



Grant Thornton

The future of the Post Office network in Ireland

A Review of Potential Service Contracts on behalf of the Irish Postmasters Union

April 2012



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List of abbreviations

AIB – Allied Irish Bank
BPA – Basic Payment Account
CBA – Cost Benefit Analysis
DSP – Department of Social Protection
EC – European Community
FS – Financial Service
SE – Health Services Executive
LA – Local Authority
IFA – Irish Farmers Association
INOUE – Irish National Organisation of the Unemployed
IPU – Irish Postmasters Union
IRL – Irish Rural Link
MTO – Motor Tax Office
NIB – National Irish Bank
NPV – Net Present Value
NTMA – National Treasury Management Agency
OTC – Over the Counter
PR – Public Relations
SME – Small to Medium Sized Entities
SVP – St Vincent De Paul

Executive Summary

Background to this review

The post office network is a key national resource. It is important when considering the post office network that it is viewed as more than a group of commercial entities; it serves a valuable social purpose, which plays a unique and important role in communities around the country.

The post office network faces an uncertain future, with falling revenues, branch closures and a high dependence on a single contract with the Department of Social Protection which is due to expire in 2013.

The purpose of this report, which has been commissioned by the Irish Postmasters' Union (IPU), is to provide a comprehensive independent evaluation of the benefits which would derive from the consolidation and/or expansion of the range of services provided through the post office network in Ireland and to set out a compelling case to policy makers in relation to new service contracts as identified. Ultimately the goal is to ensure the long term future and sustainability of the post office network.

The Irish Postmasters Union

The IPU is the representative body for Postmasters in Ireland representing 90% of all Postmasters. In 2011, the post office network in Ireland consisted of 1,156 post offices at various locations across the country. Of these post offices, 1,099 are deemed to be sub-post offices. These are managed by independent self-employed retailers who act as a distribution facility for An Post, the semi-state body responsible for delivery of postal services throughout the state.

The post office network

To ensure the long term sustainability of the post office network, it is necessary to identify the internal resources and capabilities of the post office network and ensure that these are managed to maximise operational efficiency. From an examination of the post office network a number of key strengths of the Irish post office have been identified and it is important that any potential service contracts build upon these strengths to enhance the current network.

With over 1,100 post offices and agencies, the post office network represents Ireland's largest retail network and for many rural communities the post office acts as their only retail outlet. This is highlighted in table 1 overleaf.

Table 1 – Retailers in Ireland

Retail Network	Branches
Post Office network	1,156
Musgrave	895
Credit Unions	412
Bank of Ireland	255
Allied Irish Bank	183
Ulster Bank	146
Local Authorities	37

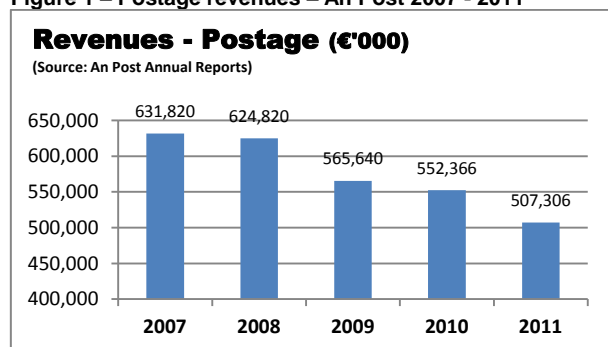
Added to the size of its network, the post office has a strong brand presence in Ireland with significant goodwill and trust attached to it. Despite the recent economic turmoil and the loss in confidence of many institutions, the post office network has emerged relatively unscathed and significantly retains a high degree of trust and positive levels of customer satisfaction.

Based on an analysis of systems and staff, the Irish post office network has the capability of easily facilitating additional services. The combination of these resources and capabilities has enabled the post office network to consistently deliver high quality services. This proven track record of providing large scale contracts offers significant confidence that additional services could be added to the existing services.

An analysis of the revenues for the post office network indicates that turnover is derived from three main sources:

1. Traditional mail services;
2. Government contracts; and
3. Financial services.

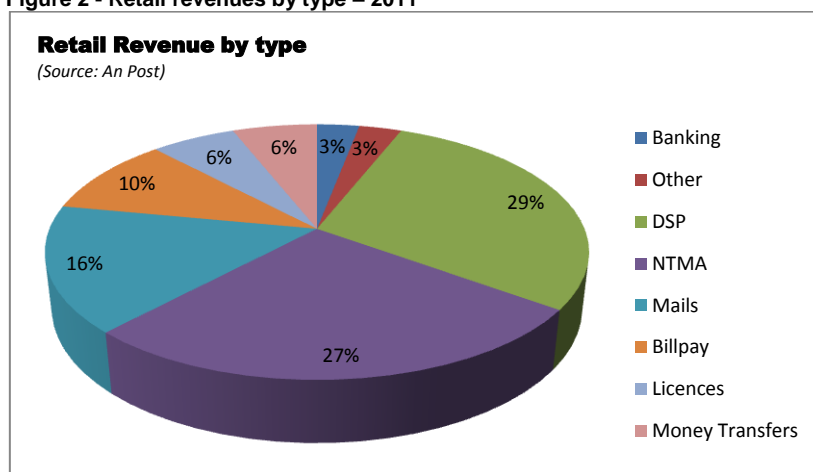
Over a four year period, An Post has seen revenues fall from €876 million in 2007 to €806.7 million in 2011 representing an 8% decline in just five years. In particular revenues from traditional mail services have suffered a sharp decline (20%) over recent years as a result of increased substitution, deregulation and competition. The figure below shows this decline in postage revenues from letters and parcels.

Figure 1 – Postage revenues – An Post 2007 - 2011

While efforts have been made to diversify and decrease the reliance on traditional mail services, this has failed to compensate for the overall decline in traditional mail volumes. The decline in traditional revenues has led to an increased dependence by post offices on Government contracts, which now account for a significant proportion of the post office network's revenues.

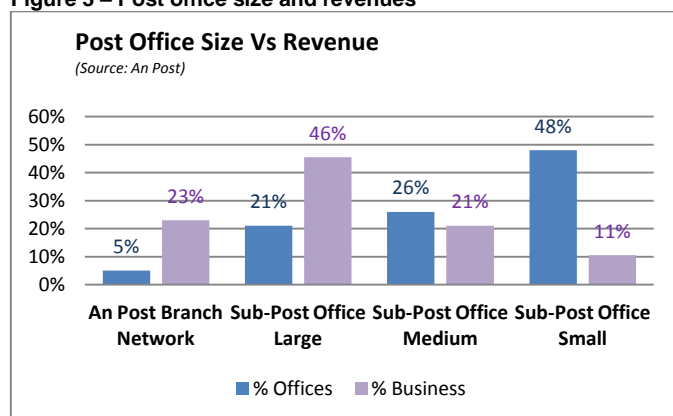
Figure 2 below shows the split of retail revenues for the post office network. From the analysis it is apparent that there is a high dependence on both the Social Welfare and the National Treasury Management Agency savings contracts, which account for 56% of total revenues. The loss of either of these contracts would have a significant impact on the post office network and would likely result in a large number of closures, notably within rural areas. To deepen this threat, the social welfare contract is up for renewal in December 2013 and certain policy initiatives such as the financial inclusion strategy¹ suggest that the renewal of this contract is in danger.

Figure 2 - Retail revenues by type – 2011



Another key observation is that individual post offices vary greatly in terms of size and revenues generated. Figure 3 below illustrates how the largest 21% of the post offices collect 46% of the revenues; while medium offices that account for 26% of the total offices collect 21%, and the smallest 48% collect only 11% of total revenues.

Figure 3 – Post office size and revenues



Generally, urban post offices have a much greater turnover than rural offices and it is for this reason that the remuneration system operated by An Post to compensate Postmasters uses a regressive sliding scale payment system - “the unit credit system”. This system ensures that the smaller offices receive a higher margin than the larger offices, which recognises the importance of sustaining the wider network and support smaller offices.

¹ Strategy for financial inclusion (2011) – Board of Social Finance Foundation

Post office revenue by product type

An analysis of the range of products across all post offices illustrates that the mix of business is fairly consistent regardless of the size of the post office. Table 2 below highlights the split by product and post office size.

Table 2 – % Revenue by type, by office type - 2010

Office Type	Mails	Social Welfare	Billpay	Savings	Money Transfer	Other
An Post Branch Network	27%	34%	15%	10%	3%	11%
Sub-post office Large	27%	34%	20%	9%	2%	8%
Sub-post office Medium	31%	32%	16%	11%	3%	7%
Sub-post office Small	28%	37%	13%	12%	3%	7%

Strengths and weaknesses of the post office network

Based on our analysis of the post office network, we have identified a number of strengths and weaknesses that have been taken into consideration when assessing potential service contracts. Table 3 provides an overview of the key findings in this regard.

Table 3 – Strengths and weaknesses

Strengths	Weaknesses
<ul style="list-style-type: none"> • Irelands largest retail network with over 1,100 post offices in Ireland; • Brand: Household name with positive customer perception; • Social welfare contract; • Large customer base; • Goodwill - Customer trust; • Proven track record of service delivery; • Ability to handle large volumes; • Community and social centre; • Communication structure; • Low levels of gearing (debt); • Flexible IT systems with the ability to add services (Riposte System); • Capacity to handle additional business; • Local knowledge and customer knowledge; and • Social welfare fraud deterrent - face to face contact. 	<ul style="list-style-type: none"> • Dependence on social welfare contract; • Idle time (certain offices); • Inconsistent service offerings; • Varied financial performance; • Supplier power; • Restrictions on marketing; • Structure – inherent difficulty of independent entities following aligned strategy; • Identity - different view of own role (Postmasters); and • Remuneration system – outdated and inconsistent.

Strategic Context: opportunities and threats

It is important that any review of existing or future service contracts does not occur in isolation. It must be undertaken with an understanding of the wider environment, the key trends and developments occurring in the economy and the overall performance of the postal sector.

From our analysis of the strategic context, it is clear that there are a number of opportunities and threats for the postal industry that will have significant implications for the post office network.

The below table provides a summary of the key opportunities and threats:

Table 4 – Opportunities and threats

Opportunities	Threats
<ul style="list-style-type: none"> Local Government restructuring; Additional Government charges (e.g. Household Charge); Capability and infrastructure - ability to extend business; Increased community interaction; Technology related solutions – tracking, digital displays, phone applications etc.; Banks - facing cost pressure and seeking alternative solutions, Basic Payment Account; and Capacity. 	<ul style="list-style-type: none"> Loss of social welfare contract (29% of business); Basic Payment Account; Deregulation and increased competition from international postal operators; Shrinking mail volumes and falling postal revenues; Substitutes (email, online banking, paying bills online); Large retailers; Cost pressures (e.g. insurance, security); Weak economy and decreasing disposal income; and High dependence on external decisions (Government, An Post).

Options identified

An analysis of the internal and external operating environment has identified the necessity for continued diversification. This will help to mitigate the significant threats of falling traditional mail volumes and the high dependence on the NTMA and Social Welfare contracts. In identifying potential service contracts, it is critical that potential benefits are viewed from both the providers' (the post offices and An Post) and the suppliers' perspectives. A key criterion for selection for a potential service is that they are mutually beneficial for both parties. The potential future services that have been identified in this review are:

- motor taxation;
- extension of the banking services available;
- household charges;
- Local authority charges (water and waste charges); and
- hospital charges.

Summary of findings

A cost benefit analysis has been used to evaluate each of these potential contracts. Cost benefit analysis is a long established economics based methodology used to examine the merits of a project by comparing the future streams of its costs and benefits in monetary terms. A cost benefit analysis ascertains the Net Present Value (NPV) of both costs and benefits over the life of a potential contract and uses a discount rate to estimate the current worth of future revenues or savings.

The table below summarises the outcome of the cost benefit analysis for each identified service offering over the defined five year period.

Table 5 – Summary results of the cost benefit analysis (over a defined five year period)

		CB Ratio	NPV Benefit €, 000	NPV Cost €, 000	NPV of Additional Benefit €, 000
	<u>Potential Service Offerings</u>				
1	Motor taxation	3.09	89,581	(28,946)	60,635
2	Banking Transactions	1.76	17,931	(10,166)	7,765
3	Household charges	2.68	13,062	(4,879)	8,183
4	Local authority payments	3.50	81,849	(23,361)	58,488
5	Hospital charges	2.11	16,308	(7,736)	8,572
	Total		218,731	(75,088)	143,643

The table above and the more detailed analysis (contained in the body of the report) demonstrate that all the potential service contracts offer significant potential revenues. Each of the five options shows a positive Cost Benefit (“CB”) ratio. A CB ratio summarises the overall value for money of a proposal, with any proposal having a value of greater than one deemed to be an attractive investment. For the purposes of this cost benefit, this ratio includes the combined benefits both for the post office network and third parties².

From this analysis it is clear that the potential motor tax and local authority payments contract are the most attractive option with a potential Net Present Value of additional benefit of €60.6 million and €58.5 respectively.

As noted above when preparing the cost benefit analysis it was deemed appropriate to consider the costs and benefits from both the perspectives of An Post and the IPU but also the third party who will grant the contract. Of the €143 million in total additional benefits, there is a potential €108 million in savings for the third parties. The Government represent the most significant beneficiary with potential savings identified of up to €95.5 million.

² Third parties include the Government, banks and the Health Services Executive (HSE).

Table 6 – Split of total benefit

	Total	Motor Tax	Banking	Household Charges	Hospital Charges	Local Authorities
IPU / An Post NPV	35,206,738	14,371,112	3,349,083	1,396,961	99,939	15,989,644
Third Party NPV	108,436,354	46,263,687	4,415,575	6,785,740	8,472,522	42,498,831
Total additional benefits	143,643,092	60,634,799	7,764,657	8,182,701	8,572,460	58,488,475

Whilst the results of the cost benefit analysis are positive, the most significant finding for the IPU of this analysis is that the combined revenues from these potential contracts would not be sufficient to replace the loss of the social welfare contract. Based on the detailed workings, potential revenue in a single year from all the proposed contracts would amount to an additional 8% in revenues, which while positive would not replace the loss of the social welfare contract.

Non-quantifiable costs and benefits

When preparing a cost benefit analysis it is necessary to assess the costs and benefits that a value cannot be placed on. The purpose of this exercise is to ensure that socio economic factors are considered when evaluating any proposals. For the Irish post office network there are significant non-quantifiable benefits that have been identified following various consultations and focus groups with a number of community bodies, including:

- St. Vincent de Paul (SVP)
- Age Action Ireland
- Irish National Organisation of the Unemployed (INOU)
- Irish Rural Link (IRL)
- The Irish Wheelchair Association
- Irish Senior Citizens Association
- Irish Farmers Association (IFA)

The consensus from these community bodies was that the post office network plays an important role in the community and offers vital services to many that would be difficult to replace and the decline of the network could have many unintended social and economic consequences notably in rural areas. One organisation has described the post office as allowing “people to live”.

For many local businesses and members of the community the closure of the local post office could result in significant additional expenses and time taken to travel to different post offices that are further away. Another important point that has been highlighted is that in many small villages, the post office is the only outlet for banking and financial services. The loss of the post office could increase financial exclusion and further exacerbate socio-economic inequalities. From a community perspective, the post office acts as the focal point and information exchange that facilitates social inclusion and reduces isolation.

The UK post office network faced similar issues when a policy decision resulted in a number of post office closures. Independent studies³ demonstrated that these closures had a significant impact on the local community and resulted in significant expense for local governments.

³ Devon knows – Long term impacts and lessons from the post office closures, Consumer Focus UK, (2011)

The experiences in the UK should be borne in mind as Government policy will play a vital role in the long term sustainability of the post office network. Financial considerations cannot be considered in isolation and the socio-economic aspects need to be considered particularly when awarding Government contracts.

Conclusions

The financial viability of the post office network is challenged as a consequence of the significant decline in traditional revenues and dependence on its contract to deliver social welfare. The implications of these challenges are that if local post offices close many of the services they provide will not be easily replicated by other service providers. To mitigate these threats it is important that the post office network builds upon its strengths and continue diversify its products offerings.

One of the primary aims of this report was to identify and evaluate potential service contracts that might be available to the post office network. Based on our analysis the potential future services that offer the greatest opportunity and could be easily added to its current service offering are:

- motor taxation;
- extension of the banking services available;
- household charges;
- Local authority charges (water and waste charges); and
- hospital charges.

Our findings show that all the above service contracts have positive CB ratios, which indicate that they would add value and enhance the post office network. Of these five potential service contracts, Motor tax and Local Authority payments are the most attractive options and offer the greatest potential for the post office network and an attractive option for Government.

A significant issue when considering the long term sustainability of the post office network are the socio economic factors which are substantial. There is a significant concern by community stakeholders about the decline in the number of rural post offices and the impact this may have on their members. It is therefore important that the experience of the UK is noted and there is awareness of the cost to the communities and to the Government of replacing such a network.

1. Introduction

1.1. Background to the review

The Irish Postmasters' Union ("IPU") is the representative body for Postmasters in Ireland representing 90% of all Postmasters. In 2011, the post office network in Ireland consisted of 1,156 post offices at various locations across the country. Of these post offices, 1,099 are deemed to be sub-post offices which are managed by independent self-employed retailers who operate under contract with An Post. It is from these sub-post offices that the Irish Postmasters takes its members, and thus are in scope for this review. These sub-post offices will hereafter be referred to as "post offices" for the purposes of this report.

Table 1.1 – Post office network

	2006	2007	2008	2009	2010	2011
Company post offices	84	74	61	57	57	57
Sub-post offices	1,277	1,212	1,187	1,179	1,107	1,099
Total	1,361	1,286	1,248	1,236	1,164	1,156

The primary role of the IPU is to act as the collective voice of Postmasters, to represent and protect the best interest of their members in collaboration with An Post and all other stakeholders and to articulate the views of the members at all levels – politically, socially and economically.

Through their head office, branch structure, and annual conference they provide advice and support to Postmasters on specific issues or problems they encounter in the course of undertaking their role. The annual conference acts as a forum to provide the opportunity for Postmasters to exchange views with other Postmasters and to have a role in framing policies that would advance the interests of Postmasters and the communities they serve.

At a micro level a Postmaster is the head of an individual post office. They are responsible for the management of their post office which acts as a distribution facility for An Post services. It is important to note that Postmasters in Ireland are not employees of An Post, but they do have a formal and contractual relationship to supply An Post services.

1.2. Terms of reference

This report is to provide a comprehensive independent evaluation of the benefits which would derive from the consolidation and/or expansion of the range of services provided through the post office network in Ireland and set out a compelling case to policy makers in relation to new service contracts as identified.

Ultimately this exercise is about achieving a viable post office network in Ireland by supporting the growth of post offices and increasing the effectiveness of their business model to ensure the long term sustainability of the network into the future.

1.3. Project methodology

We tailored our methodology and approach to ensure that it meets the specific requirements of the scope of this project. The diagram below outlines the approach we adopted in completing this study.



Phase 1: Planning of the review

This phase consisted of a meeting between Grant Thornton and the IPU, for the purposes of defining the scope and boundaries for the review, agreeing the key stakeholders to participate in the review process, ensuring full agreement and comprehension by all parties of the outputs of the review. At this stage we also agreed the project structure, staffing, timeline and liaison arrangements.

Phase 2: Data gathering and consultations

The objective of phase two of the assignment was to gather data to inform our assessment of the key review areas. Data was collected from a number of different sources:

- information provided by the IPU;
- interviews with members of the IPU Executive;
- on site visits and workshops with members of the IPU and An Post;
- information provided by An Post;
- consultations with external stakeholders and community groups;
- desk research; and
- discussions with experts in relevant sectors such as tax and Local Government.

Phase 3: Data analysis

Phase three of the assignment was concerned with analysing the data gathered during the workshops and discussions to understand the operating environment of the post office network relative to the areas under review. All information gathered was collated and analysed and information was cross referenced between the different information sources.

Phase 4: Report generation

The key deliverable from this project is this report which provides a basic description of the industry and the strategic context in which post offices are operating, a review of the existing business of the IPU and finally an evaluation of potential service contracts.

1.4. Report structure

The report structure is structured as follows:

Section 2:	Overview of the post office network
Section 3:	Strategic context
Section 4:	Approach and options identification
Section 5:	Cost benefit analysis
Section 6:	Outcomes
Section 7:	Non-quantifiable benefits
Section 8:	Risk assessments

2. Background to the post office network

2.1. Introduction

The first step in our review is to provide an overview of the existing post office network and its current service offerings. We have considered the post office network from the following perspectives:

- 1 network and retail service;
- 2 revenues;
- 3 revenues by post office size; and
- 4 additional considerations (capacity, systems, training and marketing)

It is important to note as part of this analysis that the information in this report is in aggregated form and thus gives an overall picture which may not be fully representative of all post offices, given the large degree of variation in the network.

2.2. Network and retail service

The greatest strength of the post office network is the number of branches and the reach that this structure provides. Currently the post office network is Ireland's largest retail group, with over 1,100 fully computerised locations spread across the county. A detailed map of the location of all post offices in Ireland is included in Appendix 8 of this document.

To put this into context the next largest network is Musgrave's group, which operates under a number of different brand names with Centra's brand, which comprises of 456 outlets, the largest. The following table highlights a selection of Ireland's largest retail networks.

Table 2.1 - Retailers in Ireland

Retail Network	Branches
An Post	1,156
Musgrave's	895
Credit Unions	412
Bank of Ireland	255
Allied Irish Bank	183
Ulster Bank	146
Local Authorities	37

Source: Various Annual Reports 2010/11

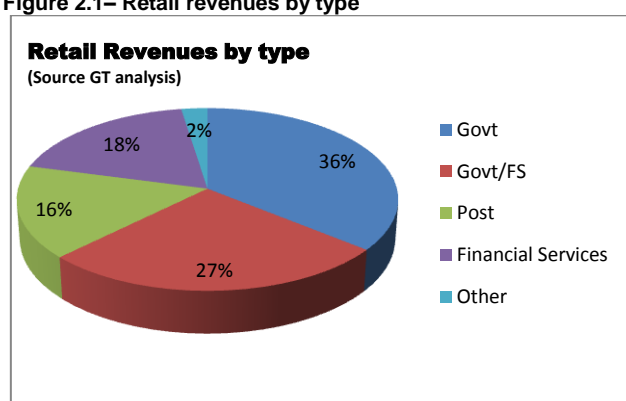
2.3. Revenues

Revenues for the post office network come from three main sources:

- 1 Traditional mail services;
- 2 Government contracts; and
- 3 Financial services.

Significantly the post offices have little control over what services are supplied by them, with An Post directing which products are available for sale. A split of these revenues is displayed in the pie chart below (figure 2.1).

Figure 2.1– Retail revenues by type



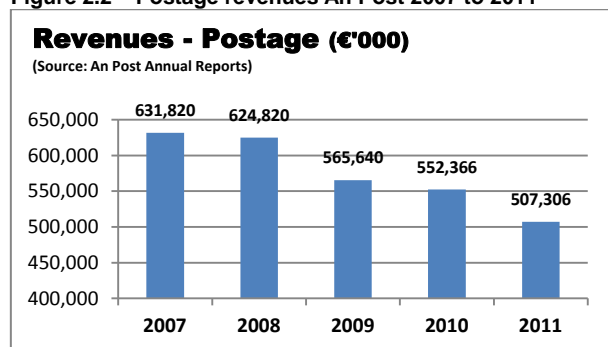
These categories can then be split further by products, which are set out in the following table and analysed in more detail below.

Table 2.2 – Retail revenues by type - 2011

#	Product	Type	Revenues (€, m)	%
1	Social Welfare	Govt	59	29%
2	NTMA	Govt	54	27%
3	Mail	Post	33	16%
4	Billpay	FS	20	10%
5	Licences	Govt	13	6%
6	Money Transfers	FS	12	6%
7	Banking	FS	5	2%
8	Other	Other	5	2%

2.3.1. Traditional mail services

Traditional mail offerings consist of postage, letters, parcels and the sale of stamps. Revenues from traditional mail have been declining in recent years due to increased substitution, deregulation of the market and increased competition.

Figure 2.2 – Postage revenues An Post 2007 to 2011

In post offices (retail only), traditional postal services now account for just 35% of revenues, despite a decline in total revenues. Over a five year period, An Post has seen revenues fall from €873 million in 2007 to €806.7m in 2011; representing a decline of almost €66m or 8%. More significantly, postage revenues fell by €124 m in the same five years, which highlights that the fall in traditional revenues is the key driver of the falling revenues and nearly double the aggregate decline in total revenues.

For the individual post offices this decline is even more significant, with revenues from postal services now accounting for only 17% of total revenues.

Table 2.3 –Traditional mail revenues - 2011

Traditional	€'m	%
Mails	33	16%
Other	5	2%

Diversification has helped slow the decline in total revenues; however the figures indicate that the downward trajectory seems set to continue.

2.3.2 Government contracts

Government revenues come from three main sources:

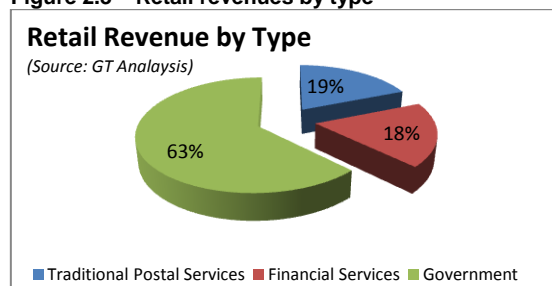
1. social welfare;
2. National Treasury Management Agency (“NTMA”) savings; and
3. licences.

The decline in traditional revenues has led to an increased dependence by post offices on Government contracts, which now account for a significant proportion of the post office network’s revenues.

Although NTMA savings is a financial service, it can also be deemed a Government contract. If we include this as a Government contract, 65% of total revenues would fall under this category. The NTMA and the social welfare contracts are pillars of the current revenue structure of the post office network, representing 57% of total revenues. The loss of either of these contracts would be very significant and would be difficult to absorb as there is no other major contract in the pipeline that could replace either contract. With the social welfare contract up for renewal in December 2013, the post office network is in a precarious position which could potentially result in the loss of almost 30% of its income.

Table 2.4 – Government related revenues - 2011

Government	€'m	%
DSP	59	29%
Licences	13	6%
NTMA	54	27%

Figure 2.3 – Retail revenues by type

2.3.3 Financial Services

Financial services have become an increasingly important element of post offices revenues. At present this accounts for 45% of total revenues including, NTMA savings and 16% excluding NTMA savings.

The social welfare contract is also relevant to the financial services revenues as there is a strong correlation between the revenue generated from this contract and the other financial services offered by the post office. Without the social welfare contract a large portion of other financial services that are provided would be significantly impacted, most notably Billpay and NTMA savings.

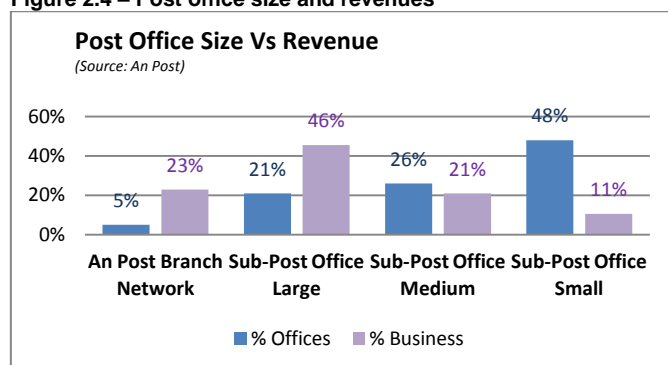
While Billpay has been an extremely successful product, its long term future is uncertain. It is operating in an extremely competitive market and providers encourage customers to pay directly through their websites which is more cost effective. One important consideration is that many people use the opportunity to pay bills while collecting social welfare payments at the post office.

Table 2.5 – Financial service related revenues -2011

Financial Services	€'m	%
Billpay	20	10%
Banking	5	3%
Money transfers	12	6%

2.4. Post office revenue by size

Another key observation is that post offices vary greatly in terms of size and revenues generated. Figure 2.4 illustrates how the largest 21% of the post offices collect 46% of the revenues; medium offices which account for 26% of the total offices collect 21%, while the smallest 48% collect only 11% of total revenues.

Figure 2.4 – Post office size and revenues

Generally, urban post offices have a much greater turnover than rural offices and it is for this reason that the remuneration system operated by An Post to compensate Postmasters uses a regressive sliding scale payment system - “the unit credit system”. This system ensures that the smaller offices receive a higher margin than the larger offices. This is to recognise the importance of sustaining the wider network and to help support smaller offices. More detail in relation to this system is included in section 2.6.3.

2.5. Post office revenue by product type

An analysis of the range of products across all post offices illustrates that the mix of business is fairly consistent regardless of the size of the post office. Table 2.6 below highlights the split by product and post office size.

Table 2.6 – % Revenue by type by office type - 2010

Office Type	Mails	DSP	Billpay	Savings	Money Transfer	Other
An Post Branch Network	27%	34%	15%	10%	3%	11%
Sub-post office Large	27%	34%	20%	9%	2%	8%
Sub-post office Medium	31%	32%	16%	11%	3%	7%
Sub-post office Small	28%	37%	13%	12%	3%	7%

A full list of all retail services provided by the post office network is included in Appendix 10.

2.6. Additional considerations

Other considerations relevant to this study include as follows:

2.6.1 Capacity

Through the course of our review different opinions were provided in relation to the capacity of the network to increase service offerings. On balance, the overall consensus is positive; that there is capacity available to provide additional services.

The findings from a recent survey conducted by the IPU support this view. It shows that 20% of post offices have a lot of capacity to extend the current service offerings while 37% have some capacity.

Much of the restrictions in capacity are occurring on Thursdays and Fridays when social welfare payments are processed. As such these capacity issues could potentially be alleviated through increased staffing or spreading social welfare across the week.

One point to note is that the findings from this survey are based on current service offerings and takes no account of the fact that the social welfare contract is due to elapse in December 2013.

2.6.2 Skills and expertise

Another relevant consideration is the training received by Postmasters from An Post. Currently Postmasters receive training in a wide range of services they offer including banking, Government and traditional mail services. Each Postmaster is provided with a training manual which documents all of the processes and procedures covering the relevant products and services. This manual is continually updated to reflect additional service offerings and technical updates. This diversity of training is a significant asset for the post office network, one that has enabled the successful roll-out of a number of products such as the implementation of Garda fines and post office banking. This gives confidence to potential contract providers that new services can be taken on board and administered in an effective and efficient way.

2.6.3 Scale payments systems

As Postmasters are independent self-employed contractors it is necessary to have a system that allows them to receive payment for the provision of these services. Currently payment is received from An Post in two different ways, commercial payment and the scale payment system. The scale payments system is the process by which Postmasters remuneration is determined by An Post⁴.

In summary, the scale payments system uses a regressive “unit credits” system, which values transactions using volume, time taken and the type of transaction. Most classes of transactions are pre-assigned a unit credit value and at the end of the period the aggregate of these credits for the year is converted to a monetary equivalent through the use of a conversion table. For some transaction types a percentage of the transaction amount is used as it is deemed more appropriate. One twelfth of amounts due are paid monthly except for cash fee payments which are paid each quarter.

This system of remuneration is regressive, which means that the value of each unit decreases as the number of units sold increases. The rationale for the regressive system is to ensure a more equitable distribution of funds to the smaller offices that have lower volumes of revenues. As an added control to ensure equitable distribution there is also a minimum payment threshold for post offices. This supports post offices that do not have sufficient business levels to receive a minimum payment for the postal services they provide.

From our conversations with individual Postmasters, a number of issues have been noted with the system. These relate to the fact that it does not incentivise post offices to carry out additional business or large transactions as they receive the same reward for large transactions as for a standard transaction. For example, Postmaster's receive the same fee for an investment of €100 as they do for €1,000,000. A review or update of this system may therefore be necessary to support the provision of the new services envisaged.

⁴ Factual memorandum provided by An Post

2.6.4 Riposte System

The post office network uses a system called Riposte to process all the over the counter (“OTC’s”) transactions. The riposte system is a highly flexible system that can be used for a diverse range of transactions. This integrated system enables the post office to process all types of transactions from banking to Government to traditional postal services. Once processed these transactions are instantly sent and recorded in the An Post database.

The Riposte system allows for additional applications to be quickly developed by the An Post IT team, which can cater for a wide variety of potential services. The standard development time for an application is four weeks, with a team of four developers from An Post. This ensures that any new services can be easily added in a cost effective manner. The Riposte system is an efficient method of processing postal transactions and is seen as a core strength of the network. The system is now in use by many leading international postal operators within countries such as the UK, Germany, Denmark, Austria and Australia.

2.7. Conclusions: strengths and weaknesses

The analysis completed of the post office network has identified a number of strengths and weaknesses that need to be taken into consideration as part of this review. Table 3.1 provides an overview of the key findings in this regard.

Table 3.1 – Strengths and weaknesses

Strengths	Weaknesses
<ul style="list-style-type: none"> • Ireland's largest retail network with over 1,100 post offices in Ireland; • Brand: Household name with positive customer perception; • Social welfare contract; • Large customer base; • Goodwill - Customer trust; • Proven track record of service delivery; • Ability to handle large volumes; • Community and social centre; • Communication structure; • Low levels of gearing (debt); • Flexible IT systems with the ability to add services (Riposte System); • Capacity to handle additional business; • Local knowledge and customer knowledge; and • Social welfare fraud deterrent - face to face contact. 	<ul style="list-style-type: none"> • Dependence on social welfare contract; • Idle time (certain offices); • Inconsistent service offerings; • Varied financial performance; • Supplier power; • Restrictions on marketing; • Structure – inherent difficulty of independent entities following aligned strategy; • Identity - different view of own role (Postmasters); and • Remuneration system – outdated and inconsistent.

3. Strategic context

3.1. Introduction

Any review of existing or future service contracts cannot occur in a isolation. It must be undertaken with an understanding of the wider environment and the key trends and developments occurring in the economy and the overall performance of the postal sector.

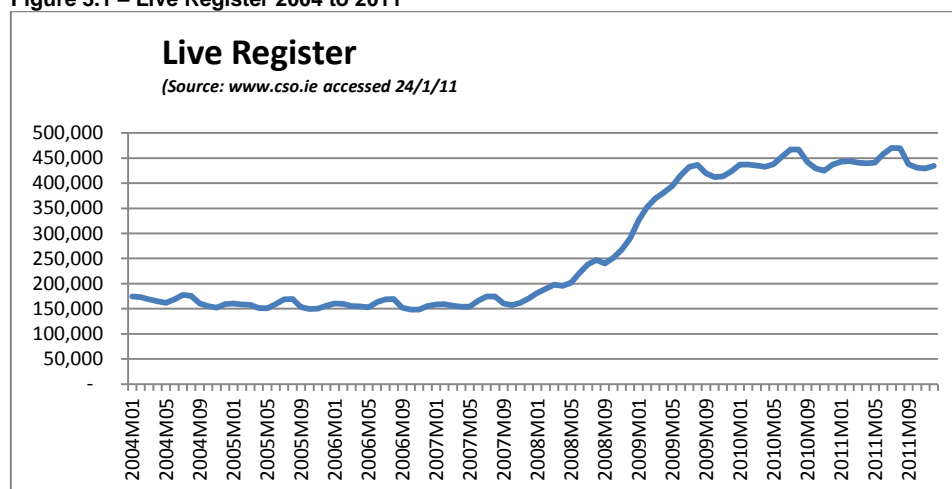
The Irish economy is working through tough austerity measures and as a result Irish public services are under significant pressure to radically reform and identify efficiencies. Both of these factors combined present a number of opportunities as well as threats for the post office network. This section sets out a consideration of these factors, under the following headings:

- macro-economic context;
- public sector context; and
- the wider postal sector context.

3.2. Macro-economic context

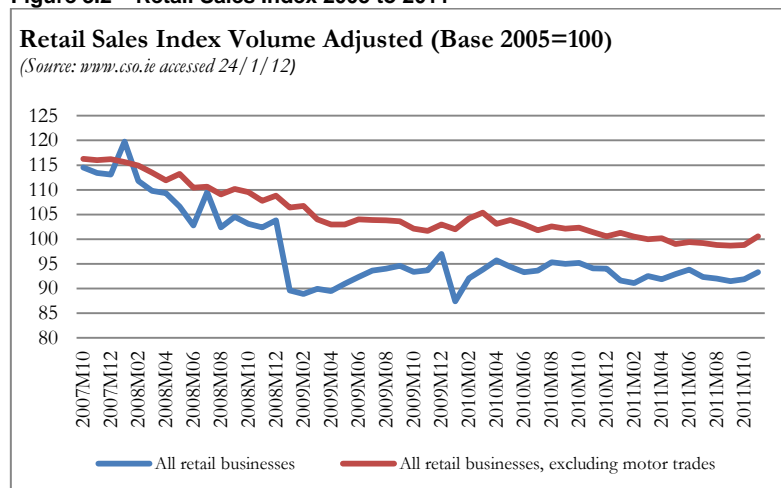
Following this extended period of economic expansion from 2001 to 2007, the Irish economy entered a downturn in late 2007, which culminated in recession in 2008. While the recession in Ireland officially ended in the first quarter of 2010, at the time of writing this report, the economic outlook remains uncertain with the European debt crisis remaining unresolved.

The most noticeable impact of the slowdown in the Irish economy is its effect on the level of unemployment in the economy. The most recent live register data shows that there were 434,784 social welfare claimants in the State in December 2011, as compared with 201,756 in May 2008, an increase of 155% in the last three years. While it appears that unemployment levels have plateaued, they still remain high compared to other European counties. The graph on the following page illustrates the rise in unemployment since 2007.

Figure 3.1 – Live Register 2004 to 2011

Total social welfare payments made by the state amount to €19.797billion, and of this 52% of social welfare (€10.29 billion) is currently paid through the post office network.

For the post office network, rising levels of unemployment has had a mixed impact on business levels. The provision of social welfare payments is a key contract held by An Post and as a result the post office network has seen an unprecedented rise in the numbers collecting welfare benefits through its network. On the downside, the recession and high levels of unemployment have reduced the levels of disposable income available resulting in the erosion of demand and thus a sharp decline in retail spending.

Figure 3.2 – Retail Sales Index 2005 to 2011

3.3. The public sector context

Recent Government policy has attempted to steady the economic uncertainty through extensive austerity measures that have cut across every sector of the economy. These austerity measures have created hardship for many; however they have also created an incentive for the Government to leverage the resources and capabilities at its disposal such as the post office. For this reason we examine below certain critical areas of Government policy and reform that could impact the post office network.

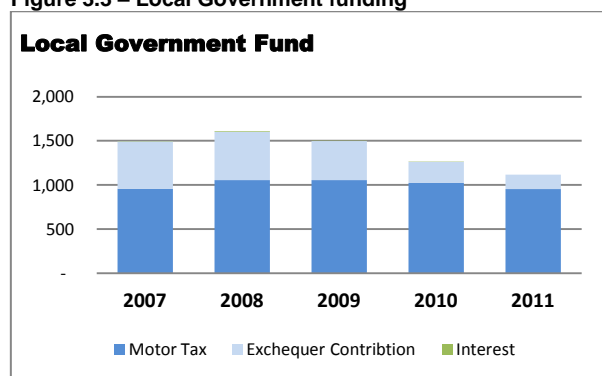
3.3.1 Local Government reform

In September 2011, the Local Government Efficiency Implementation Group prepared its second review of expenditure in Local Government in just over a year. The main aim of this report was to identify “current expenditure programme saving options, the scope for savings arising from greater efficiencies, proposals for reducing and/or merging of agencies, and associated reduction in staff numbers”⁵ In the short term the reduction in staff is a priority for Local Government, whilst the introduction of shared services and structural reform are longer term goals. Two areas of Local Government that have been identified as significant cost and administrative burdens are motor tax processing and payment collection. By taking out these large numbers of staff it will be difficult to ensure that current levels of service and efficiency are maintained. For any proposed option this needs to be an important consideration, especially in respect of non-core activities.

3.3.2 Introduction of new taxes

Local authority finances remain under extreme pressure despite a number of cost cutting measures over the last number of years. Contributions from the Exchequer are likely to fall and this is expected to be compensated for by a broadening of the revenue base of Local Government. This includes the introduction of a number of charges such as the private water charges and the new septic tank charge. At present only commercial operations pay for water but it has been proposed to extend this to domestic households also.

Figure 3.3 – Local Government funding



3.3.3 Financial inclusion

Another issue that has significant implications for the post office network is the Government policy on financial inclusion. Financial exclusion is defined by the European Community (“EC”) as “a process by which people encounter difficulties accessing and/or using financial services or products in the mainstream market that are appropriate to their needs and enable them to lead a normal social life in the society in which they belong”. Financial inclusion remains a significant issue in Ireland with large numbers of people continuing to operate without access to financial services.

One solution that has been proposed by the “Strategy for Financial Inclusion” released in 2011 is to introduce a Basic Payment Account (“BPA”) to citizens of the state that currently do not have access to a bank account. The report specifically mentions the fact that An Post could play a key role in the implementation and delivery of this BPA which is encouraging for the network.

⁵ Comprehensive Review of Expenditure (Sept 2011) Local Government Efficiency Implementation Group

One of the proposed functions of the BPA outlined in the Strategy for Financial Inclusion is to deliver social welfare directly to the unemployed, a contract currently held by An Post. The social welfare contract currently represents 30% of the post office networks revenues although for some offices this can rise to 60%. The loss of this contract would threaten the short term survival of many post offices notably those in rural areas to whom financial exclusion is more significant. This might therefore have the unintended consequence of actually increasing financial exclusion.

For the post office network any opportunity that may accrue from the BPA is significantly outweighed by the threat that it creates for the post office network, whilst for the financially excluded this might remove their existing access to financial services that the post office provides and consequently lead an increase in financial exclusion.

3.4. Wider postal sector context

There are a number of industry specific developments that have occurred in recent years which also contribute to the overall context in which post offices are operating. The postal industry has gone through a period of significant change with product substitution in particular having a significant impact on the industry. This substitution has come in the form of technology related products such as email, e-statements and other similar electronic products which has led to a decline in the traditional revenue base of postal products (mail, parcels and stamps).

Deregulation, as mentioned previously, has led to the entry of a number of global postal operators, such as DHL and FedEx. In addition to these large companies, recent years has seen the emergence of an increased number of private companies who have targeted the more profitable lines of local business. This increased competition has added to the downward pressure on traditional postal related revenue bases resulting in an erosion of margins.

The above developments are reflected in An Post's latest available financial data, for the year ended 31 December 2011. As can be seen from the data, revenues have fallen from €876 million in 2007 to €806.7 million in 2011; representing a decline of 8% in five years. More concerning is the decline in margins and profitability, which has been forced on the company due to the increased pressure from competitors. It is important to note that there was a once off restructuring cost in 2010 of €20 million which has gone directly to the operating profit line. ..

Figure 3.4 – An Post Turnover 2007 - 2011

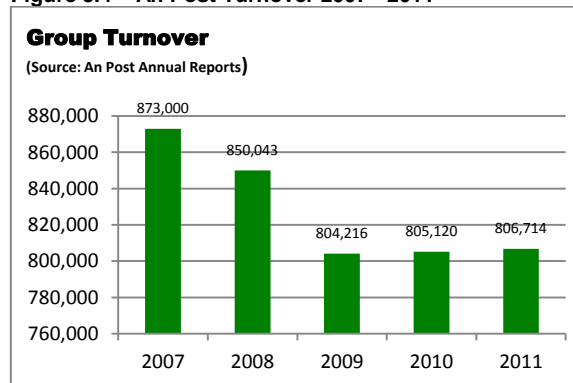


Figure 3.5 – An Post Gross margins 2007 - 2011

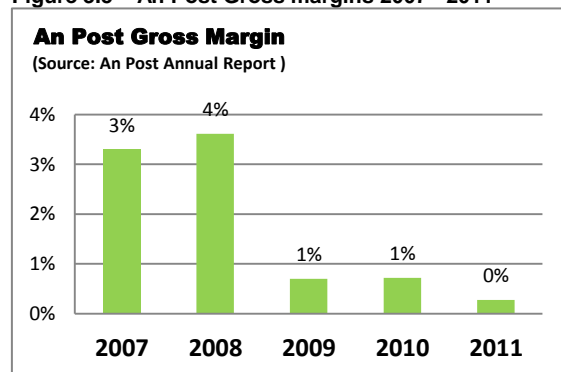
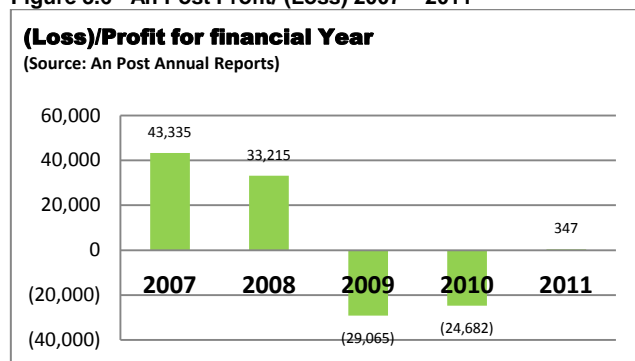
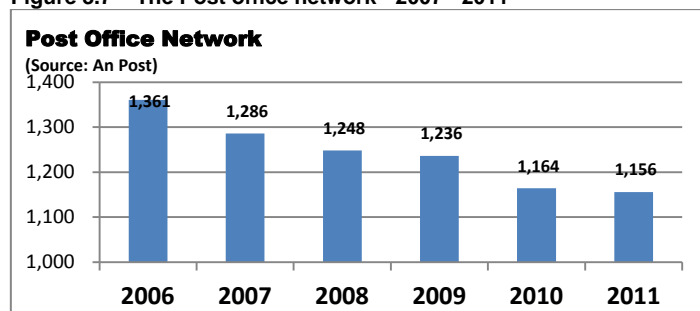


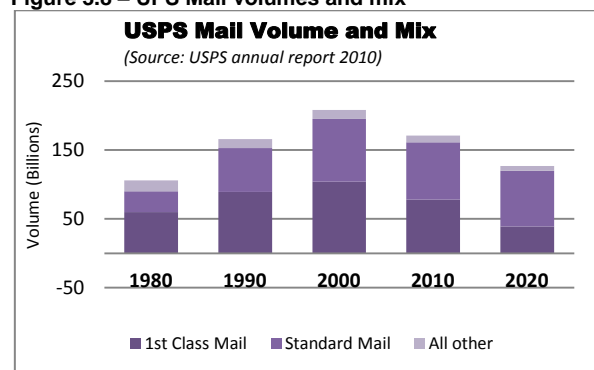
Figure 3.6– An Post Profit/ (Loss) 2007 – 2011

This decline in revenues has led to a reduction in the number of post offices in the network and increasing questions being asked about the financial viability of certain post offices. Since 2006, 205 post offices have closed and this number is expected to continue. In 2009, the Chief Executive of An Post, Donal Connell, stated that “there have been closures through the years and that will continue”⁶. The majority of these closures have occurred in rural areas that have a high dependence on these post offices. In many cases, when the Postmaster or Postmistress dies, a replacement Postmaster is not appointed. This decline in the number of post office is illustrated in the below graph.

Figure 3.7 – The Post office network - 2007 - 2011

3.4.1 International postal industry

The wider international postal industry has had a similar experience to that of Ireland, with a decline in traditional revenue bases and the closure of a number of post offices. The below graph (figure 3.8) highlights the trend in relation to mail volumes and mixes since 1980, with forecasted figures up to 2020.

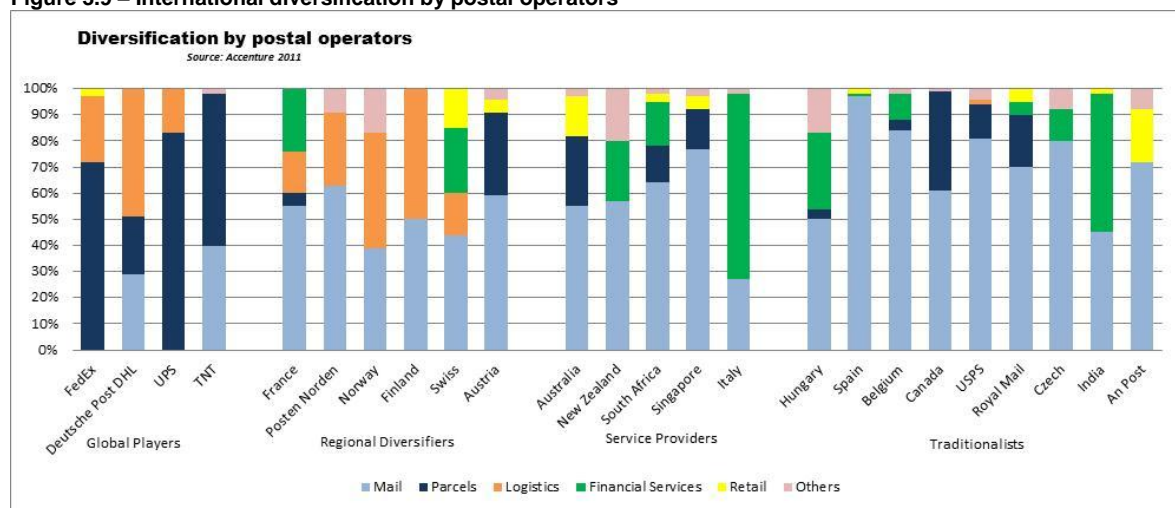
Figure 3.8 – UPS Mail volumes and mix

⁶ The Irish Independent – 26th February 2009

While the declines in traditional revenue streams have been significant, “postal organisations that have tightly managed their costs, diversified their product offerings and embraced the opportunities that have arisen from technology continue to perform regardless of market conditions”⁷.

Figure 3.9 below shows the international trends and comparisons of services provided.

Figure 3.9 – International diversification by postal operators



Taking into account the economic status of the postal industry along with the industry dynamics and trends, four key success factors have been identified for both individual post offices and other postal providers. These are:

- diversification;
- leveraging of new technologies;
- customer centric approach; and
- cost control.

3.4.2 UK postal industry

Over the past decade the UK postal industry has gone through a significant change programme, in which the number of post offices fell from 17,846 to 11,905. This fall in post offices, which was the result of two closure programmes, coincided with a shift in revenues from government services. The range of financial services is continuing to widen with the post office providing a range of banking services. The post office relies on the Bank of Ireland for its banking licence granted by the Financial Services Authority which allows it to take deposits. The post office network is currently subsidised by the UK Government which provided a subsidy of €180 million in 2011 to support the network and take into account its social importance to the community.

⁷ Accenture – Achieving high performance in the postal industry (2010)

3.5. Conclusion: opportunities and threats

From our analysis of the strategic context, it is clear that there are a number of opportunities and threats within the postal industry that will have significant implications for the post office network. A PESTEL analysis outlining these findings in more detail is included in Appendix 7.

Table 3.1 provides a summary of the key opportunities and threats:

Table 3.1 – Opportunities and threats

Opportunities	Threats
<ul style="list-style-type: none"> • Local Government restructuring; • Additional Government charges (e.g. Household Charge); • Capability and infrastructure - ability to extend business; • Increased community interaction; • Technology related solutions – tracking, digital displays, phone applications etc.; • Banks are under cost pressure and are seeking alternative solutions; • Capacity; and • Basic Payment Account. 	<ul style="list-style-type: none"> • Loss of social welfare contract (29% of business); • Basic Payment Account; • Deregulation and increased competition from international postal operators; • Shrinking mail volumes and falling postal revenues; • Substitutes (email, online banking, paying bills online); • Large retailers; • Cost pressures (e.g. insurance, security); • Weak economy and decreasing disposal income; • High dependence on external decisions (Government, An Post); and

4. Approach and options identification

4.1. Approach to cost benefit analysis

Cost benefit analysis (CBA) is a long-established economics-based methodology used to examine the merits of a project by comparing the future stream of its costs and benefits to which it gives rise, with both of these valued in monetary terms.

Critical features of CBA are:

- that it takes a broad economic and societal perspective, rather than an organisational perspective;
- that it attempts to place a value on all costs and benefits;
- that benefits include all socio-economic ones, not narrowly defined financial or economic ones only; and
- it includes costs and benefits not normally captured within conventional financial appraisals.

The requirements of a CBA typically include:

- i. identification of the strategic rationale given developments in the sector;
- ii. specifying project counterfactual (“do nothing”) and project alternatives/options;
- iii. specifying and quantifying all direct benefits;
- iv. specifying and quantifying all direct costs;
- v. specifying and quantifying all indirect costs and benefits;
- vi. specifying and quantifying all tax benefits;
- vii. a cost benefit analysis of alternative options;
- viii. estimating Net Present Value, Benefit Cost Ratio;
- ix. consider qualitative factors including social, environmental and other factors.;
- x. identifying assumptions;
- xi. identifying constraints;
- xii. identifying and assessing risks; and
- xiii. undertaking sensitivity analyses.

The set of working rules to conduct a cost benefit appraisal is summarised as follows:

Table 4.1 - Cost benefit analysis working rules

<i>Working rules on selected issues for cost-benefit appraisal of postal service projects</i>	
Direct benefits	<p>The principle benefits that need to be quantified for evaluation of potential service contracts include:</p> <ul style="list-style-type: none"> ○ The economic benefits to An Post and the post office network, including: <ul style="list-style-type: none"> • operating income

<i>Working rules on selected issues for cost-benefit appraisal of postal service projects</i>	
	<ul style="list-style-type: none"> ○ The economic benefits the Government/third party, including <ul style="list-style-type: none"> • staff savings <p>The dis-benefits of staying with the current option.</p>
Direct Costs	<p>Direct current and capital costs should be considered in the standard manner for a capital project and there are no specific unique issues for this project. The costs to An Post and the post office network, including:</p> <ul style="list-style-type: none"> • IT costs; • staff costs; • postage costs; • relocations costs; and • service charges.
Indirect Benefits	<p>The view was taken that indirect benefits are of vital importance to this project, and as such should be included in the cost benefit analysis. The rationale behind this is that the key supplier is the Government and indirect benefits will play a critical role in any decision made.</p>
Indirect Costs	<p>There are no specific issues in relation to indirect costs that ought to be considered.</p>
Demand Projections	<p>An assessment of demand projections for potential revenues should be prepared, and these should be reviewed over a 5 year period, which is based on the current social welfare contract with the Department of Social Protection.</p>
Inflation	<p>The general approach to inflation is to express all costs and benefits in present value terms and to apply a real discount rate. This is the approach used.</p>
Timeframe	<p>A 5-year timeframe for the appraisal of Government contracts is recommended.</p>
Discount Rate	<p>Based on Government guidelines, we recommend that a 4% rate be used which has been incorporated into our calculations.</p>
Qualitative Factors	<p>In the context of the postal sector, there are certain qualitative impacts which need to be considered such as:</p> <ul style="list-style-type: none"> • public service focus on front line services; • sustainability of the post office network; • social importance of the post office network; • benefits of post office network to businesses; • financial inclusion; and • access to transport. <p>These factors are included in section 7 – non-quantifiable benefits.</p>

Our overall approach has been to take existing guidelines and requirements as the starting point in the CBA, and to depart from their principles and recommendations only:

- where a justifiable case exists to do so;
- where no reference is made in existing guidelines to factors pertinent to this specific project and its appraisal;
- where we undertake or identify relevant research or precedent evidence that would challenge the suitability and comprehensiveness of existing guidance or assist in the production of a more logical and rounded appraisal generally; and
- where we feel the existing IPU proposals may not fully capture all potential benefits, and in consequence underestimate them relative to costs.

4.2. Rationale for additional service contracts

From the conclusions of our strategic context, it is clear that there are a number of potential threats to the post office network. Significantly there are declining revenues from the traditional revenue base of postal service. This has been supplemented by the provision of social welfare to the public. The loss of the social welfare would have a significant impact on the post office network and could result in the closure of many post offices across the country. This would have social implications impacting on many local communities and leaving the most vulnerable in society at a disadvantage both from a quantitative and qualitative perspective.

The decline in traditional postal revenues and the dependence on the social welfare contract has led Postmasters to build on the An Post strategy of diversification and explore additional service contracts for delivery through the post office network.

In identifying potential service contracts, it is critical that potential benefits are viewed from both the provider's (the post offices and An Post) and the supplier's perspectives. The key criterion for selection is that the service is mutually beneficial for both parties. The services that have been identified for review are:

- motor taxation;
- extension of the banking services available;
- household charges;
- Local authority charges (Water and waste charges);and
- hospital charges.

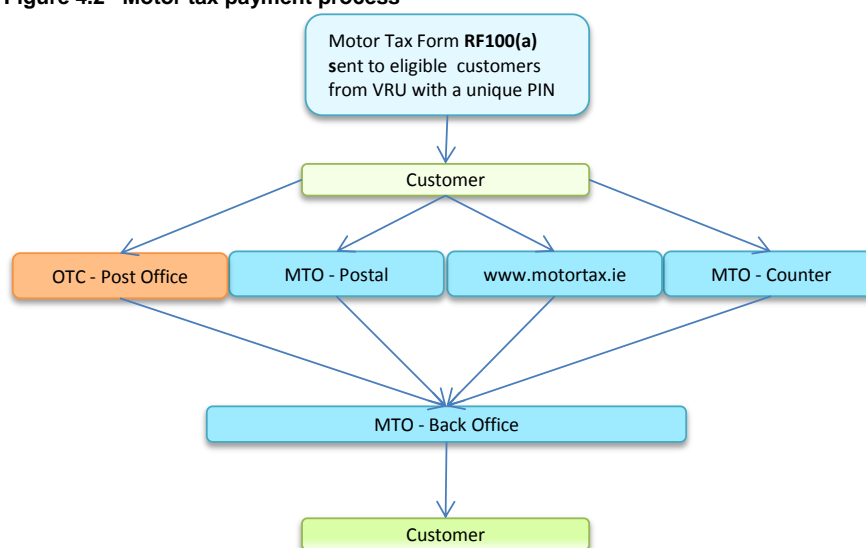
4.3. Outline of options

4.3.1 Motor taxation

Motor Tax is an annual duty payable to the Government on motor vehicles that are used in public places. The tax rate varies as the rates are based on the vehicles carbon dioxide emissions. Currently payment of Motor Tax is made through one of three different channels:

1. online through www.motortax.ie;
2. over the counter ("OTC") at the Motor Tax office of your local authority; or
3. via a postal application.

There are currently 52 Government front counters available in Ireland for the payment of motor tax. These consist of 29 motor tax authorities and 23 associated sub offices. In 2009, there was 5.1 million motor tax transactions of which 2.6 million (53%) were dealt with over the counter. Motor tax receipts amounted to €1,055 million in 2008 with €670 million collected at motor tax offices and €385 million collected online. Figure 4.2 below sets out the current motor tax payments process.

Figure 4.2 –Motor tax payment process

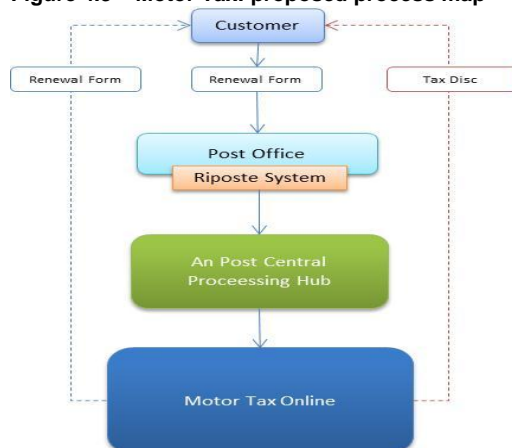
The Croke Park Agreement action plan for Local Government notes that rationalisation is required within the Motor Taxation offices, including within and between local authorities and alternative means of service delivery.

In the Local Government Efficiency Review published in 2011, a handling fee of €10 was proposed on OTC transactions to encourage take-up of online motor tax service and reflect the significant administrative costs of manually processing motor tax payments.

Despite the intended extension of on-line payments, there will remain a portion of the population that will require a physical location at which to make the payment. For this reason it is proposed that the post office network could facilitate this Government rationalisation and provide a proven and cost effective method to supplement or even replace the OTC service that is provided for by the local authorities for motor tax renewals. The current proposal is limited to motor tax renewals due to the increased complexity involved in new motor tax applications. It is considered that this would add complexity to the transaction and would make the project less cost efficient to develop and implement.

The post office network could easily facilitate payments to be made using cash, cheque, debit card or credit card. This could greatly reduce the administrative costs associated with the processing of motor tax transactions and enable Local Government to continue its reduction in staffing levels.

Figure 4.3 on the following page sets out a proposed process for processing motor tax renewal applications in the post office network.

Figure 4.3 – Motor Tax: proposed process map

4.3.2 Banking

Currently post offices throughout Ireland work in conjunction with Allied Irish Bank (“AIB”) and National Irish Bank (“NIB”) to offer banking services to their customers. This strategic alliance enables AIB customers to avail of a limited number of key services including the lodgement, withdrawals and payment of credit cards.

It is likely that a large scale rationalisation of the banking sector in Ireland will occur in 2012, with a reduction in staff and a number of rural branch closures. AIB have announced that they expect to have 2,000 redundancies, while the General Secretary of the Irish Bank Officials association has indicated that they have reached “an agreement with Bank of Ireland in relation to restructuring”⁸

Traditionally branch banking in rural areas have incurred significantly higher overheads than in urban branches. This puts many rural bank branches at a higher risk of closure as a result of any restructuring.

To avoid these potential issues, it is proposed to extend the banking services currently provided through the post office network. This proposal would provide significant synergies to post offices, banks and the local communities.

The post office network currently offers banking services on behalf of AIB and NIB, which leaves Bank of Ireland, permanent TSB, KBC and Ulster Bank as the target banks.

Basic Payment Account

In addition to the commercial banks, the Government has proposed the introduction of a Basic Payment Account (“BPA”) which as already mentioned, has the stated aim of increasing financial inclusion and facilitating the payment of social welfare. There is scope for the post office to undertake a front office role in the provision and servicing of this account, which would have a greater reach than any other banking network. One potential issue with a BPA is that the Government has stated that there is no intention to have any fees or charges on the account; this raises the issue of who will pay. It is important to note that it is unlikely that revenues from the BPA would compensate for the loss in the social welfare contract.

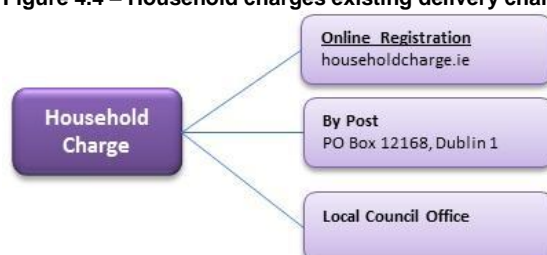
⁸ The Irish Times 11 February 2011 – State seeks redundancy options for bank staff

4.3.3 Household charges

The household charge is a new self-declared property tax that was introduced by the Local Government (Household Charge) Act in 2011 and came into effect from 1 January 2012. The household charge is a compulsory tax targeting all owners of residential property in Ireland. The charge of €100, as of January 2012, is seen as a temporary measure until a more permanent property tax that will require a comprehensive property valuation system can be introduced.

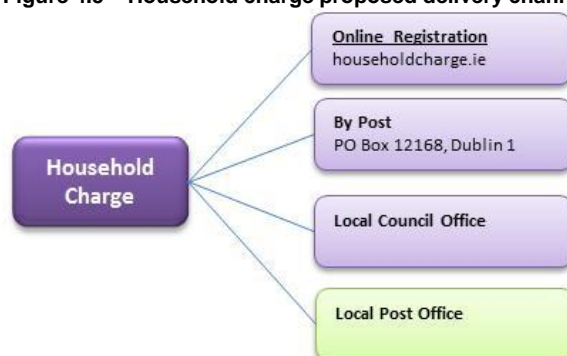
Registration and payment of the household charge can at present be done online, by post or through the local council office. Figure 4.4 below set out the various delivery channels currently in place.

Figure 4.4 – Household charges existing delivery channels



In order to facilitate the payment of the household charge and improve the ease of access, it is suggested that the Government could extend the payment options to enable people to pay through their local post office. From a financial perspective this would increase the likelihood of collection, reduce administrative costs and decrease the costs of enforcement. In addition, this increased ease of access would have significant social benefits for many communities. For example, it would provide assistance to the vulnerable members of society who do not have access to the internet, and are forced to travel as they do not live in close proximity to a county council. Figure 4.5 sets out the addition of the post office network as a potential delivery channel.

Figure 4.5 – Household charge proposed delivery channels



4.3.4 Local authority payments

As previously stated, local authority finances remain under extreme pressure despite a number of cost cutting measures over the last number of years. Contributions from the Exchequer are expected to fall and local authorities will be responsible for recovering a greater contribution directly from the community. This has led to the introduction of a number of new charges such as the waste charge, the septic tank charge and the proposed private water charge. At present only commercial operations pay for water but this is expected to be extended to domestic residences.

One potential issue with broadening the revenue base is that the local authorities will be responsible for recovering this money from the users of the new services. This will create an additional administrative burden on Local Government which is already struggling to cope. Performance in collections has been declining due to the general economic conditions and reductions in staffing levels. This is illustrated by the reduction in the collection rates for commercial water and rates which have fallen from an average of 90% to 79% in 2010.

To assist with this collection of local authority monies, it is proposed that Local Government could avail of the existing network of post offices and their staff to facilitate these collections. The post office has a flexible system which already links with most of Ireland's local authorities for settlements of rent, waste charges and other payments. This linkage could be further exploited to capture additional local authority payments such as:

- water charges;
- commercial rates and charges; and
- septic tank charges

By providing a central point to pay multiple charges in a convenient location, Local Government could build upon its existing relationship with the post office network, to reduce administrative costs, facilitate collection and focus recovering on uncollected monies.

4.3.5 Hospital charges

According to the Department of Health and Childcare in December 2011, the State is owed €270 million in outstanding debts with patient debtors amounting to €96.5 million. These charges relate to private and semi-private patient accommodation, in-patients accommodation, out-patients services, emergency department services and treatment for those involved in road traffic accidents. A recent media report suggested that the HSE spent €2.4 million hiring debt collection agencies to chase former patients for unpaid bills.⁹ The main aim of the HSE is to grow collection and billing by €100 million. To achieve this the Department has outlined a number of recommendations in the comprehensive review of expenditure published in September 2011, including:

- i. technological solutions;
- ii. increased monitoring;
- iii. budgetary incentives; and
- iv. decoupling of private fees and accommodation fees.

In support of this, it is proposed that the post office network would extend its billpay system to include hospital charges for patients. This would align with the HSE strategies above and would improve the collection methodology, collection rate, minimising the aging of debt, reducing working capital requirements and decreasing overall bad debt write offs.

Increasingly customers are looking to simplify the process of paying their bills and managing their finances. With increasing pressure on household budgets, many customers are finding it difficult to track all of their costs. Billpay simplifies this process and allows customers a more efficient method of dealing with all their bills/debts together. There is also a significant correlation of billpay with

⁹ Irish Examiner 11 April 2011

social welfare payments. This means that if the option to pay hospital charges was available on billpay, it would potentially be in the mind of the customer/patient when they receive their social welfare payment.

4.3.6 Other potential services

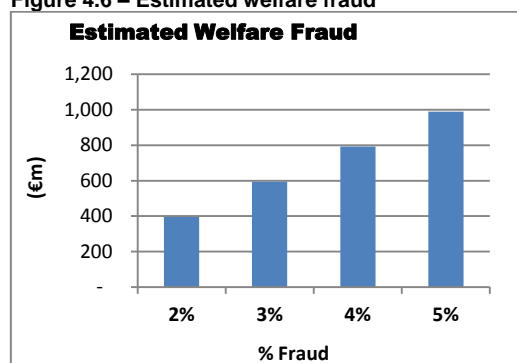
For the purposes of this report we have focused upon those potential services that have been considered to offer the greatest opportunity for the post office network. However it is important to note that there are additional services that could easily be incorporated into the post office such as value added social welfare services and SME payments. These services have been deemed out of scope for this report; however it would be remiss not to give a brief description of these potential opportunities.

Value added social welfare

Social welfare is a key contract for An Post and the post office network. Social welfare costs the Exchequer €19.797 billion which equated to approximately 40% of gross Government expenditure.

As highlighted already, social welfare fraud is difficult to measure, however the Department of Social Protection estimates that the level of fraud and error in the social welfare system ranges between 2.4% and 4.4%, while international comparisons range from 2-5%. These estimates would put welfare fraud at anywhere between €400m and €1 billion.

Figure 4.6 – Estimated welfare fraud



The Irish post office network believes that it has assisted in keeping welfare fraud down. The personal relationship and knowledge of customers is also believed to deter fraud. For this reason, it is suggested that the social welfare contract be extended to include additional services such as:

- signing on at the local post office, and
- the use of electronic signatures to match against original.

It is important to recognise that the potential introduction of the BPA that is outlined in the public sector context, section 3.3, could have significant adverse implications from a fraud perspective. Increased anonymity would also make perpetrating fraud easier and could lead to any cost savings being eroded, while threatening the long term stability of the post office network.

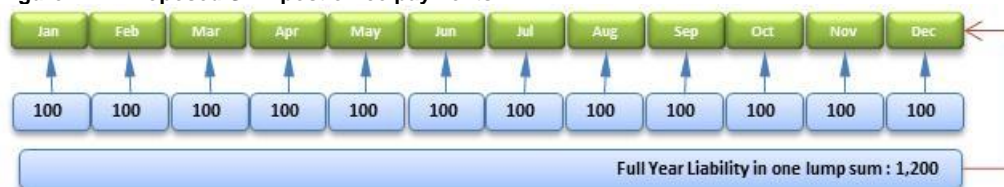
SME Payments

Tax is a considerable overhead cost that needs to be tightly managed and controlled by all businesses. Currently tax is paid on an annual basis to the revenue, this annual charge can result in large “tax bills” that have built up over the year. The subsequent liability can often lead to cash-flow and working capital issues that can threaten the survival of many SMEs. These cash flow issues and late payments and interest charges can be damaging to the SME.

It is proposed that the post office network could facilitate the early collection of tax liabilities through the bill pay system. The suggestion is that SMEs could pay for these liabilities in smaller instalments on a more regular basis through the course of the year to avoid a large tax bill at the end of the year.

The following graph illustrates a proposed process for SME collections:

Figure 4.7 – Proposed SME post office payments



5. Cost benefit analysis

5.1 Demand assumptions

Central to estimating the benefits of the project is understanding demand for the potential additional services that could be supplied by the post office network. As set out in the strategic case previously the preferred methodology calls for an evaluation of both social and economic benefits and costs arising from the provision of additional services to the post office network.

Therefore, the cost benefit analysis (“CBA”) considers:

1. quantifiable benefits and costs: the direct and indirect effects of the proposed new services to which a monetary impact can be attached; and
2. qualitative benefits and costs: the effects of the sustainability of the post office relevant to stakeholders but to which reliable values derived from observed market prices cannot be attached.

The key assumptions made in developing out cost benefit model are documented below. The approach has been to focus on cash flows by examining sources of income, staff savings, development costs and transactions charges such as postage and bank charges.

Qualitative factors to which a financial value cannot be attached (e.g. social importance to community, local businesses, and information exchange) are outlined in section 7, with reference to academic studies where appropriate. A full listing of the assumptions made is outlined in Appendix 6.

5.1.1 Motor tax demand assumption

In 2009, there were 5.1 million motor tax transactions of which 2.6 million (53%) were dealt with over the counter. Motor tax receipts amounted to €1,055 million in 2008 with €670 million collected at motor tax offices and €385 million collected online.

In the ideal scenario for the post office network the local authorities would take a big bang approach and transfer 100% of motor tax transactions to the post offices. Based on the current demand for OTC motor taxation this could result in a transfer of 2.6m transactions.

This scenario is unlikely however and a phased roll out would be more feasible for the local authorities. This phased approach would likely include a test period in the first year. For the purposes of this report it is estimated that this will be 20% of potential transactions. The projections foresee a steady increase in the number of transactions that are serviced through the post offices as the local authorities reallocate staff. Below is our estimate of the demand for OTC motor tax

transactions that could be processed through the network. We have used the rate of €2 per transaction as a basis for estimating revenue. Unit staff costs were €4.72 in 2008 and we have taken a point less than half of this due to the fact that a centralised shared services centre will still have to process and send out the motor tax certificate. There may be scope to increase this price.

Table 5.1 – Motor taxation demand

	Year 1	Year 2	Year 3	Year 4	Year 5
Assumed uptake	20%	40%	60%	80%	90%
Transactions	680,000	1,360,000	2,040,000	2,720,000	3,060,000

Under the above scenario, we have assumed no growth or decline in the 2009 numbers.

5.1.2 Banking demand assumptions

As outlined in the our initial identification of the options in section 4, the Irish post office network currently offers a wide range of banking services for NIB and AIB. To estimate the potential demand for new services, we have used existing revenues and pricing to forecast additional potential. The below pie chart indicates that the post office network earned €6 million from banking last year and this is continuing to grow. This revenue represents 3% of total revenues.

Figure 5.2 – Retail revenue by type

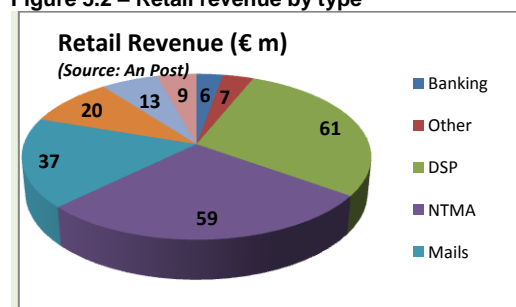


Table 5.2 – Banking demand assumptions - Net interest income

	AIB €'m	NIB €'m	Ulster Bank €'m	Bol €'m	Total €'m
2010 Net Interest Income (ROI)	790	143	1,010	780	2,723

If current retail revenue from AIB and NIB results in €6 million in revenues, we have estimated that additional revenues could amount to an additional €12 million if extended to Ulster Bank and Bank of Ireland. This figure is based on the existing branch numbers. However if more branches were closed this number could be significantly increased as the demand for banking through post offices would be increased. To be prudent, however in our assumptions we have not included this in our calculations.

5.1.3 Household charge demand assumptions

For household charges demand we have used current Government projections which indicate that they are expecting to receive €100 from an estimated 1.8 million householder's in the State, potentially raising €180 million in revenue in 2012. If we take the assumption that the uptake of on-site processing of the household charge will be similar to what has occurred in motor tax revenues (49%), this would suggest that there is a potential demand for physical payment and processing of €88.2 million in charges.

Similar to the above banking demand assumptions, it is likely that a phased roll-out would be applied. The major difference however is that the household charge is a new charge. For this reason we believe this service could be rolled out at a faster speed. Based on this rationale and using the average billpay transaction (€1) as a basis for pricing we have made the following demand assumptions:

Table 5.3 - Household charges demand

	Year 1	Year 2	Year 3	Year 4	Year 5
Assumed uptake	60%	65%	70%	85%	90%
Estimated Demand	529,200	573,300	617,400	749,700	793,800

5.1.4 Local authority demand assumptions

In 2009, the Commission on Taxation proposed the reintroduction of domestic water charges and estimated that this could potentially raise €450 million in revenues for local authorities. It appears reasonable that these numbers can be used to estimate demand for water and waste charges. Our research on household charges indicates that there are currently 1.8 million households in Ireland. Again, the demand for over the counter transactions could also be forecast at 49%. We have used the average cost of billpay as a basis for pricing due to the similarity in service

Hospital demand assumptions

Total patient receipts in 2010 amounted to €462 million with €270 million remaining outstanding. The majority of this relates to amounts owed by health insurance companies; however some €96.5 million is owed by patients. While demand is more difficult to estimate for uptake of hospital charges, for the purposes of this exercise we have assumed a proportion of bills paid through billpay as an estimate of payments for hospital charges. We have again used the average cost of billpay (€1) as a basis for pricing due to the similarity in service

Table 5.4 – Acute patient income

<u>Patient Income</u>		2010
	Income €'m	Debt €'m
Private Charges	382	162
Inpatient Charges	40	30
Emergency Department	17	13
Road Traffic Charges	11	59
Other	23	7
	462	271
<u>Hospital Charges</u>		2010
Emergency Department	100	
Inpatient Charges	75	Per day

(Source HSE efficiency review 2011)

In the absence of any clear driver for the uptake of hospital charges through the post office network, we have used judgement to estimate potential demand. 20% appears to be a prudent estimate for potential demand.

Table 5.5 – Hospital charges demand

	Year 1	Year 2	Year 3	Year 4	Year 5
Total Transaction	496,478	620,597	775,746	969,683	1,212,104
Uptake	8%	10%	13%	16%	20%

6. Outcomes

6.1 Comparison of contracts

For the purpose of this exercise we have prepared three separate cost benefit analyses. The rationale behind this is that it was deemed appropriate to consider the costs and benefits from both the perspectives of An Post and the IPU but also the third party who will grant the contract. As such, we examined each service from the following three perspectives:



At an overall level, table 6.1 below summarises the outcome of the cost benefit analysis:

Table 6.1: Summary results of the cost benefit comparison (over a defined five year period)

		CB Ratio	NPV Benefit €, 000	NPV Cost €, 000	NPV of Additional Benefit €, 000
	<u>Potential Service Offerings</u>				
1	Motor taxation	3.09	89,581	(28,946)	60,635
2	Banking Transactions	1.76	17,931	(10,166)	7,765
3	Household charges	2.68	13,062	(4,879)	8,183
4	Local authority payments	3.50	81,849	(23,361)	58,488
5	Hospital charges	2.11	16,308	(7,736)	8,572
	Total		218,731	(75,088)	143,643

The table shows that on a combined basis, all the contracts have a positive NPV and CB ("cost benefit") ratio (i.e. greater than 1).

Motor Tax and Local Authority payments are the most attractive options available with a CB ratio of 3.09 and 3.50 respectively. This represents a total net benefit of €60.6 million for motor tax and €58.4 million for Local Authority payments. A more detailed breakdown of the actual costs and

benefits that make up the above figures and the split between the IPU/An Post and the third party is included in table 6.2 below

Table 6.2 – Summary results for all contracts

	Total	Motor Tax	Banking	Household Charges	Hospital Charges	Local Authorities
COMBINED						
Benefits						
Operating Income	54,548,143	19,720,000	7,027,736	3,263,400	4,074,607	20,462,400
Staff Savings	172,931,951	73,444,235	11,619,933	10,320,570	12,886,030	64,661,184
Total Benefits	227,480,094	93,164,235	18,647,669	13,583,970	16,960,637	85,123,584
Costs						
IPU / An Post Service charge	54,548,143	19,720,000	7,027,736	3,263,400	4,074,607	20,462,400
IT Costs	287,179	121,667	75,513	31,282	27,436	31,282
Staff costs	2,548,341	1,254,161	446,953	83,019	259,139	505,069
Bank Charges	4,504,355	1,183,200		391,608	474,059	2,455,488
Postage Costs	5,610,000	5,610,000		0	0	0
Total Costs	67,498,018	27,889,028	7,550,202	3,769,309	4,835,241	23,454,239
PV Benefits	218,730,860	89,580,995	17,930,451	13,061,509	16,308,305	81,849,600
PV Costs	75,087,768	28,946,196	10,165,794	4,878,808	7,735,845	23,361,125
Additional Benefit	143,643,092	60,634,799	7,764,657	8,182,701	8,572,460	58,488,475
CB Ratio		3.09	1.76	2.68	2.11	3.50
Split						
	Total	Motor Tax	Banking	Household Charges	Hospital Charges	Local Authorities
IPU / An Post NPV	35,206,738	14,371,112	3,349,083	1,396,961	99,939	15,989,644
Third Party NPV	108,436,354	46,263,687	4,415,575	6,785,740	8,472,522	42,498,831
Total additional benefits	143,643,092	60,634,799	7,764,657	8,182,701	8,572,460	58,488,475

6.1.1 IPU/An Post cost benefit summary of review

From the IPU/An Post perspective it is clear that Motor Tax and local authority payments offers the greatest potential benefits (see table 6.3 below). The cost benefit ratio of 3.50 for local authority payments and 3.09 for motor taxation which are very high and indicates that these would be extremely attractive propositions for the post office network. The main driver of this benefit is the income available, which is based upon existing OTC motor tax transactions, as outlined in our demand assumptions in section 5.1. The full calculation for each of these contracts can be found in Appendices 1-5. In addition to Motor Tax the other options also give positive NPV's, which indicates that all contracts should be considered.

Table 6.3 – IPU and An Post summary

	Total	Motor Tax	Banking	Household Charges	Hospital Charges	Local Authorities
IPU & AN POST ONLY						
Benefits						
Operating Income	54,548,143	19,720,000	7,027,736	3,263,400	4,074,607	20,462,400
Total Benefits - Motor Taxation	54,548,143	19,720,000	7,027,736	3,263,400	4,074,607	20,462,400
Costs						
IT Costs	287,179	121,667	75,513	31,282	27,436	31,282
Bank Charges	2,548,341	1,254,161	446,953	83,019	259,139	505,069
Staff Costs	4,504,355	1,183,200	0	391,608	474,059	2,455,488
Total costs - Motor Taxation	7,339,875	2,559,028	522,466	505,909	760,633	2,991,839
PV Benefits	52,450,138	18,961,538	6,757,438	3,137,885	3,917,892	19,675,385
PV Costs	17,243,399	4,590,426	3,408,355	1,740,924	3,817,953	3,685,740
NPV, Benefit/Cost ratio	35,206,738	14,371,112	3,349,083	1,396,961	99,939	15,989,644
CB Ratio		4.13	1.98	1.80	2.11	5.34

To put some context on the above figures, it is necessary to view these contracts against existing revenues. From table 6.4, we can see that the potential revenue from all the proposed contracts would amount to an additional 8% of revenues, but this would not replace the loss of the social welfare contract (assuming that all contracts were won). This highlights the challenging environment the post office network is operating in and the importance of continuing to diversify and pursuing additional contracts.

Table 6.4 – Existing vs. potential revenues¹⁰

Service	€'m	%
Total Current revenues	212.00	100%
Potential Motor Tax	6.12	3%
Potential banking	1.69	1%
Potential household charge	0.79	0%
Potential hospital charge	1.21	1%
Potential Local Authority payments	6.35	3%
Total	228.16	108%

Note: Year five of cost benefit analysis used for as basis.

6.1.2 Third party analysis summary

From the third party supplier's perspective, it is evident that there appears to be an incentive for them to outsource their services to the post office. This is a positive result for post offices as it increases the attraction of outsourcing to the post office network. Table 6.5 below shows the strong positive CB ratios, with the household charge, motor tax and hospital charges having comparatively high ratios.

Staff savings is the largest driver behind the positive NPV. The staff savings costs have been driven by current expenditure on OTC transactions in the Motor Tax office, which indicates that the cost per transaction is €3.16. This is one of the key assumptions in our analysis. A full list of our assumptions can be found in Appendix 6.

Table 6.5 – Third party cost benefit analysis – summary

	Total	Motor Tax	Banking	Household Charges	Hospital Charges	Local Authorities
THIRD PARTY						
Benefits						
Staff Savings	172,931,951	73,444,235	11,619,933	10,320,570	12,886,030	64,661,184
Total Benefits - Motor Taxation	172,931,951	73,444,235	11,619,933	10,320,570	12,886,030	64,661,184
Costs						
Relocation Costs	0	0				
An Post/IPU Payments	54,548,143	19,720,000	7,027,736	3,263,400	4,074,607	20,462,400
Postage Costs	5,610,000	5,610,000	0	0	0	0
Total costs - Motor Taxation	60,158,143	25,330,000	7,027,736	3,263,400	4,074,607	20,462,400
PV Benefits	166,280,722	70,619,456	11,173,013	9,923,625	12,390,413	62,174,215
PV Costs	57,844,368	24,355,769	6,757,438	3,137,885	3,917,892	19,675,385
NPV, Benefit/Cost ratio	108,436,354	46,263,687	4,415,575	6,785,740	8,472,522	42,498,831
		2.90	1.65	3.16	3.16	3.16

¹⁰ Potential revenues are taken from year five

7. Non-quantifiable benefits

7.1 Introduction

Although independently owned post offices remain an important strategic state asset and a unique part of Irish cultural identity. No other entity or organisation possesses the same reach and scope of services. The post office network plays an important role as a focal point for many communities and it offers many intangible benefits to local communities in Ireland. The purpose of this section is to identify these intangible benefits and how they support or otherwise the provision of additional services by the post office network.

From our analysis of the operating environment and the post office network, it is apparent that there is a significant threat to the long term sustainability of many post offices and this is evidenced by the closure of a number of post offices in recent years. The on-going programme of closures in recent years has had an adverse impact on local communities and is increasing the danger of isolation to the vulnerable in our society. As the number of closures increases, this could potentially lead to unforeseen consequences that could adversely affect many areas of the community. It is for this reason that the continued survival of the post office network cannot be seen as just a financial one, but also one of societal importance.

To help understand the importance of the local post office to the community and recognise the economic and social realities facing these communities we held a number of consultations as part of this review with some key stakeholders groups, including:

- St. Vincent de Paul (SVP)
- Age Action Ireland
- Irish National Organisation of the Unemployed (INOU)
- Irish Rural Link (IRL)
- The Irish Wheelchair Association
- Irish Senior Citizens Association
- Irish Farmers Association (IFA)

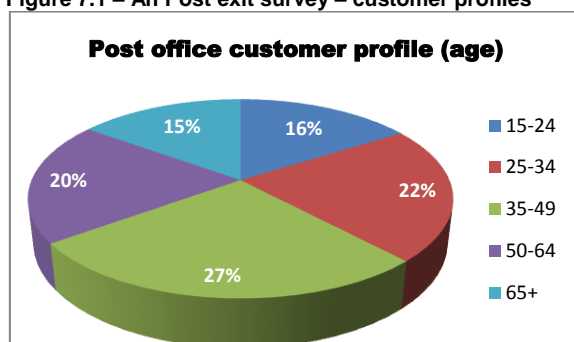
7.2 Socio-economic benefits

Throughout our consultations, the overall sentiment towards the post office was very positive and unambiguous in the importance in terms of the role the post office plays in the community. From the discussions with these groups and our additional research in the area, the following key factors were highlighted in terms of the social importance of the post office network.

7.2.1 Trust

“There is significant trust in the local post office”¹¹. The perception of trust that the post office network has created with its users cannot be overstated. For generations the post office has been at the centre of local communities, and it continues to be, with approximately 72% of adults visiting a post office at least once a month and 94% of adults visiting every year. Research in the form of an exit survey conducted by the An Post shows that the broad profile of customers of the post offices covers all elements of society. The below extract from the exit survey reflects this fact.

Figure 7.1 – An Post exit survey – customer profiles



While few entities have managed to escape negative public reaction to the financial crisis, the post office has managed to emerge unscathed. In fact many people have returned to the post office network for financial related transactions as they having lost faith in other institutions.

7.2.2 Traditional postal services and the local shop

In addition to the traditional postal services, for many rural communities the post office acts as the only local retail outlet. These communities depend on the post office not just for postal services but for the adjoining retail newsagents that provide many day to day necessities such as bread, milk and water. During our consultation process, Phil Cooley of Age Action Ireland stated that the post office “allows us to live”

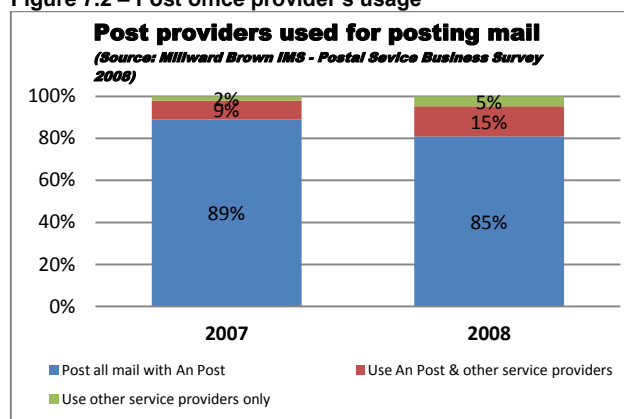
In recent times, the income from these shops has declined due to increased competition, coupled with a decline in customer spending. Many of these shops have become increasingly dependent on the business created by the post office, so if the post office was to close this would have a material impact on the adjoining shop.

7.2.3 Local business

For local business, the post office plays an important role to facilitate their commercial activities. Across Ireland, small and medium sized enterprises do a large portion of their daily business with the post office. Approximately 85% of businesses across Ireland have stated they use the post office as their main mail provider (illustrated in table 7.2 overleaf). For many of these companies, there is no option to use another service provider given their location.

¹¹ Marion McKenna –Irish Rural Link

Figure 7.2 – Post office provider's usage



7.2.4 Financial inclusion

With access to banking and financial services seen as a pre-condition to participating in a modern society, there remains a high level of people in Ireland without a bank account. From our consultations with various community stakeholders it is apparent that there remains a fear and distrust of using the primary substitute to branch banks i.e. ATMs, by many of the vulnerable in society. Added to this is that the use of cash is decreasing, with salaries, benefits and utility bills increasingly being paid online and through local branch network such as the post office. Many see the post office as a useful service to manage a tight budget.

By increasing the level of banking services through the post office network, large cost savings could be achieved for the banking sector and the State. Currently the post office offers the facility for customers to access funds not just from post office accounts but also from AIB and NIB accounts. If any rationalisation of the banking sector is to occur, it will be necessary to provide a substitution for communities under threat. The post office is a key strategic resource at the disposal of the State, one that provides a nationwide network of branches that have a proven ability to provide these services.

7.2.5 Access to transport

Another important factor when considering the socio-economic implications of post office closures is the access to available transport. For those members of the community without access to public transport, the challenge and cost of travelling to local authorities and other Government offices can be considerable.

To avoid issues such as lack of transport and convenience these services are often provided online, however in many cases those concerned would also not have access to the internet or broadband. This is a clear socio-economic inequality, and one that must be considered in the overall context of falling numbers of local post offices.

7.2.6 Social Inclusion

Finally for many people, the post office is the main point of contact to the wider community, and it acts as an important conduit for information flows. This is especially important in times of national emergencies, when the post offices facilitated the Government with issues such as the foot and mouth epidemic in 2001, distribution of Millennium candles in 2000 or distribution of iodine when

there was a threat from Celfield Nuclear Power Plant in the UK and more recently the distribution of household charge forms.

In addition the knowledge that Postmasters have of the routines of the elderly, has served as an effective early warning system to identify potential issues that may require attention. In many communities this has enabled help to be received by those that require it which has helped to save lives. While it is difficult to put a monetary value on these services, the post office remains an important part of the community.

7.3 Case Study – the UK post office

In 2007, the UK Government closed nearly 2,500 post offices and replaced them with outreach services. The main goal of this programme of closures was to make the post office network more economically sustainable. The closures had significant implications for consumers in rural areas in the UK that were highly dependent on the services that were provided by the post offices. As a result of this, a report was prepared on the effects of the closures, using Devon as a case study.

The report highlighted the critical importance of the post office to local stakeholders and consumers in terms of impact with some communities coping better than others. In these cases local authorities recognised the importance of many of the services that the post office provided and stepped in to support these services. Other communities however did not cope as well which led to isolation in those cases. One of the core issues was funding for the local authorities involved, and one of the key lessons from the UK experience is that continued closures in Ireland will require direct support and increased funding from the local authorities in the areas where post office closures occur. Given the high level of austerity measures being implemented in Local Government this support is unlikely.

Conclusions

According to the Government it is “committed to implementing a strategy for rural development on the basis of an inclusive approach to sustainable development, the integration of policies, a regional dimension and partnership with the rural community”¹².

To ensure that this strategy is met, it is important that the Government remains focused on the continued sustainability of the post office network. The post office network plays a vital role in local communities and rural development, a role that cannot be overlooked. It is not simply a group of commercial entities but a social centre for many diverse services and has an important role to play in the future of the State.

It is clear that the post office network is in decline and many of the services it provides will not be easily replaced. There is a significant concern by community stakeholders about the decline in the number of rural post offices and the impact this may have on their members. Intangible assets such as trust and goodwill which have been fostered over a number of years needs to be considered when assessing the benefits of the network, as it will take a long time to rebuild.

It is important that there is an awareness of the cost to communities and to the Government of replacing such a network. Any decisions can therefore be made with a full understanding of the potential impact the loss of the post office network would have on the community and any inequalities that this may create.

¹² <http://www.environ.ie/en/>

8. Risk assessment

8.1 Risk Areas

There are two key risk areas associated with this project, namely strategic risk and operational risk.

Strategic risk falls into two categories; the risk of inaction, i.e. doing nothing and the risk of implementation. Operational risk covers the consequences of either the projected costs being higher than planned or the benefits being less than projected.

Each of these is addressed below.

8.2 Strategic risk – Do nothing

From the analysis of the post office network and the postal industry, it is clear that the industry is in decline with falling revenues from traditional postal services. Added to this is the significant threat that the welfare contract with the Department for Social Protection is under threat, which would result in an immediate reduction in revenues of at around 30%. This figure is likely to be significantly larger, given the high degree of correlation between services such as Bill Pay and the social welfare contract.

For these reasons the risk of doing nothing is significant. However the results are difficult to quantify. In purely commercial terms, it will result in the rapid closure of a large portion of rural post offices, which would greatly diminish the strength and competitive advantage of the post office network, its size and reach into all areas across the county. However it is the social risk and the associated costs that are greater and more difficult to quantify.

8.3 Implementation risk

The key risk associated with implementation of the various contracts are:

- Relocation/Redundancy: Adverse public perception of the post office network due to redundancies or relocations. Some sections of the public could see this as the post office taking their jobs.
- Over-capacity: As we have seen in our section on capacity some post offices consider that they do not have additional capacity. The addition of extra service could therefore lead to overly long queues in certain post offices unless capacity is increased. It is important to note that this risk is subject to the retention the social welfare contract.

- Consistency of product offering: From our review of the existing product offerings, it is apparent that all post offices do not offer the same suite of services. If these new services were introduced to certain post offices only this could lead to a negative reaction by customers in the post offices that do not provide the new service.
- Training: It is important that adequate training occurs for any new product offering. It has been noted that sometimes the training received can be delayed, which could lead to negative customer perception.

8.4 Risks to projected benefits

The key economic benefits to the IPU arising from the proposed contracts is the long term sustainability of the post office network through increased revenues and decreased reliance on the social welfare contract.

The main risk to this benefit is that none of the contracts will be awarded to the post office network. Each contract is politically sensitive and this dependence on political factors could result in the contracts being difficult to win. Previous attempts have been made to win some of these contracts by An Post (notably Motor Taxation) without success. For this reason the likelihood of failing to win new contracts is high but unfortunately remains difficult to alleviate. Only by creating awareness of the fragility of the post office network to policy makers of the economic and the social importance of the post office network can this risk be mitigated.

8.5 Risk to projected costs

The launch of any new contracts can take time to rollout. The integration of systems can often be more complex than anticipated which can lead to delays resulting in higher costs and reduced revenues. One recent example of this was the introduction of Gardaí fines, which was much more difficult than originally planned due to the complexity of sister systems.

An Post has substantial experience of managing projects of a scale similar to the proposed contracts and with the proper project management, the risk of overruns should be reduced. By approaching the project on a phased basis, and not attempting to rollout multiple products at the same time, the systems and staff of An Post should be capable of providing these proposed contracts.

Appendices

Appendix 1 - Motor tax cost benefit

Year ending 31 December 2012			2012	2013	2014	2015	2016	
Apx			TOTAL	Year 1	Year 2	Year 3	Year 4	Year 5
COMBINED								
Benefits	Operating income	b	19,720,000	1,360,000	2,720,000	4,080,000	5,440,000	6,120,000
	Staff savings	3	73,444,235	4,896,282	12,240,706	14,688,847	19,585,129	22,033,270
Total Benefits - Motor Taxation			93,164,235	6,256,282	14,960,706	18,768,847	25,025,129	28,153,270
Costs	IPU/ An Post service charge	4	19,720,000	1,360,000	2,720,000	4,080,000	5,440,000	6,120,000
	IT costs	5	121,667	121,667	0	0	0	0
	Staff costs	6	3,469,177	660,000	676,500	693,413	710,748	728,517
	Bank charges		1,183,200	81,600	163,200	244,800	326,400	367,200
	Postage costs	7	5,610,000	374,000	935,000	1,122,000	1,496,000	1,683,000
	Total costs - Motor Taxation		30,104,043	2,597,267	4,494,700	6,140,213	7,973,148	8,898,717
	PV Benefits		89,580,995	6,015,656	14,385,294	18,046,968	24,062,624	27,070,452
PV Costs		28,946,196	2,497,372	4,321,827	5,904,050	7,666,488	8,556,458	
NPV, Benefit/Cost ratio		60,634,799	3.09					

Year ending 31 December 2012			2012	2013	2014	2015	2016	
Apx			TO TAL	Year 1	Year 2	Year 3	Year 4	Year 5
IPU & AN POST ONLY								
Benefits	Operating income		19,720,000	1,360,000	2,720,000	4,080,000	5,440,000	6,120,000
	Total Benefits - Motor Taxation		19,720,000	1,360,000	2,720,000	4,080,000	5,440,000	6,120,000
Costs	IT costs		121,667	121,667	0	0	0	0
	Staff costs		3,469,177	660,000	676,500	693,413	710,748	728,517
	Bank charges		1,183,200	81,600	163,200	244,800	326,400	367,200
	Total costs - Motor Taxation		4,774,043	863,267	839,700	938,213	1,037,148	1,095,717
	PV Benefits		18,961,538	1,307,692	2,615,385	3,923,077	5,230,769	5,884,615
	PV Costs		4,590,426	830,064	807,404	902,127	997,258	1,053,574
	NPV, Benefit/Cost ratio		14,371,112	4.13				

Year ending 31 December 2012			2012	2013	2014	2015	2016	
Apx			TOTAL	Year 1	Year 2	Year 3	Year 4	Year 5
GOVERNMENT								
Benefits	Staff savings		73,444,235	4,896,282	12,240,706	14,688,847	19,585,129	22,033,270
	Total Benefits - Motor Taxation		73,444,235	4,896,282	12,240,706	14,688,847	19,585,129	22,033,270
Costs	IPU/ An Post service charge		19,720,000	1,360,000	2,720,000	4,080,000	5,440,000	6,120,000
	Postage costs		5,610,000	374,000	935,000	1,122,000	1,496,000	1,683,000
	Total costs - Motor Taxation		25,330,000	1,734,000	3,655,000	5,202,000	6,936,000	7,803,000
	PV Benefits		70,619,456	4,707,964	11,769,909	14,123,891	18,831,855	21,185,837
	PV Costs		24,355,769	1,667,308	3,514,423	5,001,923	6,669,231	7,502,885
	NPV, Benefit/Cost ratio		46,263,687	2.90				

Appendix 2 – Banking cost benefit

Year ending 31 December 2012			2012	2013	2014	2015	2016	
			TOTAL	Year 1	Year 2	Year 3	Year 4	Year 5
COMBINED								
Benefits	Operating income	7,027,736	1,151,125	1,266,238	1,392,862	1,532,148	1,685,363	
	Staff savings	11,619,933	1,903,316	2,093,647	2,303,012	2,533,313	2,786,645	
		0						
Total Benefits - Banking		18,647,669	3,054,441	3,359,885	3,695,874	4,065,461	4,472,007	
Costs	IT costs	75,513	75,513					
	IPU / An Post service charge	7,027,736	1,151,125	1,266,238	1,392,862	1,532,148	1,685,363	
	Staff costs	3,469,177	660,000	676,500	693,413	710,748	728,517	
Total Costs - Banking		10,572,425	1,886,638	1,942,738	2,086,274	2,242,896	2,413,879	
PV Benefits		17,930,451	2,936,963	3,230,659	3,553,725	3,909,097	4,300,007	
PV Costs		10,165,794	1,814,075	1,868,017	2,006,033	2,156,631	2,321,038	
NPV, Benefit/Cost ratio		7,764,657	1.76					

Year ending 31 December 2012		2012	2013	2014	2015	2016	
TOTAL		Year 1	Year 2	Year 3	Year 4	Year 5	
IPU & AN POST ONLY							
Benefits	Operating income	7,027,736	1,151,125	1,266,238	1,392,862	1,532,148	1,685,363
	Total Benefits - Banking	7,027,736	1,151,125	1,266,238	1,392,862	1,532,148	1,685,363
Costs	IT costs	75,513	75,513	0	0	0	0
	Staff costs	3,469,177	660,000	676,500	693,413	710,748	728,517
	Total Costs - Banking	3,544,690	735,513	676,500	693,413	710,748	728,517
PV Benefits		6,757,438	1,106,851	1,217,536	1,339,290	1,473,219	1,620,541
PV Costs		3,408,355	707,224	650,481	666,743	683,411	700,497
NPV, Benefit/Cost ratio		3,349,083	1.98				

Year ending 31 December 2012		2012	2013	2014	2015	2016	
TOTAL		Year 1	Year 2	Year 3	Year 4	Year 5	
BANKS							
Benefits	Staff savings	11,619,933	1,903,316	2,093,647	2,303,012	2,533,313	2,786,645
	Total Benefits - Banking	11,619,933	1,903,316	2,093,647	2,303,012	2,533,313	2,786,645
Costs							
	IPU / An Post service charge	7,027,736	1,151,125	1,266,238	1,392,862	1,532,148	1,685,363
	Total Costs - Banking	7,027,736	1,151,125	1,266,238	1,392,862	1,532,148	1,685,363
PV Benefits		11,173,013	1,830,111	2,013,122	2,214,435	2,435,878	2,679,466
PV Costs		6,757,438	1,106,851	1,217,536	1,339,290	1,473,219	1,620,541
NPV, Benefit/Cost ratio		4,415,575	1.65				

Appendix 3 - Household charge cost benefit

Year ending 31 December 2012		2012	2013	2014	2015	2016	
		TOTAL	Year 1	Year 2	Year 3	Year 4	Year 5
COMBINED							
Benefits	Operating income	3,263,400	529,200	573,300	617,400	749,700	793,800
	Staff savings	10,320,570	1,673,606	1,813,073	1,952,540	2,370,942	2,510,409
		0					
Total Benefits - Household Charge		13,583,970	2,202,806	2,386,373	2,569,940	3,120,642	3,304,209
Costs	IPU/An Post service charge	3,263,400	529,200	573,300	617,400	749,700	793,800
	IT costs	31,282	31,282				
	Staff costs	1,387,671	264,000	270,600	277,365	284,299	291,407
	Bank charges	391,608	63,504	68,796	74,088	89,964	95,256
	Postage costs	0					
	Total Costs - Household Charge	5,073,961	887,986	912,696	968,853	1,123,963	1,180,463
PV Benefits		13,061,509	2,118,083	2,294,589	2,471,096	3,000,617	3,177,124
PV Costs		4,878,808	853,833	877,592	931,589	1,080,734	1,135,060
NPV, Benefit/Cost ratio		8,182,701	2.68				

Year ending 31 December 2012			2012	2013	2014	2015	2016
TOTAL			Year 1	Year 2	Year 3	Year 4	Year 5
IPU & AN POST ONLY							
Benefits	Operating income	3,263,400	529,200	573,300	617,400	749,700	793,800
	Total Benefits - Household Charge	3,263,400	529,200	573,300	617,400	749,700	793,800
Costs	IT costs	31,282	31,282	0	0	0	0
	Bank charges	391,608	63,504	68,796	74,088	89,964	95,256
	Staff costs	1,387,671	264,000	270,600	277,365	284,299	291,407
	Total costs - Household Charge	1,810,561	358,786	339,396	351,453	374,263	386,663
PV Benefits		3,137,885	508,846	551,250	593,654	720,865	763,269
PV Costs		1,740,924	344,987	326,342	337,936	359,868	371,791
NPV, Benefit/Cost ratio		1,396,961	1.80				

Year ending 31 December 2012		2012	2013	2014	2015	2016	
		TOTAL	Year 1	Year 2	Year 3	Year 4	Year 5
GOVERNMENT							
Benefits	Staff savings	10,320,570	1,673,606	1,813,073	1,952,540	2,370,942	2,510,409
	Total Benefits - Household Charge	10,320,570	1,673,606	1,813,073	1,952,540	2,370,942	2,510,409
Costs							
	IPU/An Post service charge	3,263,400	529,200	573,300	617,400	749,700	793,800
	Postage costs	0					
	Total costs - Household Charge	3,263,400	529,200	573,300	617,400	749,700	793,800
	PV Benefits	9,923,625	1,609,236	1,743,339	1,877,442	2,279,752	2,413,855
	PV Costs	3,137,885	508,846	551,250	593,654	720,865	763,269
	NPV, Benefit/Cost ratio	6,785,740	3.16				

Appendix 4 - Hospital charges cost benefit

Year ending 31 December 2012		2012	2013	2014	2015	2016	
		TOTAL	Year 1	Year 2	Year 3	Year 4	Year 5
COMBINED							
Benefits	Operating income	4,074,607	496,478	620,597	775,746	969,683	1,212,104
	Staff savings	12,886,030	1,570,121	1,962,651	2,453,314	3,066,642	3,833,303
	Total Benefits - Hopsital Charges	16,960,637	2,066,598	2,583,248	3,229,060	4,036,325	5,045,406
Costs	IPU / An Post service charge	4,074,607	496,478	620,597	775,746	969,683	1,212,104
	IT costs	27,436	27,436				
	Staff costs	3,469,177	660,000	676,500	693,413	710,748	728,517
	Bank charges	474,059	59,577	59,577	93,090	116,362	145,452
	Postage costs	0					
	Total costs - Hospital Charges	8,045,279	1,243,491	1,356,674	1,562,248	1,796,793	2,086,073
	PV Benefits	16,308,305	1,987,114	2,483,892	3,104,865	3,881,082	4,851,352
	PV Costs	7,735,845	1,195,664	1,304,495	1,502,162	1,727,685	2,005,839
	NPV, Benefit/Cost ratio	8,572,460	2.11				
Year ending 31 December 2012		2012	2013	2014	2015	2016	
		TOTAL	Year 1	Year 2	Year 3	Year 4	Year 5
IPU & AN POST ONLY							
Benefits	Operating income	4,074,607	496,478	620,597	775,746	969,683	1,212,104
	Total Benefits - Hopsital Charges	4,074,607	496,478	620,597	775,746	969,683	1,212,104
Costs	IT costs	27,436	27,436	0	0	0	0
	Bank charges	474,059	59,577	59,577	93,090	116,362	145,452
	Staff costs	3,469,177	660,000	676,500	693,413	710,748	728,517
	Total costs - Hospital Charges	3,970,671	747,013	736,077	786,502	827,110	873,969
	PV Benefits	3,917,892	477,382	596,728	745,910	932,387	1,165,484
	PV Costs	3,817,953	718,282	707,767	756,252	795,298	840,355
	NPV, Benefit/Cost ratio	99,939	1.03				
Year ending 31 December 2012		2012	2013	2014	2015	2016	
		TOTAL	Year 1	Year 2	Year 3	Year 4	Year 5
GOVERNMENT							
Benefits	Staff savings	12,886,030	1,570,121	1,962,651	2,453,314	3,066,642	3,833,303
	Total Benefits - Hopsital Charges	12,886,030	1,570,121	1,962,651	2,453,314	3,066,642	3,833,303
Costs	Relocation costs	0					
	IPU / An Post service charge	4,074,607	496,478	620,597	775,746	969,683	1,212,104
	Postage costs	0	0	0	0	0	0
	Total costs - Hospital Charges	4,074,607	496,478	620,597	775,746	969,683	1,212,104
	PV Benefits	12,390,413	1,509,731	1,887,164	2,358,955	2,948,694	3,685,868
	PV Costs	3,917,892	477,382	596,728	745,910	932,387	1,165,484
	NPV, Benefit/Cost ratio	8,472,522	3.16				

Appendix 5 – Local Authority cost benefit

Year ending 31 December 2012			2012	2013	2014	2015	2016	
			TOTAL	Year 1	Year 2	Year 3	Year 4	Year 5
COMBINED								
Benefits	Operating income	20,462,400	1,411,200	2,822,400	4,233,600	5,644,800	6,350,400	
	Staff savings	64,661,184	4,459,392	8,918,784	13,378,176	17,837,568	20,067,264	
	Total Benefits - LA payments	85,123,584	5,870,592	11,741,184	17,611,776	23,482,368	26,417,664	
Costs	IPU/An Post service charge	20,462,400	1,411,200	2,822,400	4,233,600	5,644,800	6,350,400	
	IT costs	31,282	31,282					
	Staff costs	1,346,400	264,000	270,600	270,600	270,600	270,600	
	Bank charges	2,455,488	169,344	338,688	508,032	677,376	762,048	
	Total costs - LA payments	24,295,570	1,875,826	3,431,688	5,012,232	6,592,776	7,383,048	
PV Benefits		81,849,600	5,644,800	11,289,600	16,934,400	22,579,200	25,401,600	
PV Costs		23,361,125	1,803,679	3,299,700	4,819,454	6,339,208	7,099,085	
NPV, Benefit/Cost ratio		58,488,475	3.50					

Year ending 31 December 2012			2012	2013	2014	2015	2016	
			TOTAL	Year 1	Year 2	Year 3	Year 4	Year 5
IPU & AN POST ONLY								
Benefits	Operating income	20,462,400	1,411,200	2,822,400	4,233,600	5,644,800	6,350,400	
	Total Benefits - LA payments	20,462,400	1,411,200	2,822,400	4,233,600	5,644,800	6,350,400	
Costs	IT costs	31,282	31,282	0	0	0	0	
	Bank charges	2,455,488	169,344	338,688	508,032	677,376	762,048	
	Staff costs	1,346,400	264,000	270,600	270,600	270,600	270,600	
	Total costs - LA payments	3,833,170	464,626	609,288	778,632	947,976	1,032,648	
PV Benefits		19,675,385	1,356,923	2,713,846	4,070,769	5,427,692	6,106,154	
PV Costs		3,685,740	446,756	585,854	748,685	911,515	992,931	
NPV, Benefit/Cost ratio		15,989,644	5.34					

Year ending 31 December 2012		2012	2013	2014	2015	2016	
		TOTAL	Year 1	Year 2	Year 3	Year 4	Year 5
GOVERNMENT							
Benefits	Staff savings	64,661,184	4,459,392	8,918,784	13,378,176	17,837,568	20,067,264
	Total Benefits - LA payments	64,661,184	4,459,392	8,918,784	13,378,176	17,837,568	20,067,264
Costs							
	Cost to IPU & An Post	20,462,400	1,411,200	2,822,400	4,233,600	5,644,800	6,350,400
	Total costs - LA payments	20,462,400	1,411,200	2,822,400	4,233,600	5,644,800	6,350,400
	PV Benefits	62,174,215	4,287,877	8,575,754	12,863,631	17,151,508	19,295,446
	PV Costs	19,675,385	1,356,923	2,713,846	4,070,769	5,427,692	6,106,154
	NPV, Benefit/Cost ratio	42,498,831	3.16				

Appendix 6 – Assumptions

General assumptions

- Inflation rate of 2.5%
- Discount Rate of 4% - rate recommended for Government contracts
- Contract length 5 years based on Social welfare contract
- Cost per bank transaction €0.12 – based on current cost per laser transaction
- Postage Costs are €0.55 per transaction, based on current postage costs
- IT development costs have been estimated from our discussions with An Post. We have not split this as it is commercially sensitive information.

Motor Tax assumptions

Operating income

- We have assumed a price of €2 per transaction for estimating operating income.
- Unit staff costs were €4.72 and we have taken a point that is less than half of this figure due to the fact that a centralised shared services centre will be required to process and send out the motor tax certificate.
- The potential OTC transactions have been estimated at 3.4 million, which is based on existing OTC transactions of 2.6 million plus current postal transactions of 800,000.
- Based on these numbers we have calculated potential operating income below:

	Year 1	Year 2	Year 3	Year 4	Year 5
Assumed uptake	20%	40%	60%	80%	90%
Transactions	680,000	1,360,000	2,040,000	2,720,000	3,060,000
Potential revenues	€1,360,000	€2,720,000	€4,080,000	€5,440,000	€6,120,000

Staff savings

- Staff savings have been estimated using the figures in the latest available Local Government efficiency review 2008.
- Total administration costs for Motor Tax €24,481,411

	Year 1	Year 2	Year 3	Year 4	Year 5
Assumed uptake	20%	50%	60%	80%	90%
	4,896,282	12,240,706	14,688,847	19,585,129	22,033,270

Staff costs

- Based on An Post survey and discussions with the IPU, it is believed that 3% of post offices will require staff.
- For the household charge it is assumed that part time staff will required for 2 days.

- We have assumed that the cost of this staff will be €20,000 p.a ,
- Due to the high level of transactions it is likely that this person would be full time

Estimate of the potential staff cost:

Total Post offices	1,100	
Require staff	3%	33
Average Salary		20,000
Total Additional Salary		660,000

Bank charges

- Bank charges estimates are calculated based on the potential number of transactions and the existing costs of banking transactions

	Year 1	Year 2	Year 3	Year 4	Year 5
Transactions	680,000	1,360,000	2,040,000	2,720,000	3,060,000
Bank Charges	€81,600	€163,200	€244,800	€326,400	€367,200

Postage costs

- Postage costs estimates are calculated based on the potential number of transactions and the existing costs of postage (0.55c).

	Year 1	Year 2	Year 3	Year 4	Year 5
Transactions	680,000	1,360,000	2,040,000	2,720,000	3,060,000
Postage Costs	€374,000	€748,000	€1,122,000	€1,496,000	€1,683,000

Banking assumptions**Operating income**

- Assumed demand of banking based on current income (€6m)
- Potential demand calculated on potential Net Interest Income / current net interest income

Existing contracts	AIB €, m	NIB €, m	Total €, m
2010 Net Interest Income	790	143	933
Potential contracts	Ulster Bank €, m	BoI €, m	Total €, m
2010 Net Interest Income	1,010	780	1,790

- Operating income calculations:

	Year 1	Year 2	Year 3	Year 4	Year 5
Assumed uptake	10%	11%	12%	13%	15%
Assumed uptake	1,151,125	1,266,238	1,392,862	1,532,148	1,685,363
Potential revenue	€1,151,125	€1,266,238	€1,392,862	€1,532,148	€1,685,363

Example: Year 1 - €6 m * 1,790/933*10% = €1,151,125

Staff savings

- Assumed 3 minutes per banking transaction
- Assumed productivity factor of 50%
- Assumed average bank teller salary of €25,000

Staff savings estimates:

		Year 1	Year 2	Year 3	Year 4	Year 5
a	Operating income	1,151,125	€1,266,238	€1,392,862	€1,532,148	€1,685,363
b	Price	1	1	1	1	1
c	Total transactions (a*b)	1,151,125	1,266,238	1,392,862	1,532,148	1,685,363
d	Time per transaction	3	3	3	3	3
e	Total hours	6	6	6	6	6
f	Total available time (e*60mins)	360	360	360	360	360
g	Total transactions (f/d)	120	120	120	120	120
h	Productivity factor	50%	50%	50%	50%	50%
i	Assumed transactions (g*h)	60	60	60	60	60
j	Number of working days	252	252	252	252	252
k	Total annual transactions (i*j)	15,120	15,120	15,120	15,120	15,120
l	Total number of staff (C/K)	76	84	92	101	111
m	Average teller salary	€25,000	€25,000	€25,000	€25,000	€25,000
n	Salary savings (L*M)	€1,903,316	€2,093,647	€2,303,012	€2,533,313	€2,786,645

Staff costs

- Staff costs same as motor tax assumptions

Household charge assumptions**Operating income**

- Total number of households 1.8m based on Government estimates
- Price assumed to be €1 per transactions based on average billpay price
- Assumed Motor Tax OTC as driver for potential transactions
- Potential OTC transactions

Total household	1,800,000
Motor Tax Online uptake	51.00%
Potential OTC transactions	882,000

- Estimated operating income

	Year 1	Year 2	Year 3	Year 4	Year 5
Assumed uptake	60%	65%	70%	85%	90%
Over the counter	31%	33%	36%	43%	46%
Estimated demand	529,200	573,300	617,400	749,700	793,800
Assumed revenues	€529,200	€573,300	€617,400	€749,700	€793,800

Staff savings

- Assumed staff cost for the household charge would be the same as motor tax staff costs per transaction

Total Motor Tax admin staff cost	10,752,570
Total transactions	3,400,000
Cost per transaction	€3.16

	Year 1	Year 2	Year 3	Year 4	Year 5
Estimated demand	529,200	573,300	617,400	749,700	793,800
Estimated staff/efficiency savings	€1,673,606	€1,813,073	€1,952,540	€2,370,942	€2,510,409

Staff costs

- Based on An Post survey and discussions with the IPU, it is believed that 3% of post offices will require staff.
- For the household charge it is assumed that part time staff will required for 2 days.
- We have assumed that the cost of this staff will be €20,000p.a , as they will be temporary staff only and existing staff will complete the complex transactions

Estimate of the potential staff cost:

Total Post offices	1,100	
Require staff	3%	33
Average Salary		20,000
2 days a week		8,000
Total Additional Salary		264,000

Bank charges

- Bank charges estimates are calculated on existing costs of banking transactions.

	Year 1	Year 2	Year 3	Year 4	Year 5
Transactions	529,200	573,300	617,400	749,700	793,800
Bank Charges	€63,504	€68,796	€74,088	€89,964	€95,256

Hospital charges assumptions

Demand

- Total number of attendances & discharges - 6,060,518 – based on HSE Annual report
- Assumed uptake

	Year 1	Year 2	Year 3	Year 4	Year 5
Total Transaction	496,478	620,597	775,746	969,683	1,212,104
Uptake	8%	10%	13%	16%	20%

Benefits

- Price Assumed at €1 per transaction

Costs

- Development time – 2 weeks –An Post simple addition to billpay
- Testing – 1 week – based on conversations with An Post

Local Authority Payments Assumptions

Operating income

- Total Number of households - 1,800,000
- Assumed price of €1 based on average billpay cost per transaction
- Potential OTC local authority transactions:

Total Number of households	1,800,000
Motor Tax Online Uptake	51%
Potential OTC Transactions	882,000

- Estimated operating income:

	Year 1	Year 2	Year 3	Year 4	Year 5
Assumed uptake	20%	40%	60%	80%	90%
Water	176,400	352,800	529,200	705,600	793,800
Waste	176,400	352,800	529,200	705,600	793,800
Total Annual customers	352,800	705,600	1,058,400	1,411,200	1,587,600
Assume quarterly payments	1,411,200	2,822,400	4,233,600	5,644,800	6,350,400
Total Transactions	1,411,200	2,822,400	4,233,600	5,644,800	6,350,400
Potential Revenues	€1,411,200	€2,822,400	€4,233,600	€5,644,800	€6,350,400

Staff savings

- Assumed staff cost for the household charge would be the same as motor tax staff costs per transaction

Total Motor Tax admin staff cost	10,752,570
Total transactions	3,400,000
Cost per transaction	€3.16

- Estimated staff savings:

	Year 1	Year 2	Year 3	Year 4	Year 5
Total Transactions	1,411,200	2,822,400	4,233,600	5,644,800	6,350,400
Potential Revenues	€4,459,392	€8,918,784	€13,378,176	€17,837,568	€20,067,264

Staff costs

- Based on An Post survey and discussions with the IPU, it is believed that 3% of post offices will require staff.
- Based on the potential number of transactions for the local authority it is assumed that part time staff will required for 2 days.
- We have assumed that the cost of this staff will be €20,000p.a , as they will be temporary staff only and existing staff will complete the complex transactions

Estimate of the potential staff cost:

Total Post offices	1,100	
Require staff	3%	33
Average Salary		20,000
2 days a week		8,000
Total Additional Salary		264,000

Bank Charges

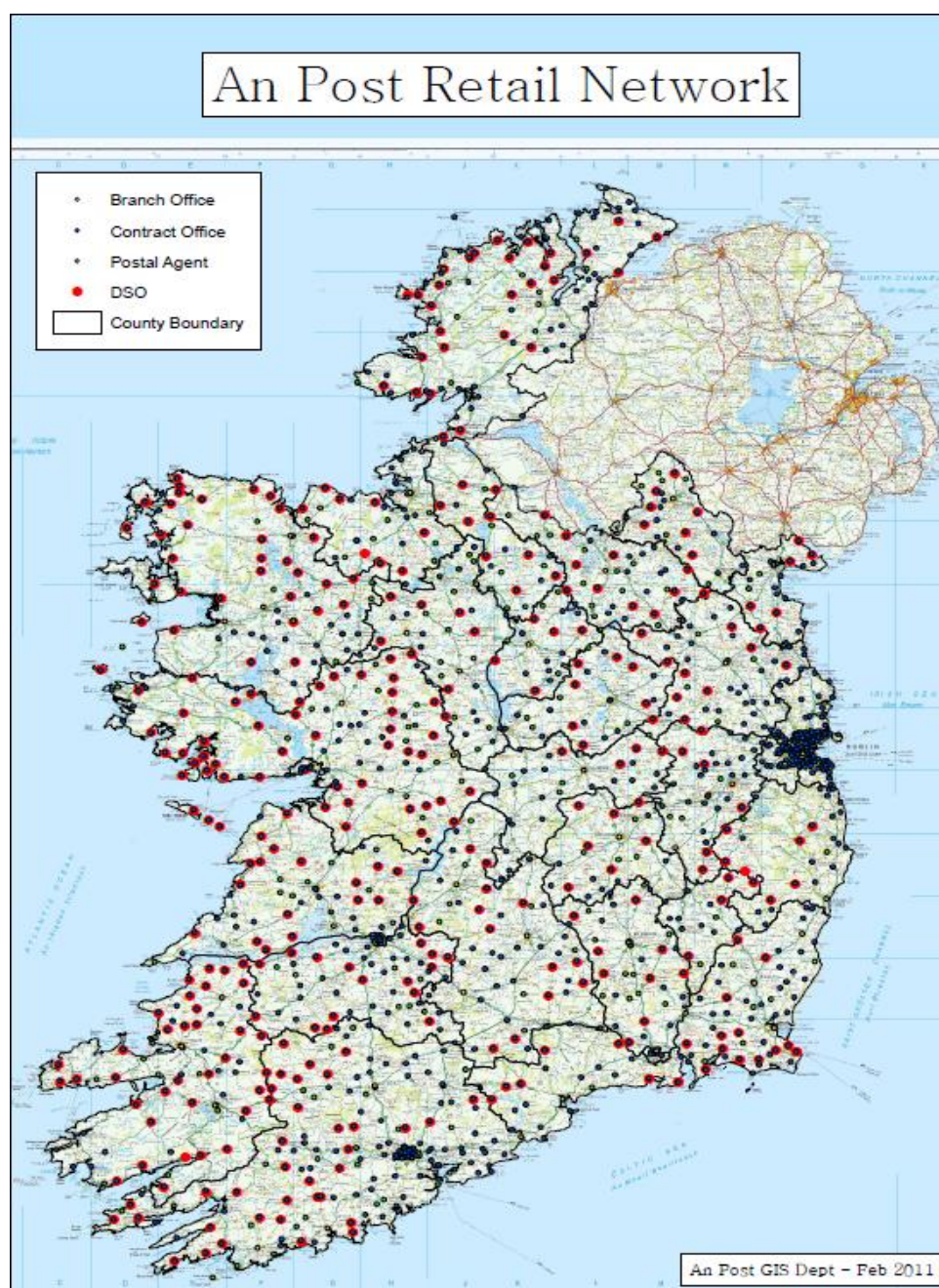
- Bank charges estimates are calculated on existing costs of banking transactions.

	Year 1	Year 2	Year 3	Year 4	Year 5
Total Transactions	352,800	705,600	1,058,400	1,411,200	1,587,600
Total Bank charges	42,336	84,672	127,008	169,344	190,512

Appendix 7 – PESTLE analysis

Political	<ul style="list-style-type: none"> significant cost reduction programs from the Government over the past years McCarthy Report 2009 – comments on potential for post office network to save costs liberalisation of the postal market has enabled more competitors to do business and take over market share Government is thinking about outsourcing services to third parties to achieve own cost reduction goals closing down of Local Government branches (i.e. Gardaí stations)
Economic	<ul style="list-style-type: none"> economic downturn puts pressure on all companies. This results in cost reductions and search for cheaper alternatives for existing services (online banking vs. local branches) decreasing number of customers and revenue decreases the profit of the postal industry new competitors entering the market - national and internal companies are operating the market and are competing for market share
Social	<ul style="list-style-type: none"> high importance of the local post office in smaller communities and rural areas in terms of keeping the communities together (civic pride & community identity) safety and security – role of the post office network as a form of neighbourhood watch post offices are most likely the only local access point to services like finance and dealing with the Government post offices are seen as a place to meet and socialise, especially among older people postmasters represent the Government in the rural areas more and more purchases are done online resulting in larger parcel volume and revenue in this sector
Technology	<ul style="list-style-type: none"> increasing use of new technologies (i.e. Email) threatens the traditional postal business model hybrid mails and digital mails are replacing the tradition letter but those forms offer huge potential to the post network tracking systems, packet stations and other services are benefiting from the trend towards internet shopping
Legal	<ul style="list-style-type: none"> EU legislation to open the national postal market to competition data protection issues because An Post and the post office are dealing with sensitive and private material
Environmental	<ul style="list-style-type: none"> Increasing environmental awareness movement from paper marketing to e-marketing further reduce mail volume

Appendix 8 – Post office network



Appendix 9 - An Post Turnover analysis

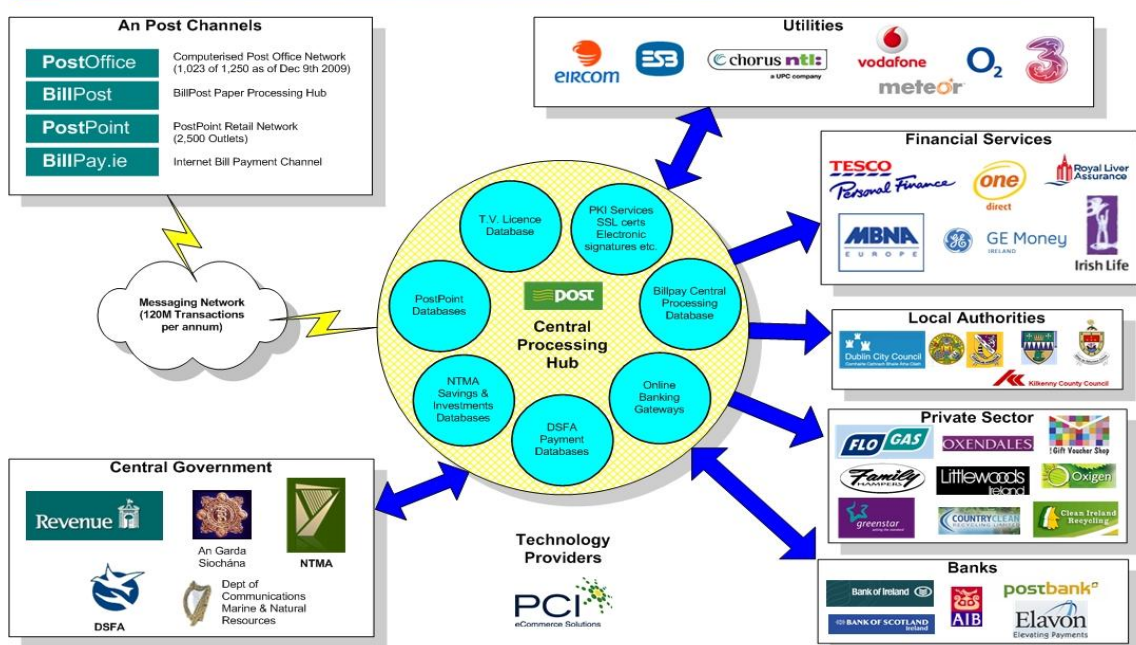
	2007	2008	2009	2010	2011	%
	€'000	€'000	€'000	€'000	€'000	Change
Turnover						
Republic of Ireland						
Postage: Letters & parcels	631,820	624,820	565,640	552,366	507,306	-20%
Postage: Elections and referendum	14,686	4,708	15,494	0	27,996	91%
Post Offices: Agency, remittance and related services	154,321	156,407	163,950	171,438	171,613	11%
Other Services	29,042	18,547	19,783	36,197	41,598	43%
Interest Income	19,192	21,622	12,890	9,259	9,358	-51%
	849,061	826,104	777,757	769,260	757,871	-9%
United Kingdom						
Other Services	23,939	23,939	26,459	35,860	48,843	50%
Turnover	873,000	850,043	804,216	805,120	806,714	-8%
			45,827			
By Region	2007	2008	2009	2010	2011	%
						Change
Republic of Ireland	849,061	826,104	777,757	769,260	757,871	-11%
United Kingdom	23,939	23,939	26,459	35,860	48,843	104%
Total	873,000	850,043	804,216	805,120	806,714	-8%
Republic of Ireland as % of Turnover	97.3%	97.2%	96.7%	95.5%	93.9%	
By Revenue Type	2007	2008	2009	2010	2011	%
						Change
Postage: Letters & parcels	631,820	624,820	565,640	552,366	507,306	-20%
Postage: Elections and referendum	14,686	4,708	15,494	0	27,996	91%
Post Offices: Agency, remittance and related services	154,321	156,407	163,950	171,438	171,613	11%
Other Services	52,981	42,486	46,242	72,057	90,441	71%
Interest Income	19,192	21,622	12,890	9,259	9,358	-51%
	873,000	850,043	804,216	805,120	806,714	-8%
Revenue Type as a percentage of total	2007	2008	2009	2010	2011	%
						Change
Postage: Letters & parcels	72%	74%	70%	69%	63%	-13%
Postage: Elections and referendum	2%	1%	2%	0%	3%	106%
Post Offices: Agency, remittance and related services	18%	18%	20%	21%	21%	20%
Other Services	6%	5%	6%	9%	11%	85%
Interest Income	2%	3%	2%	1%	1%	-47%

Appendix 10 - Retail services

Partner	Services	Partner	Services
 DSFA	Welfare Pensions Childcare Child Benefit	 National Treasury Management Agency	Prize Bonds, Investment Products, PO Savings Bank
 An Garda Síochána	Fixed Fines Penalty Payments	 Department of Comm., Marine and Natural Resources	TV Licence – full turnkey solution.
 ESB	Bill payments Household budgets	 BORD GÁIS	Bill payments Household budgets
 eircom	Bill payments Household budgets	 BT	Bill payments, Broadband Installations, Engineering Support
 O2	Bill payments, Mobile phone eTopup	 vodafone	Bill payments Mobile phone eTopup
 ntl:	Bill payments	 AIB	Agency Banking Services
 HALIFAX	Website Hosting On-Line Banking, PKI Services	 one	Website Hosting On-Line Insurance Engineering Support Bill payments
 Dublin City Council Comhairle Cathrach Bhaile Átha Cliath	Waste Labels Household budgets	 TESCO IRELAND Personal Finance	Bill payments
 WESTERN UNION	Money Transfer Worldwide		Various Councils Rental payments Waste Labels etc.
 GiftVoucherShop.ie	Gift Voucher Sale		

Appendix 11 - An Post process map

An Post Technology Hub Schematic





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