part of the rollout of the Network renewal strategy.
5	Alternative Approaches to Service Delivery	<p>Consent was reached throughout our engagements and over the course of our analysis that it is difficult to see some post offices surviving changing demographics and consumer preferences. This is reality and should be considered part of a natural social and economic cycle. At the same time as these changes impact the country, An Post needs to recognise that there are different ways to reach customers and that multiple channels need to be developed to better deliver services, such as through working with Credit Unions. An Post has recognised this and has developed other channels such as PostPoint and online channels, and while these may be suitable for certain situations greater attention needs to be given to ensuring that there are multiple models of delivering postal services to customers depending upon their needs.</p>	An Post	6 months from Report publication.

		In this regard, the Group recommends that An Post should develop alternative arrangements, potentially including traveling services, part-time services for some offices and voluntary/co-operative models. This approach has been followed with some success in the UK in rural areas.		
6	Introduce a new form of postmaster franchise that encourages postmasters to develop their business.	Postmasters, as small business owners, need to be encouraged to develop their business side-by-side with the post office franchise. A greater emphasis on co-location will naturally spur this activity but the introduction of a formal development programme is recommended. A new commercial contract is needed between An Post and Postmasters to recognise the commercial environment in which post offices operate and to incentivise and reward correct behaviours.	An Post	12 months from Report publication.
7	Services to SME Customers	The Group recommends that An Post investigate whether it could provide additional services to SME customers through the Post Office Network, such as a parcel drop and collection service or additional banking facilities.		12 months from Report publication.
8	Basic Payment Account	The Group recommends that the Government and An Post finalise their discussions and agree on a business model to facilitate the introduction by An Post of payment accounts to DSP clients, amongst others. The introduction of the account is of critical importance to the Post Office Network and should be designed to actively incentivise users to transact in post offices. Ideally, this will allow post offices to not only retain an important revenue stream from this business, but also grow the level of footfall from these customers and the additional business that brings.	An Post / DCENR	6 months from Report publication.

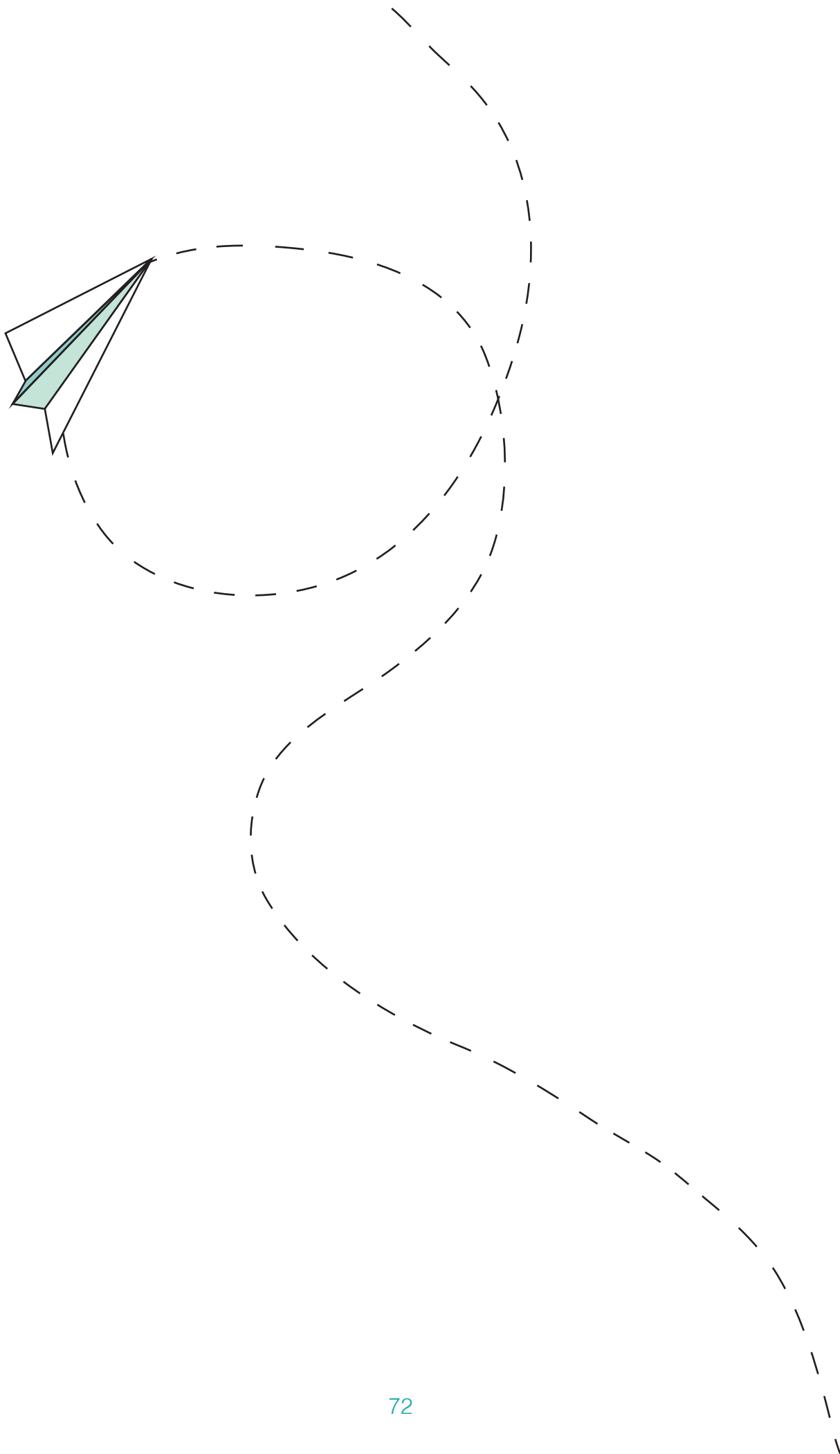
9	Financial Services Strategy	<p>This payment account must include:</p> <ul style="list-style-type: none"> • Debit card; • Full access to ATM and point of sale worldwide; • Standing orders and direct debits; • Jam jars to facilitate budgeting; and • Internet, phone and App based banking. <p>A marketing plan should be introduced to underpin the rollout of the new accounts and signify the arrival of An Post as a new banking force.</p> <p>It is also important that DSP continue to offer the cash payment at post offices option to their clients and the Group recommends that the cash option has the same status as EFT payments in all DSP claim forms.</p>		
		<p>The Group recommends that, as part of the 5-year strategic plan review, An Post, with the input of Postmasters and the Shareholder, develop and articulate a clear financial services strategy that would set out its ambitions for the area over the short-term (12 – 18 months), medium-term (18-36 months) and long-term (36 months+). This strategy should be aligned to the ongoing evolution of retail financial services in Ireland and the move towards a better customer experience.</p>		
		<p>An Post</p> <p>6 months from Report publication.</p>		
10	Credit Unions	<p>The Group recommends that An Post develop a formal structure with the Credit Union movement, either through a representative organisation or interested unions, to establish what, if any, scope there is for linkup.</p>	<p>An Post / Credit Unions</p>	<p>12 months from Report publication.</p>

11	ATMs	The Group recommends that An Post examine the potential for introducing external ATMs into post office premises to establish whether a model could be identified that would work in the Irish market.		12 months from Report publication.
12	Multiple Vendor Solutions	The Group recommends that the Department of Communications, Energy and Natural Resources work with the Office of Government Procurement to identify what contracts could potentially be put out as multiple vendor solutions and work with Government bodies to devise a timeline that would see this approach implemented.	DCENR / OGP	12 months from Report publication.
13	Motor Tax	The Group is of the opinion that the feasibility of the provision of additional motor tax payment channels should be considered. Providing that additional (or alternatives to) the current channels for the payment of motor tax are deemed to be cost effective, that the provision of an additional channel should be examined. The provision of motor taxation in post offices is a realistic option for increasing the number of Government services that could be offered through the Network and, providing it is cost competitive, should be given the opportunity to develop a representative pilot programme, the results of which should inform a potential wider rollout.	DECLG / DTTS / An Post	9 months from Report publication.
14	Provider of Choice	The Group recommends that the Post Office Network should become a provider of choice and the front office for all relevant Government services; recognising the value that the Post Office can offer Government. If the rural post office is to survive, Government must have services available in rural post office locations. In line with the categorisation	All Government Departments and Agencies	3 months from Report publication

		of post offices, a range of government services should be agreed with each category of post office.		
15	Identification and Verification Services	The Group believes that there will be a clear need for a structure to be put in place that allows people a means of verifying their identity online and across multiple platforms. The Group recommends that An Post should be at the forefront of these efforts and work closely with Government in order to ensure widespread access to identify verification services.	Government / An Post	Ongoing
16	The 'Hub'	Based upon our analysis, the Group believes that the Hub concept, while still at an early stage of development, has merit and is an alternative way of looking at the vitality of rural Ireland. In this regard, the Post Office could play an important role in rural rejuvenation as a key hub for local interaction and enterprise support. The Group proposes that the Hub concept be explored further and consideration given to rolling out pilot projects (>25) in 2016.	An Post / DCENR / Post-masters / Others	6 months from Report publication
17	Establishing the social value of the Post Office Network	We understand that where post offices provide additional support services that facilitate social and economic development such as local IT access, local access to State agencies and forms and a suite of additional services, an economic value will be required for this additional workload. The Group recommends that the social and economic value to the local community and that the social and community services that local post offices already provide should be quantified and that a monetary value be placed on both the existing unpaid and any proposed new services.	An Post / DCENR	16 months from Report publication

18	Remaining Retail Units	Where it can be clearly demonstrated that a Community post office is the last remaining retail unit in a village, some form of transitional special status will need to be provided if such post offices are to remain open.	An Post / DCENR	6 months from Report publication
19	Embedding within the Community	While it is widely recognised that post offices form an important part of the fabric of Irish society, unless people actually use them it is hard to justify the retention of the Network in its current size and shape. For rural post offices to thrive, they need to further embed themselves into the social and economic fabric of their communities and, just like any other business, become increasingly relevant to their customers. Anecdotal evidence suggests that many Postmasters go far outside their remit in order to contribute to their communities, which can have a positive impact on the profitability of their businesses.	Postmasters	Ongoing
20	Dissemination of Government Information	For many people the Post Office still represents the State and rather than ignoring this opportunity, Government departments should embrace the potential that this offers. If the Post Office was to be afforded the opportunity to be paid for providing assistance and advice to people looking for information on Government services then post offices could play an increasingly important role. This is particularly important in the digital age, when an increasing amount of people can feel left behind by the progression of technology.	DCENR	6 months from Report publication

21	Training and Service Delivery – No Wrong Door Policy	Building upon the previous recommendation, for Post Offices to be viable in the future they need to maintain, and ideally grow, the level of footfall. Activities that can generate greater traffic should be encouraged; developing a No Wrong Door policy in respect of government and tourism services would strengthen the local Post Office's role within the community and, if combined with concerted marketing and the integration of additional revenue-generating opportunities such as co-location it could attract new customers.	Postmasters	Ongoing.
No.	Title	Description	Owner	Timeline
		In order to facilitate this policy, staff will need additional training, both in the context of service delivery but more importantly in issues of relevance to potential visitors (local items of interest, Government services, local services etc.).		
22	Procurement	While the focus on public procurement is on delivering value-for-money, it is often highlighted as a way in which multiple policy goals can be delivered via a single instrument. The Group notes the work of the Office of Government Procurement in respect of social clauses in public sector and suggests that the OGP bring forward guidance on their potential application in public procurement.	OGP	Ongoing.
23	White Labelling	The Group recommends that An Post actively seek to complement their existing white labelling offerings with new products and services across the telephony, energy and financial services.	An Post	12 months from Report publication.



APPENDIX 01

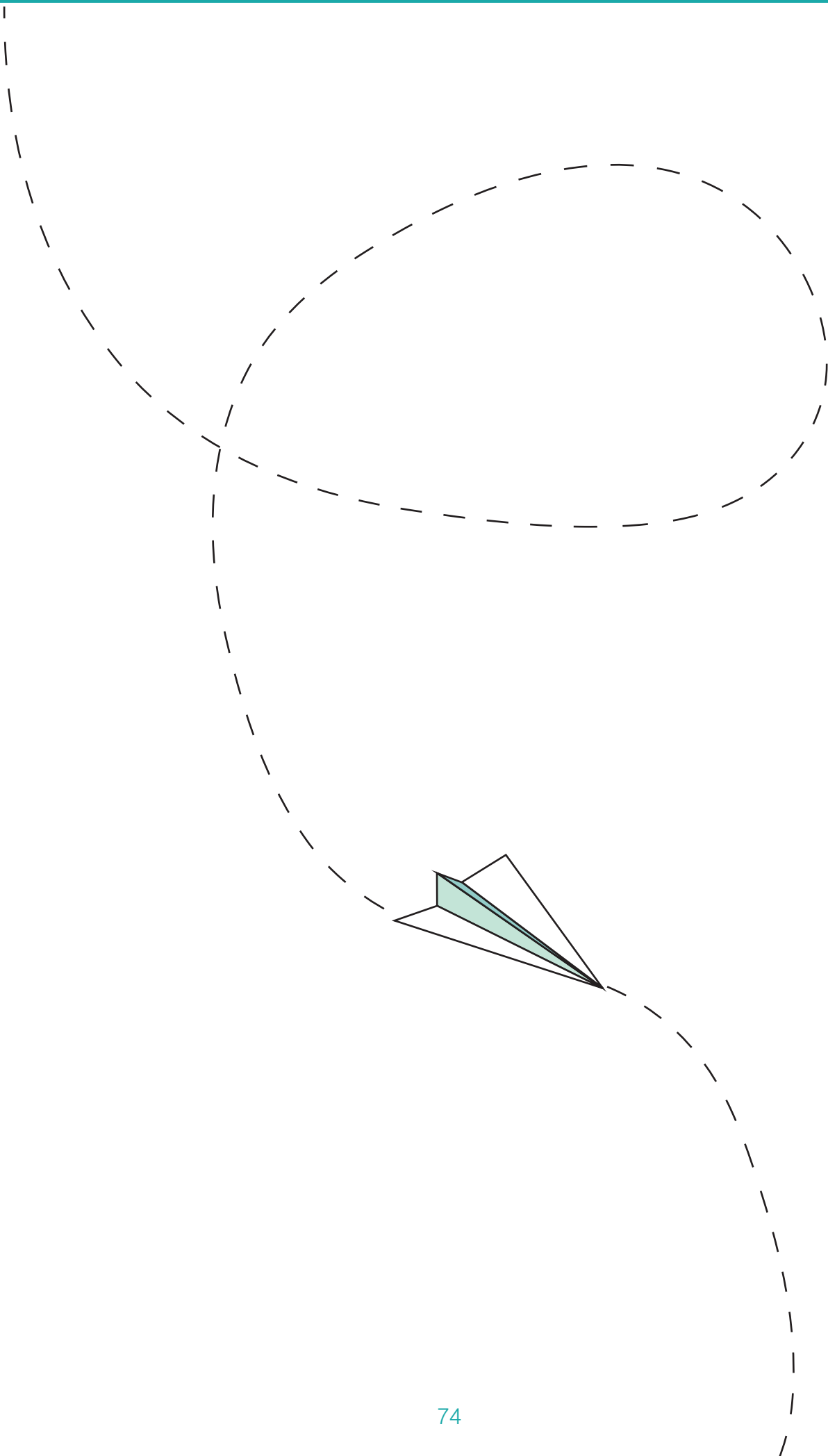
BUSINESS DEVELOPMENT GROUP MEMBERSHIP AND TERMS OF REFERENCE

The Business Development Group consisted of the following:

Bobby Kerr	Chair
Joe McHugh T.D.	Minister of State for Gaeltacht Affairs and Natural Resources
Ann Phelan T.D.	Minister of State for Rural Economic Development (represented by Liam Keane)
John Daly	An Post
Liam Sheehan	An Post
Ned O Hara	Irish Postmasters Union
Ciaran McEntee	Irish Postmasters Union
Stjohn O'Connor	Department of Communications, Energy & Natural Resources
Niall Power	Secretariat, Department of Communications, Energy & Natural Resources

The Terms of Reference for the Group are to:

- examine the potential from existing and new Government and commercial business that could be transacted through the Post Office Network;
- identify the new business opportunities for the Post Office Network, taking account of international experience;
- engage as necessary with the public sector, commercial bodies and other interested parties in pursuit of the above objectives; and
- prepare an interim and final report for the Minister in accordance with an agreed timetable.



APPENDIX 02

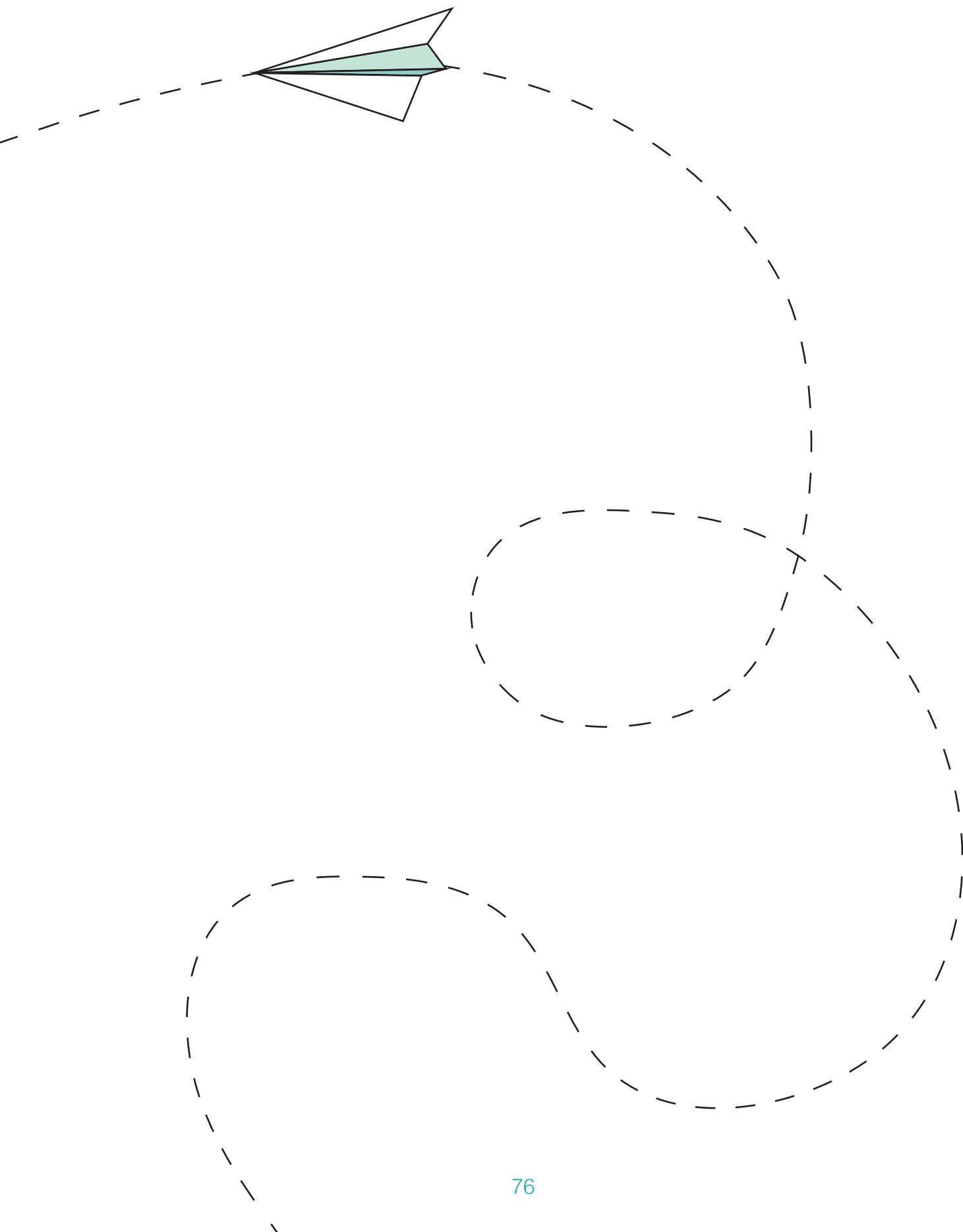
SOCIAL CAPITAL AND ENTERPRISE ADVISORY PANEL

The membership of the Advisory Panel was:

- Michelle Murphy (Social Justice Ireland)
- Séamus Boland (Irish Rural Link)
- Niall Garvey (Muintir na Tire)
- Hugh O'Connor (Age Friendly)
- Deiric O'Broin (DCU)
- Marian Vickers (North Side Partnership)

Although the subject matter is complex and inter-disciplinary, the role of the Advisory Panel was to provide context and avenues for exploration by the sub-group members. The Terms of Reference for the Advisory Panel were to:

1. Explore the role that the Post Office plays as a communication and information hub for local communities in order to classify the essential support services they provide and identify new opportunities to develop its potential as a communication and information hub.
2. Explore the potential of the Post Office to become a facilitator for rural social enterprise.
3. Assist in establishing the value of the Post Office Network to rural Ireland by reference to national and international research.
4. Provide advice and guidance on the three areas listed above in order to contribute to the final report of the Business Development Group.

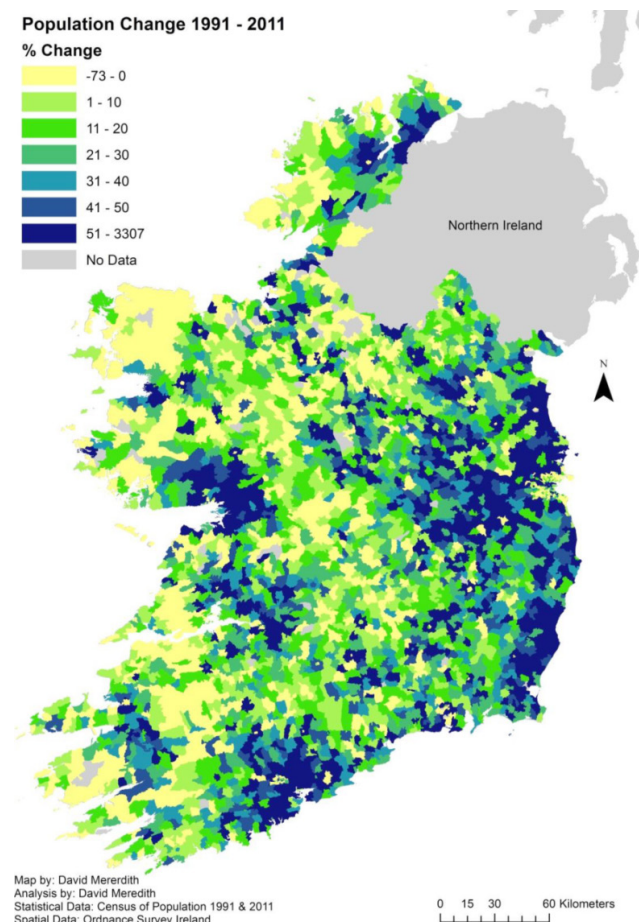


APPENDIX 03

CHALLENGES FACING RURAL IRELAND

In recent years, a significant body of socio-economic research has emerged which has documented the profound transformations Ireland has undergone in the past twenty years. While the country has seen many positive developments including large rises in living standards,⁴ there have been regions that have fallen behind. Rural areas in particular have experienced considerable demographic and economic challenges. As documented in the recent CEDRA study on rural Ireland there have been 615 rural Electoral Divisions that have experienced a total population loss of 62,264 persons between the 1991 and 2011 census. This is contrast to a strong population increase of 30%⁵ across the country. A visual representation of the changes during this period is presented in Figure 1.

Figure 1: Population Percentage Change (1991-2011)⁶



⁴ For an overview of the economic progress experienced in the 1990s see: Honohan, P. and Walsh, B., 2002. Catching up with the leaders: the Irish hare. Brookings Papers on Economic Activity, 2002(1), pp.1-77.

⁵ Central Statistics Office.

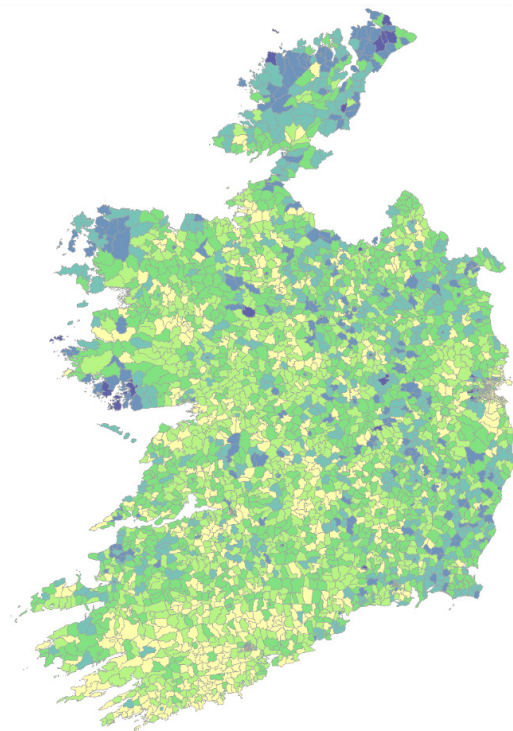
⁶ Research Report of the Commission on the Economic Development of Rural Ireland (2013), see <http://www.ruralireland.ie/index.php/cedra-reports>

A stronger emigration trend is likely to be the main reason driving the spatial disparities in population growth. Recent research carried out by University College Cork⁷ has revealed that at least one household in four in “extremely rural areas” have seen the emigration of at least one family member since 2006. This is in contrast to urban areas and more accessible countryside where the corresponding figure was only 15-17%. Furthermore, within the “extremely rural” group, it was also reported that 28% of households saw it as ‘likely’ or ‘very likely’ a family member would emigrate within the next three years. Evidence from the results of the censuses⁸ would suggest that emigration is having an effect on age profiles as it was found that the proportion of 15-24 year olds living in rural areas is substantially less than that for urban areas.

The difficulty of retaining younger residents in rural areas is likely to be linked in a relative lack of job opportunities. During the period of the recent economic crisis between 2006 and 2011 unemployment in rural areas rose far greater than in urban centres. Research conducted on the labour force by CEDRA examined the variability in the spatial distribution of unemployment between the countryside, towns and the cities. In relative terms, unemployment in rural areas was found to have increased by 192% in these years compared to 114% in urban centres. Indeed, the same report mentions that 69% of all unemployed persons (around 250,000) in 2011 lived in the countryside and that 30% of all households in rural towns are jobless.

Figure 2 below maps regional unemployment across electoral districts in 2011. The highest rates are usually to be found in the most disadvantaged areas of the main cities, distant commuter areas and in rural areas.

Figure 2: Regional Unemployment Rate 2011⁹



In addition to weaker employment prospects, incomes are also generally lower in rural Ireland than elsewhere. Data from the CSO's Survey on Income and Living Conditions (SILC) has revealed disposable incomes for urban dwellers were on average¹⁰ 17% higher than for those living in rural locations. Similarly, a recent statistical release from the CSO¹¹ has indicated that the more urbanised southern and eastern regions of Ireland have higher earnings than the more rural border, midland, and western areas.

7 “Irish Emigration in an Age of Austerity” ” http://www.research.ie/intro_slide/research-funded-irish-research-council-irish-emigration-age-austerity

8 See Chapter 2: Population Distribution and Change of “The Atlas of the Island of Ireland” <http://airomaynoothuniversity.ie/mapping-resources/airo-census-mapping/national-viewers/atlas-island-ireland>)

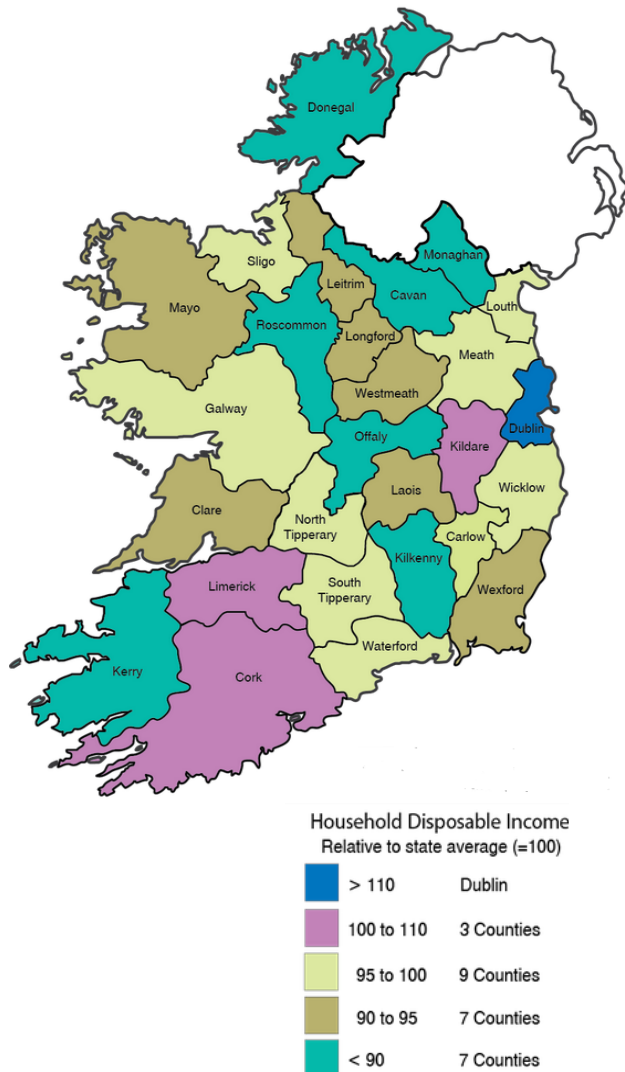
9 CSO, Mapping Tool; AIRO.

10 Between the years 2011 and 2013. The full survey release can be accessed.

11 CSO Statistical Release April 2014, <http://www.cso.ie/en/releasesandpublicationser/cirgdp/countyincomesandregionaigdp2011/>

As demonstrated in the graph below, the average income per capita in predominantly rural areas is 10% to 20% less than the national average.

Figure 3: Household disposable income¹²



High unemployment and low incomes are particularly worrying in the context of social exclusion. As defined by the Department of Taoiseach social exclusion is the “cumulative marginalisation: from production (unemployment), from consumption (income poverty), from social Networks (community, family and neighbours), from decision making and from an adequate quality of life”.

The effects of rural emigration and adverse economic conditions have led to diverging demographic compositions emerging between urban and rural areas. The growing urban centres with large commuter populations have above average proportions in the working age groups and also have above average proportions of children under fifteen¹³. In contrast, rural areas and towns beyond the commuter zones tend to have higher proportions of elderly populations. For instance, the counties with the highest average ages are in the relatively rural counties of Leitrim, Mayo, Roscommon, Sligo, Kerry and Tipperary.

This imbalance in demographics also mean that rural counties have higher old-age dependency ratios which are defined by the All-Ireland Research Observatory as persons aged over 65 as a percentage of those aged 15-64 (i.e. those of working age). The average ratio in Ireland in 2011 was 17.4% however this varies significantly between counties with the highest rates being recorded in mostly rural counties such as Kerry (22.1%), Roscommon (22.9%), Leitrim (23.3%) and Mayo (23.3%).

¹² CSO, Mapping Tool; AIRO.

¹³ The youngest average populations are in Fingal, Kildare, Meath, South Dublin and Laois.

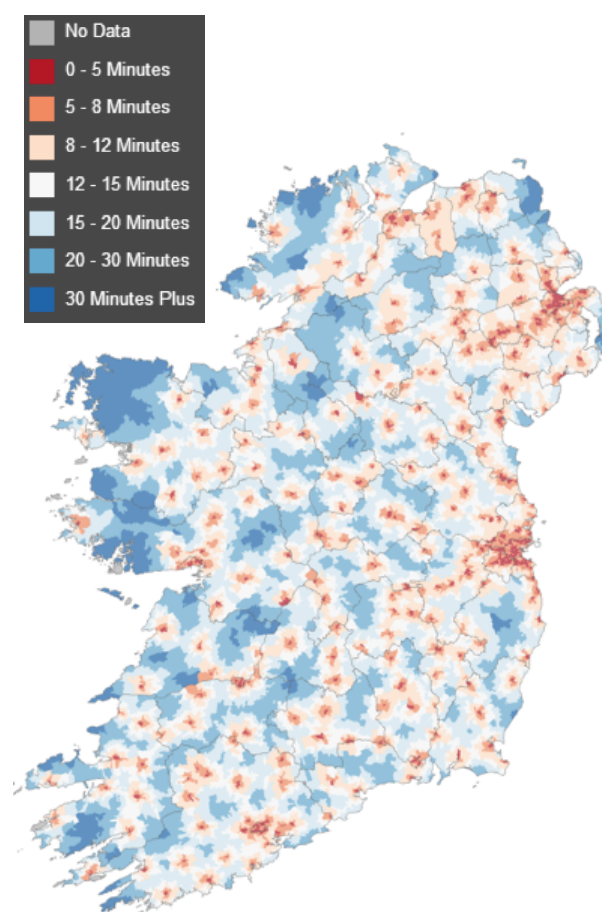
High old-age dependency ratios are particular worrying in the context of rural isolation which is further exacerbated by limited transportation options. In the 2011 census¹⁴ it was found that car ownership where the head of household was aged 65+ years is substantially less in rural areas where only one in five have a car compared to those in this category in urban areas where the figure is one in three. Furthermore, it was reported that 40 per cent of lone pensioner households in rural areas did not own or have use of a car.

Public transport options can be limited and it is has been deemed to be unsatisfactory. For instance research by Ahern & Hine (2010)¹⁵ has revealed that public transport in is “inadequate in all rural areas” in Ireland. Furthermore, surveys featuring in TILDA¹⁷ have revealed that 59% of older people living in rural areas rated public transport in their area as ‘poor’ or ‘very poor’. This is exceptionally high when compared to the corresponding reported figures of 7% in Dublin and 20% in other towns or cities. These findings are important when one considers the research by Dobbs & Strain (2008)¹⁷ which has found that poor transportation facilities have the potential to negatively affect people’s quality of life by restricting their level of social interaction and their access to services.

Even for those with easy access to transport,

many face long journeys to conduct basic activities such as visiting a grocery store. Figure 4 below details the average drive time from a given Small Area to the nearest grocery store such as Dunnes, Supervalu, Lidl et cetera. The maps highlights that many rural areas, denoted in dark blue, have residents who face journeys of over half an hour just to do their shopping.

Figure 4: Average drive time to all grocery stores¹⁸



¹⁴ See “Press Release Census 2011 Profile 4 The Roof over our Heads” <http://www.cso.ie/en/newsandevents/pressreleases/2012pressreleases/pressreleasecensus2011profile4theroofoverourheads/>

¹⁵ Ahern, A. and Hine, J., 2010. Transport needs of older people in rural Ireland. In Presented at the Irish Transport Research Network, 31 August-1st September 2010, Dublin, Ireland. ITRN.

¹⁶ The Irish Longitudinal Study on Ageing. See “The Preliminary Report; Healthy & Positive Ageing Initiative”, May 2015, https://www4.dcu.ie/sites/default/files/afu/DOH_Positive_ageing_report.pdf

¹⁷ Dobbs, B., Strain, L. and Keating, N., 2008. Staying connected: issues of mobility of older rural adults. Rural ageing: a good place to grow old?, pp.87-95.

¹⁸ Source: CSO, Mapping Tool; AIRO.

Without viable transportation options rural towns will lose out on patronage that is vital to their sustainability. Older residents are vital to the sustainability of declining rural towns because as research¹⁹ demonstrates they spend a significantly larger percentage of their resources in the local community market than younger community members. Moreover,

research by Miller et al²⁰ (1997) found that rural consumers with strong attachment to their community were more likely to shop with local retailers than less attached residents. Transport can therefore encourage older residents to continue to sustain business in the village while also enhancing their quality of life and frequency of social interactions.

Social Value added by the Post Office

While there has not yet been extensive research conducted on the social value provided by the Irish Post Office Network, evidence from studies conducted in other countries would suggest that they do perform a vital role in the community, particularly in rural areas where other retail services and opportunities for social interaction may be limited. In an examination of three case studies²¹ of post offices in rural Scottish communities it was found that older survey participants reported that the post office supplied more than just counter services and was valued for its opportunity to provide social interactions. Similarly in Kang and Ridgway²² (1996) it was found that shopping and the interactions that occur when accessing commercial services provide an important social support, particularly for older consumers.

19 Miller, Nancy J., and Soyoung Kim. "The importance of older consumers to small business survival: Evidence from rural Iowa." *Journal of Small Business Management* 37.4 (1999): 1.

20 Miller, N.J. and Kean, R.C., 1997. Reciprocal exchange in rural communities: Consumers' inducements to inshop.

21 See "Three Case Studies of the Role of the Post Office within Rural Communities in Scotland", July 2006. <http://www.gov.scot/Publications/2006/07/12103744/0>

22 The Importance of Consumer Market Interactions as a Form of Social Support for Elderly Consumers, Yong-Soon Kang and Nancy M. Ridgway, *Journal of Public Policy & Marketing*, Vol. 15, No. 1, Nutrition and Health (Spring, 1996), pp. 108-117.

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