

Review of the economic contribution and financial sustainability of the Irish Post Office Network

Market analysis and financial review

September 2020



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Executive summary

The Post Office Network consisting of 899 post offices, as operated by independent contractors serving local communities across Ireland, faces significant levels of unrestrained closures by the end of 2021 without urgent Government intervention.



€70 million

The cost of operating the Post Office Network



€53 million

The revenue generated by the retail element of the Post Office Network associated with Postmasters



€17 million

The funding shortfall that needs to be met to prevent unrestrained closures of post offices

Introduction

Grant Thornton was engaged on behalf of the Irish Postmasters Union (IPU) to review the current financial position of the Post Office Network in Ireland. The objective of this report, was to provide a comprehensive and independent assessment of the state of the Network, to assess its profitability or otherwise, and to evaluate and critically assess potential options available to it in order to ensure its future sustainability.

The approach taken in developing this report has consisted of:

- a desktop review of relevant available literature and industry statistics;
- the development of a detailed financial model featuring actual revenue based on transaction levels for 899 post offices across Ireland and estimated costs based on discussions with the IPU and its members, as well as analysis of available An Post data;
- discussions with both the IPU and An Post; and
- a comparative analysis of the challenges facing other jurisdictions and their approach to these challenges.

The report also draws upon research conducted previously by Grant Thornton with regards the Irish Post Office Network. The findings set out below represent the output of this methodological approach.

Structure of the Post Office Network and the Role of Postmasters

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

An Post’s Retail Network is amongst the largest in the country with 944 active post offices (of which 45 are Company Post Offices run directly by An Post and 899 run as franchises by Postmasters) serving approximately 1.3 million customers every week. Retail Network income is largely driven by four primary sources of business –the traditional mails business, the Department of Employment Affairs and Social Protection (DEASP) social welfare contract, Billpay, and the National Treasury Management Agency (NTMA) State Savings contract. Taken together they make up more than 50% of the total revenue to the Post Office Network and the Postmasters who operate those post offices.

Postmasters are independent SMEs contracted by An Post to run post offices across Ireland. They are not State employees, nor are they employees of An Post and as such they are not paid a fixed salary while having to provide retail premises, employ staff, and pay for all overheads associated with running a retail business. Their income is derived on a fee per transaction basis generated on behalf of the State or other commercial entities under specific service contracts.

Financial losses

Analysis conducted as part of this report of the revenue streams being achieved by the Post Office Network and an estimation of the costs incurred in delivering those services indicate a material, growing and unsustainable annual financial gap.

Using 2019 volume data and current transaction rates, this report highlights that a significant proportion of the Network will become loss-making with projected average losses of €19,181 per post office per annum and projected total annual losses for the Network of an estimated €17 million. These losses will impact all members of the Post Office Network, small and large, rural and urban alike and will be unsustainable in even the short-term for Postmasters who are often small local operators with no alternative source of income.

This already daunting analysis does not consider the further implications of the impact of COVID-19 which will undoubtedly place further strain on the Network due to the dramatically reduced levels of economic activity, changes in the frequency of social welfare payments and the resulting customer footfall which generates vital ancillary revenue streams upon which the Network relies.

Over the same period, the social welfare contract with the DEASP, worth an estimated 30% of total revenue and a key driver of customer footfall is due to expire in December 2021 and while under its terms it can be renewed for two further two-year periods to 2025 there is no guarantee that it will be renewed at current levels creating further uncertainty. Welfare payments are critical to the survival of the Network and any loss or reduction in value of the DEASP Contract would be devastating. An unintended consequence of Government e-policy is the damage done to the Post Office Network by reducing the number of welfare payments transacted across post office counters, resulting in a decrease in both transaction revenue and customer footfall which exacerbates the pressure on the Network.

It is clear, in these circumstances, that many of the recommendations arising from previous reports, while likely to improve the situation of some post offices, would now be insufficient to ensure the viability of many of those most under pressure and so alternative and more urgent measures must be considered and actioned.



**TOTAL PROJECTED ANNUAL
Post Office Network LOSSES from
2021 onwards**

€16,975,236



**TOTAL PROJECTED AVERAGE
ANNUAL LOSSES per post
office from 2021 onwards**

€19,181



**% of Post Office Network
revenue from DEASP,
Billpay and NTMA contracts**

53%

SWOT analysis of the Post Office Network

The many challenges facing the Post Office Network

The Post Office Network like many other industries has seen significant upheaval in recent years which as of yet shows no sign of ending. From increased competition in the mail and retail sector to the reduction in value of key government contracts due to the continuing movement towards 'online first', traditional revenue streams have continued to fall in value while the cost of business continues to rise through rental, rates and staffing costs. The industry faces a wide range of ongoing threats to its future which may prove insurmountable without significant and effective urgent intervention.

In the absence of this intervention, existing Postmasters will consider if there is a future for them in the industry while potential new entrants to the sector, essential to generate fresh investment or allow for succession planning for the current aging cohort of Postmasters, will be evaluating whether there is a future at all for the industry.

Yet, the Network retains many of its core strengths from brand recognition and customer loyalty, to high customer satisfaction and proven record of service delivery that would prove difficult, costly and time consuming to replicate if the Network in its current guise was to cease to exist.

STRENGTHS

- Premium brand recognition and positive public perception;
- At the heart of the community supporting local economic growth and social vibrancy in those communities;
- Proven track record of service delivery;
- Loyal customer base;
- Community and social centre;
- Capacity to handle additional business;
- Ireland's largest Retail Network;
- Unrivalled geographical reach and local knowledge of the Network.

WEAKNESSES

- Structural decline in letter post volumes;
- Growing digitalization and e-substitution;
- Dependence on social welfare contract;
- Increased competition in growth/profitable service lines
- Uncommercial post-office branches.

OPPORTUNITIES

- Assuming responsibility for additional Government services – be the 'State on your doorstep';
- Capability and infrastructure - ability to extend business;
- Available capacity to grow service offerings for public and private sector organisations;
- Opening up of financial services market;
- E-commerce parcel growth;
- Capture new customers and increase its market share through to provision of complementary services and products.

THREATS

- Deregulation and increased competition from international postal operators;
- Shrinking mail volumes and potential further consolidation of mails delivery points operated by Postmasters resulting in falling postal revenues;
- Weak economy and COVID-19 impact;
- Potential loss or reduction in value of Government contracts e.g. social welfare payments;
- Lack of Government strategy for the future of the Network;
- Substitutes (email, online banking, paying bills online);
- High dependence on external decisions;
- New products and services have not had sufficient impact in generating additional revenue for Postmasters;
- Political reluctance to open up financial services market;
- Technological developments by competitors within the industry.

Why is the Post Office Network worth supporting?

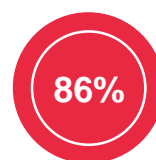
Over a number of years, through a range of surveys and consultation exercises, across multiple jurisdictions throughout Europe, the key findings on the value of the Post Office Network are consistent. Namely that:



An overwhelming majority of the public acknowledge the importance of their local post office in their community.



Most people want to see more government services available through their local post office.



The vast majority are in favour of the State providing financial support to keep them open.

Source: IPU - 2020 Red C survey

The post office is considered to be at the heart of local communities both rural and urban with strong levels of customer satisfaction, a proven track record of service delivery and a brand name recognition that is amongst the best in Ireland.

The Network provides both an important economic and social contribution across Ireland through the range of services it provides to 1.3 million people or the equivalent of 28% of Ireland's population on average each week.

The Network's activities were most recently considered an 'Essential Service' by the Government during the ongoing COVID-19 pandemic highlighting the important role it plays. Through significant investment in both people and technology, the Network provides high-tech and highly adaptable systems and staff that has the capacity to deliver further services and products and benefits to consumers, business, government and society as a whole.

Why is the Post Office Network worth supporting?

Benefits of the Network include:

Consumer benefits

- Access to services for all members of society including those most vulnerable and disadvantaged members of society including cash distribution facilities of circa €4.6 billion through the social welfare payment contract with DEASP when the numbers of high-street banks and ATMs are falling nationally.
- Provides a physical alternative for those unable or unwilling to engage with online payments or set up a bank account in particular those in receipt of Social Welfare payments who may experience greater barriers and challenges.
- On your doorstep range of services and advice e.g. BillPay, Government forms, Foreign Exchange (FX), TV licences.
- Retention of local services where other enterprises have already considered it uneconomical to maintain a physical presence e.g. banking facilities.
- Provides specialist services such as certified and registered mail and insurance to provide security to users.

Social benefits

- Creates significant direct employment and supports further employment in some of the most disadvantaged areas.
- Defines the 'main street' of a community and anchors its retail centre: closure often signals 'giving up' on community.
- Enhances social cohesion through facilitating communication and social interaction.
- Postmasters act as a 'neighbourhood watch' function observing and acting upon potential local dangers or problems.
- Acts as a significant support Network for individuals, businesses and Government during times of crisis e.g. COVID-19.

Business/Government benefits

- Supports local small and medium sized enterprises through providing services that may be uneconomical for SMEs to go through larger competitors due to higher costs or limited volume.
- Supports local small and medium sized enterprises through retaining revenue within the local community.
- Acts as the 'last mile' service provider for business and Government services reducing the need for a larger physical presence in areas where it is uneconomical to do so.
- Physical deterrence of fraud and greater security for business and Government alike.
- Facilitates retrenchment of services where an alternative provider of services is either not easy to identify or would require significant investment to establish.

Environmental benefits

- Post Office Network services customers the length and breadth of Ireland with its unrivalled reach ensuring consumers can access services closer to their homes or businesses reducing the need for unnecessary travel.
- Facilitates a physical presence of services in communities which are underserved or not served at all by other means reducing the need for duplication of physical services.
- Post Office Network has operated and been considered by Government as an essential service during the COVID-19 pandemic.

The value of the Post Office Network

The Post Office Network continues to provide an enduring and essential social value and will continue to do so for the foreseeable future. Placing a monetary figure on this value is challenging, however, analysis conducted in the UK in 2019 on behalf of the Department for Business, Energy & Industrial Strategy by the respected pollsters YouGov and consultancy firm London Economics, *The Social Value of the Post Office Network*, highlights an overall social value of the UK Post Office Network of between £4.3 billion and £9.7 billion, far in excess of the cost of supporting the Network.

This is key in justifying the continuation of financial subsidies for the UK Network which began in 2011 at a cost of over £150 million and have been reduced to circa £70 million currently as the Network has continued to modernise and transform into a more sustainable organisation.

While no comparable analysis exists in Ireland, from the available information about how the Network is viewed, it is appropriate to assume that such an exercise would return a similarly favourable output for the social value of the Irish Network. At a high-level, a comparison of the number of post offices per capita (adjusting social value for the number of post offices and population in both countries) across the two jurisdictions would result in an estimated Social Value for Ireland of between €344 million and €776 million. This is in comparison to total estimated costs of the Network of just €70 million and a projected funding shortfall of €17 million.

No matter the exact valuation of the benefits provided by the Network it is clear that it retains significant national worth and value and that replacing the services it provides both financially compensated and otherwise would be considerably more costly than supporting the existing Network.

€776 million

Higher estimate of the Social Value of the Irish Post Office Network



€344 million

Lower estimate of the Social Value of the Irish Post Office Network



€17 million

Projected annual funding shortfall from 2021 onwards



Source: Grant Thornton analysis based on Department for Business Energy & Industrial Strategy, 2019

Measures to proactively address this shortfall

The Post Office Network has undertaken significant and painful cost cutting measures in order to move towards becoming a leaner, more efficient and cost-effective Network that is more responsive to its customer's needs.

An Post and the Irish Postmasters Union have also been proactive in taking a range of steps in recent years to diversify into new revenue streams through the:

- provision of new services;
- sale of additional retail products; and
- move to a co-location model with other private businesses.

However, as the financial analysis shows, these measures have not proven to be sufficient to bridge the financial gap for many post offices across Ireland, particularly those with a limited customer base. A number of additional measures have been identified in previous reports on the sector by Grant Thornton as well as the Government's own review of the Network known as the Bobby Kerr Report such as:

- additional Government service contracts;
- expansion of available financial services; and
- implementation of Basic Payment Accounts.

However, an analysis of many of the key recommendations highlights that while there has been some progress made, the benefits of these have largely come from targeting online users. There has been little substantive progress in other areas, often for reasons outside of the Post Office Network's control, resulting in limited additional revenue generated for Postmasters. In addition to these measures some further alternatives were considered as part of the analysis, namely, further:

- co-location; and
- consolidation of the Network.

Co-location, while still relatively new as a core strategy with the Irish Network and with limited data available for analysis would appear to be a relative success to date. Early figures available from An Post would indicate that where a post office has been able to either relocate to a new site with an additional business or where an additional business has been located at the site of the existing post office there has been a mutual benefit to both parties. That benefit has taken the form of increased customer footfall, activities and transactions with a resulting uplift in revenue.

As a strategy, co-location would appear to be a promising approach however it is clear that it is not a viable solution for the entire Network. Relocation or development of a new business comes with significant upheaval and disruption for any business but also a potentially inappropriate and unaffordable financial risk and cost for Postmasters.

For co-location to be successful it relies upon an uplift in footfall from potential customers who may make additional purchases at the post office that they otherwise may not have done so. Where people use the post office they use it frequently and are happy with the standard of service they require, however, there is simply not enough of these people or indeed sufficient population overall in some communities, particularly rural, to provide the necessary uplift for additional 'spontaneous' purchases to make a material difference to the post office's overall financial position.

Consolidation of the Network has occurred over the years with the number of post offices falling from 1,361 in 2006, to the current level of 944 including 45 Company Post Offices. While this has to some degree enhanced the viability of individual post offices it has come at a cost to local customer service and is not a sustainable approach for safeguarding the future of the Network as a whole.

In short, these avenues may be considered exhausted either due to their failure to gain traction or their inherent insufficiency given the scale and urgency of the challenges faced by the Network exacerbated by the consequences of the COVID-19 pandemic. A more direct intervention and support is necessary.

Public Service Obligation (PSO)

This is not a challenge that is unique to Ireland, indeed, across Europe, traditional Post Office Networks are facing similar challenges of increased competition, the movement of existing and potential government contracts and services online, and falling volume and value of mail services. While there have been various approaches taken to this, an increasingly popular one has been the use of Public Service Obligations (PSO) to provide Public Service Compensation (PSC).

The UK, Poland, France Italy, Belgium, Finland and most recently Spain have all been granted approval from the European Commission to provide additional compensation to the Universal Service Obligation providers in each of those countries for the extra costs of the public services they provide. There is also precedent within Ireland for the use of PSOs to support specific services provided by sectors which are deemed to be Services of General Economic Interest (SGEI) and which have a high public value but low commercial viability. In effect, they are financial supports for services which are subject to market failure e.g. would not be provided by the market alone in normal circumstances.

In particular public funding is currently or has been previously provided on a time-limited contractual basis by the Irish Government to sectors such as:

- Property – social and affordable cost rental housing.
- Agriculture – promotion of transport of livestock.
- Telecommunications – independent radio stations.
- Transport – air, rail, bus and maritime routes.
- Finance – recapitalisation of banking sector.

e.g. PSO Subsidy Payments have been provided for socially necessary but commercially unviable bus and rail services in the order of €255 million per annum since 2010.

A review of the available literature around some of these measures indicates that the arguments for such state intervention mirror those that could be made in favour of similar intervention within the Post Office Network.

Countries with approval from the European Commission to operate a Post Office Network PSO



United Kingdom



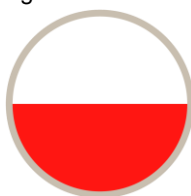
France



Italy



Germany



Poland



Finland



Spain

Industries currently or previously receiving a PSO in Ireland



Agriculture



Aviation



Rail



Finance



Bus



Radio



Radio



Housing



Energy

Conclusion

The Irish Post Office Network is at a critical juncture. The financial viability and sustainability of the Network is challenged like never before in its history.

The analysis in this report, using 2019 volume data, estimates that the Post Office Network will generate revenues of circa €53 million from its commercial activities but cost €70 million to operate leaving an annual projected shortfall of around €17 million from 2021 onwards.

To date, An Post has played a key role in supporting this funding gap through additional financial supports agreed under the 2018 IPU/An Post Agreement. During a scheduled review of this Agreement, in 2020, it was highlighted to the IPU that these An Post financial supports are unsustainable in anything but the short term with this guaranteed funding due to be phased out entirely by the end of June 2021. For this reason, establishing alternative funding options to maintain a sustainable future for the Post Office Network and for Postmasters is now essential.

The Network is heavily reliant on revenues from services delivered on behalf of the Department of Social Protection to provide access to welfare payments and Billpay services as well as its contract with the NTMA to provide State Savings Services. The combination of these accounts for over 50% of retail income for the Network and a similar proportion of Postmasters' Commissions. The existing contract for the DEASP services is due to expire in December 2021 and while under its terms it can be renewed for two further two-year periods to 2025 there is no guarantee that it will be renewed at current levels creating further uncertainty. It is essential that this contract is renewed for the future of the Network.

While it is not yet possible to quantify, it is certain that the COVID-19 pandemic will have had huge implications for the Network both financially in the short-term, due to the reduction in customer footfall but also longer-term as the Network adjusts to any potential future 'new normal'.

The implications of this are that many local post offices, large and small, urban and rural, will likely be forced to close if the financial conditions under which they operate do not change in the short-term.

To date, consolidation has been carefully managed by An Post and the IPU through the use of voluntary departures supported by financial packages. However, as Postmasters consider the viability of their businesses in the current climate, the next tranche of closures may be conducted in a more unrestrained and damaging manner.

Whether through further consolidation or exit from the marketplace altogether, a reduction of the number of post offices will likely see many of the essential services that they provide to some of the most disadvantaged in society and which repeated public surveys have shown are so valued by the local community go unreplaced by other service providers due to their 'public service' nature and inherent commerciality challenges.

Conclusion

Insufficient tangible impacts in the form of additional revenues for Postmasters from progress in implementing recommendations from previous reports has resulted in an impending cliff edge facing the Post Office Network. This necessitates immediate and decisive action which is both effective and efficient in resolving the current funding crisis facing the Network.

Such a solution would allow the sector time to continue its transition towards a new modern operating model through providing greater certainty for the foreseeable future to Postmasters while also ensuring post offices can continue to play a central role in the economic and civic lives of villages, towns and urban communities across Ireland.

The Network continues to provide significant value for money when its estimated operation costs of €70 million are compared to the estimated value derived from the Network across society of between €334 million and €776 million.

The recently published *Programme for Government - Our Shared Future* sets out the Government's view that **'An Post (and the Postal Network) has untapped potential to do more and to make a further significant contribution across many areas of public, business, and community life in Ireland.....An Post can emerge as a central hub for a wide variety of valuable community-focused services.'** This furthers the view expressed by the Government during the COVID-19 pandemic that Postal Services are considered an essential and vital service.

However, to be able to fulfil that vision and continue providing that essential service the Postal Network must first be supported in facing its current significant financial challenges.

The key recommendations of this report on the options available to address these concerns are that:

- immediate action must be taken to address the current and impending financial crisis for the Post Office Network;
- recommendations from previous studies even if implemented are insufficient to provide the necessary revenue uplift for Postmasters within the timelines considered; and
- the only realistic solution that provide the effective and efficient approach necessary within the timelines required is the approval of an annual Public Service Obligation worth circa €17 million to compensate for the projected funding shortfall from 2021 onwards.

Introduction



Background

This section provides information about the structure and organization of An Post as well as details of its Retail Network and the role of Postmasters within that Network. Information informing this section has been obtained from a review of documentation provided by the IPU, publicly available information available about An Post and through desk research. It will also provide a brief introduction of the Irish Postmasters' Union, the role of a Postmaster, the structure of An Post retail and the important and unique role of the post office and its Postmasters in Irish society.

The Irish Postmasters' Union

The Irish Postmasters' Union (IPU) is the representative body for Postmasters in Ireland representing 90% of Ireland's 899 Postmasters. Their role is to act as the collective voice of Postmasters, representing and protecting the best interests of their members in dealings with An Post in matters such as remuneration, contractual issues and technological developments.

The IPU's remit is to highlight and represent the interests of Postmasters with government and political representatives generally. They also work to develop the role of the post office within the community by interacting and developing relationships with community-based organisations.

Through their head office, branch structure, and annual conference they provide advice and support to Postmasters on specific issues or problems they encounter while undertaking their role. The annual conference acts as a forum 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.

What is a Postmaster?

Most post offices are independent businesses run by Postmasters under contractual arrangements that were first developed in 1907.

A Postmaster is the head of an individual post office and is responsible for the management of their post office, which acts as a distribution and retail facility for An Post and other entities.

It is important to emphasise that Postmasters in Ireland are not employees of An Post but instead have a formal and contractual relationship to supply An Post services for which they are compensated according to commercial rates related to those transactions. In return, they are responsible for investing in a suitable retail premises, employing staff, and all other overheads associated with running a commercial business.

In addition to the traditional postal services, they also offer several other services to the consumer such as government services, e-commerce services and increasingly financial services. This is the main source of revenue for the majority of Postmasters though some also run local shops in tandem with the post office, a practice known as co-location. Postmasters play an important role in the local community whether rural or urban with the post office acting as an anchor providing a local government, business and social presence.

The Post Office Network forms the basis of the "retail" business element of An Post providing postal and other counter-based financial services and is separate but interlinked to the "mails" business component. They are, therefore, not State employees, nor are they employees of An Post and as such they are not paid a fixed salary. Instead their revenue is based on receiving a fee per transaction while incurring the costs associated with being the owner/operator of a private enterprise albeit one that provides services with a significant public element.

About the Post Office Network in Ireland

The Post Office Network is 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. Currently, there are 944 Post Offices, including 45 Company Post Offices and 100 postal agents in Ireland which makes An Post one of the largest Retail Networks in Ireland. The post office's greatest strength is in its number of branches and the reach that this structure provides.

The Post Office Network has certain universal service obligations that can often conflict with the economic rationale and value of a post office. They play an important role in society and particularly rural areas, with its diminishing role in some communities, often being a source of concern for the public. An Post has committed to ensuring post office provision to communities that meet the following criteria:

- all settlements of over 500 people will be served by a post office; and
- 95% of rural populations are within 15km of an outlet with that figure being 3km in urban areas.

There has been no desire amongst stakeholders to part with this vision for the post office's role in society, however, consolidations have been periodically sought to protect the viability of the Post Office Network as a whole.

Characteristics of the Irish Post Office Network

An Post is a semi-state body responsible for the delivery of postal services throughout Ireland. It is one of the largest indigenous commercial enterprises in Ireland in terms of turnover and employment with circa 9,500 employees. Of the 944 post offices around Ireland, 45 are directly managed by An Post whilst the remaining majority (over 95%) are operated by franchise partners (Postmasters).

There are two main elements to An Post, the core “mail” business which involves the collection, sorting and delivery of letters and other postal items. The second element is the “retail” business which involves postal and other counter-based financial services provided via the Post Office Network. An Post provides the mail collection, sorting and delivery while post offices, many of which are franchised, provide the retail customer-focused element.

The principal services provided through the Network are:

- the management of traditional postal services;
- the processing of payments for the Department of Employment Affairs and Social Protection (DEASP);
- handling the full operation of the State Savings products for the National Treasury Management Agency (NTMA);
- Billpay transactions for electricity, gas, telephone, waste etc.;
- licence collection on behalf of a wide number of public bodies including TV Licences and An Garda Síochána;
- money transmission services;
- agency banking transactions on behalf of retail banks;
- foreign exchange services;
- selling and acceptance of postal services;
- other retail products such as gift vouchers, mobile top-ups, Passport Express, iTunes vouchers; and
- PostMobile.

In the past decade, many post offices have closed due to falling revenues and rising costs with a decrease in demand for mail services being met by an increasingly competitive environment. The Post Office Network as it is currently configured is facing a challenging and uncertain future with many post offices considered commercially unviable in anything but the short-term.

This is due to the following challenges:

- changes in consumer preferences;
- decreasing consumer transactions;
- changing consumer habits and settlement patterns;
- increased internal competition; and
- new technologies.

Retail income is driven by four primary sources of business, the traditional mails related postal service, Billpay, the DEASP social welfare contract and the 2 million State Savings customer accounts on behalf of the NTMA State Savings contract which amount to over half of the revenue to the Post Office Network. The Post Office Network has long had a dependence on the DEASP revenue stream which has always been critical to the financial sustainability of the Network. The contract sees fees paid to Postmasters based on the number of welfare payments transacted across post office counters. As government policy has moved towards encouraging e-payment an unintended consequence has been a fall in welfare payments fulfilled through the post office significantly reducing both direct transaction fee revenue but also customer footfall of a key demographic for additional retail services both within the post office and for surrounding retail outlets.

The challenges facing the Post Office Network are not unique to Ireland with these challenges being consistent with experiences globally. One of the key considerations going forward for An Post, the Postmasters and Government will be how to manage falling mail volumes and to reorganise a Network to account for changing consumer behaviours.

Background to the review

In 2012, the IPU engaged Grant Thornton to assess the state of the Network and to evaluate potential options available to ensure its future sustainability. Grant Thornton was requested to carry out an update of the 2012 findings in 2013. This reaffirmed the challenges faced by the Post Office Network, assessing any changes in the internal and external operating environment affecting the Network with particular reference to the importance of the social welfare payments contract to the Network.

Since the completion of these two reports, IPU has entered into a new commercial contract with the Government through An Post to continue, amongst other things, delivering social welfare payments through the Network. The social welfare proponent of this contract is worth circa €18 million to IPU's members annually, representing a significant proportion of the total annual revenue. This is therefore, an essential contract in maintaining the Post Office Network with the Network heavily reliant on the revenue it provides.

This contract is set to expire in December 2021, and while it may be extended for two further two-year periods out to 2025 there is no certainty as to the continuation or the value of the contract beyond 2021 or beyond the overall six-year period. This puts additional stress on the financial sustainability of the Post Office Network moving forward and limits the ability for Postmasters to plan beyond the short-term.

In 2018, An Post and Postmasters agreed on a national deal, supported by 80% of Postmasters for a renewed vision for the Post Office Network to help manage the modernisation of the Network. An Post committed to maintaining a post office within 15km of every community in Ireland with more than 500 people and within 3km for urban communities. As part of the agreement between the Irish Postmasters Union and An Post, it was agreed that twenty new post offices were also to be opened. An Post committed to investing in the Post Office Network between 2018-22 to aide in modernising its infrastructure, refurbishing outlets and facilitating increased e-commerce opportunities through introducing new formats to deal with parcels and automated transactions. These measures were designed to reinvigorate a service and support its transformation. The deal acknowledged the need for new business lines and included a much needed investment by An Post to progress modernisation efforts. However, while the agreement secured the immediate future of the vast majority of post offices, it also led to the closure of 159 post offices nationally.

This contract included an arrangement where An Post supported the change to a 'new commercial contract', a movement away from the old structure which saw busier post offices effectively cross-subsidise less post offices.

The new commercial contract included short-term 'Transformation Payments' in the shape of additional funding provided to Postmasters. This arrangement would ensure Postmasters' incomes would not fall below the 'old contract' levels for a two-year transformation period. The transformation period would be used to replace any consequential loss of revenue with 'new' services from both the Government and An Post. These payments were tapered over three years and have started to reduce with effect from July 2020 and are scheduled to expire entirely at the end of June 2021.

These and a range of other challenges placing pressure on the finances of the Post Office Network provided the rationale for the IPU to engage Grant Thornton in 2019 to conduct an independent market analysis and assessment of and identify measures to ensure the viability and sustainability of the Network in the short-term and beyond. The need for this review has only grown in the intervening period as the Post Office Network has been significantly impacted by the COVID-19 epidemic which has seen footfall at post offices collapse with undoubted further long-term implications.

Scope of the assignment

The terms of reference were to develop an independent analysis and evaluation of the economic contribution and financial position of the Irish Post Office Network, and the market conditions faced by Irish post offices. This would assist An Post and IPU in developing a strategy to mediate the challenges facing the Network.

The main outcomes of this report shall be to:

- determine the number of post offices at risk of closure;
- determine the shortfall which would need to be funded to allow post offices to remain open in the short term; and
- critically consider the means through which this funding gap can be bridged.

Period of our work

Our work was performed in the period between October 2019 and July 2020 and analysis relates to figures available for the 2019 financial year.

Sources of information

Sources of information will include but not be limited to the following:

- desk research;
- An Post annual reports;
- discussions with the IPU; and
- discussions with An Post.

The value of the Post Office Network



Post services available here

- | | |
|--------------------|----------------------------|
| Current Accounts | AIB & Ulster Bank Services |
| Credit Cards | Address Post |
| Foreign Currencies | Parcels |
| Insurance | Stamps |
| Loans | One4all |
| State Savings | National Lottery |

The value of the Post Office Network

Social contribution

There are perceptions that postal services are no longer relevant in an increasingly digital age. In Ireland, although mail volumes have declined year on year since 2007, the Post Office Network continues to play a pivotal role in society. The prevalence of online communications and transactions have transformed the consumer and business landscape in which the Post Office Network operates. Despite the important historical role played by An Post across the country, these changes have raised questions about the Network's role in today's economy and society.

The Post Office Network makes important economic and social contributions across Ireland, it delivers significant value to Irish communities, businesses and individuals through the provision of a range of vital services. This section of the report will detail how the Post Office Network delivers financial, governmental and other ancillary services to many different segments of society, particularly the more marginalised and underserved communities. Most recently the value of the Network was recognised by Government in its designation as an 'essential service' alongside human health and other emergency services during the ongoing COVID-19 pandemic highlighting the important role that the Network continues to play in Ireland.

Broader economic activity is also facilitated through the Post Office Network's provision of payment and banking services, with local businesses, clubs and organisations sometimes relying on the convenience of using the post office for day-to-day transactions, as well as the in-person support offered by the local post office where there are limited alternatives available.

Post offices provide a range of in-person services and in doing so they act as a natural hub for foot and vehicle traffic in the communities in which they serve. There are over 1.3 million retail customer visits to post offices each week which supports retail sales amongst other businesses in the surrounding area. This is particularly the case in rural communities, for which the post office can be a key gathering point for the community and an important part of the centre of commercial activity.

In a widely publicised case, a Sligo post office closed its doors in 2018 after 70 years in operation. Locals lamented the loss of an outlet described as an "advice centre, tourist office and occasionally a medical centre". For many residents who didn't drive, particularly the elderly, the post office was viewed as a community hub and only source of human contact.

The Postmaster helped their community in filling out forms, making phone calls and supporting local residents as well as acting as a 'neighbourhood watch' function for individuals and the wider community. For many, the post office represents and plays an oversized role in protecting individuals and communities against isolation either from services or society by encouraging a sense of community.

Rural communities

Given the Post Office Network's nationally distributed infrastructure it serves an important function as a 'service provider of last resort' in rural communities where other service providers have decided not to operate for commercial reasons. One example of this important role is in the post office's provision of banking services. Recent years have seen the closure of bank branches in many urban and rural communities leaving some towns with no alternative in-person options for banking services apart from the post office. Traditional branch banking in rural areas has significantly higher overheads than urban branches. This has placed many rural branches at higher risk of closure as a result of any restructuring process. While An Post has extended its services offerings, there is enormous scope for An Post to provide additional services through the Post Office Network that no other organisation is capable of providing.

For many rural communities, the post office can also be the only local retail unit. These communities depend on the post office not just for postal services but for the adjoining shop or newsagents to provide day to day necessities. Many of these shops are dependent on the additional revenue stream the post office provides to ensure the viability of the adjoining business.

The value of the Post Office Network

Older members of society

A recent example of the unheralded role that the Post Office Network plays in local communities is the organisation's response to the COVID-19 pandemic. From March 30th 2020, An Post began to offer wellness checks by its postal workers based out of local post offices across the country. The focus of this initiative was older and vulnerable customers along delivery routes, particularly those who are living alone in isolated areas. The postal worker could check on the well-being of certain members of the community and whether they needed support. If the individual required support the An Post employee could recommend the individual call ALONE or was able to call ALONE on their behalf. There were also many reported instances of Postmasters coming to the aide of members of their community.

Postal workers were able to take any post this community might have for free and put it into circulation for them. Elderly customers could also request for mail to be collected by placing a sign in windows. An Post also worked with newspapers to develop a delivery service for customers 'cocooning' who could not visit shops to get their daily newspaper. Postcards were also delivered to every home nationally under the "Come Together. Write Now" initiative, encouraging communities to stay in touch with letters, postcards and packages during the unprecedented period of social distancing and isolation.

The post office is an important part of daily life for pensioners. A survey carried out among 200 elderly people in Dublin found that pensioners experienced barriers to banking. Some of the issues cited were banking charges, unfriendly staff, difficulties using ATM cards, long queues and a lack of seating. These are areas in which the post office excels.

The environment in which An Post operates is rapidly changing as technology transforms the way businesses and consumers interact and how individuals communicate with each other. Growth in the digital economy is seeing more economic and social activity becoming enabled by information and communications technologies and this is increasingly driving services to online channels. The role and relevance of businesses that provide physical services have come under scrutiny, often leaving the post office as one of the last physical spaces for many services and for communities to meet.

For many customer segments, particularly younger people, digital channels for services are strongly preferred, however, in the context of an ageing population, facilitating in-person access to key services will be increasingly important.

In a 2017 report, the Economic and Social Research Institute projected that by 2030 the population aged 80 or above would increase by between 89-94%. The Central Statistics Office (CSO) figures also predict that those aged 65 years and over will increase significantly from a level of 629,800 in 2016 to potentially nearly 1.6 million by 2051. The post office will play an increased role in society as Ireland's demographics change in the coming years.

New and marginalised members of Irish society

New members of Irish society and marginalised groups are often members of the unbanked. Producing appropriate identification has been reported as the main barrier among some vulnerable groups including members of the Travelling community, immigrants, the unemployed, those in receipt of social welfare payments, homeless people and older people.

There are over 30,000 travellers in Ireland representing the largest indigenous minority in the country. Equality legislation has recognised the community to be one of the most excluded and marginalised groups in Irish society. The National Traveller money and budgeting service note that it is difficult to ascertain the extent and nature of personal over-indebtedness within the Traveller community as Travellers as a community are not covered by the National Household Surveys carried out by the Central Statistics Office. However, it claims that It is likely that Travellers are at higher risk of over-indebtedness to illegal money lenders due to the difficulty many face in accessing legal and affordable savings and credit.

Low literacy levels have hindered some members of the immigrant and traveller communities as the form filling and 'red tape' associated with joining financial institutions can be an impediment. Those living in direct provision or travellers based on unofficial sites can face particular difficulties with opening accounts. The face to face nature of the post office represents an opportunity for these communities to engage with Postmasters to gain help with accessing services. The self-service model adopted by traditional bank branches does not necessarily lend itself to helping these communities as they are inaccessible to those with language or knowledge barriers.

The value of the Post Office Network

Financially excluded

An Post is uniquely positioned to play a crucial role in tackling financial exclusion given its large Network of 944 post offices, of which 80% are in rural areas. Financial exclusion is defined by the EU 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

A 2018 independent evaluation into community banking and the local provision of banking and financial services highlighted the positive contribution by post offices and Credit Unions to the Irish banking sector, particularly in rural areas. It noted the important role they play in providing additional competition in the financial services market and addressing the issue of financial exclusion.

However, despite the introduction of the Basic Payment Account system in 2016 under EU directive to make banking services more accessible and transparent, there is a significant segment of the population who continue to be excluded from financial services and products. This prevents these people from playing an active and productive role in social and economic life. The basic payment account has helped to bridge the gap that existed for people living on low-incomes, social welfare supports or looking to return to work, such accounts do not provide any credit facilities.

The aforementioned groups represent a cohort that would tend to regularly engage with the post office for social welfare and jobseeker payments and could be easily targeted for further service provision.

It is widely recognised that access to financial services is key to social inclusion and that some segments of society, such as welfare-dependent families and indebted households often experience difficulties in securing access to financial services. People who find themselves excluded from financial services and products generally available to the public are likely to be further marginalised.

Unlike the national pillar banks, community banking has broader objectives including ensuring individuals can access banking and financial services as well as supporting rural and regional economic development. As discussed later in this report, the issue of closing bank branches represents a further deterioration of access for certain parts of society. As customers increasingly transact online, bank branches have closed in many communities and the number of services available in the remaining branches has become limited.

These trends represent a challenge for people without the ability, knowledge or resources to access services online. Additionally, it's a challenge for those with physical/sensory disabilities for whom the lack of financial services infrastructure in rural areas is a barrier to financial inclusion.

Financial exclusion can result in bill and money management being more time consuming and costly for individuals who can least afford it and can in some circumstances lead such individuals into significant financial difficulties. Examples include higher transaction costs as direct debit facilities are not available, minimum balance requirements, exclusion from certain services or offers, lack of access to affordable credit facilities and obstacles to accumulating wealth through savings, investment and pension facilities. It is estimated that around 20% of the Irish adult population do not have access to a bank account for reasons including account closure due to arrears, bad credit rating, inability to afford bank charges and low-income exclusions.

The Post Office Network has an important social role to play in providing support to the financially excluded and disadvantaged through the provision of access to cash and administrative supports such as form completion and checking etc. that is difficult to access elsewhere in many circumstances. Postmasters continue to deal with the most vulnerable and marginalised people in society providing often unseen services and support to those who may struggle to engage with or receive such support through traditional channels.

Impact on local communities of the loss of a post office

The UK National Audit Office (NAO) conducted a study to examine how the closures of post offices in the UK have affected the communities in which they served. The study found that closures disproportionately affected vulnerable residents such as the elderly, disabled, low-income households and those without private transport. This cohort was found to be less equipped to adapt to life without a post office as they were often not technologically confident enough to access services online or lacked the resources to do so.

For these people, life tended to be centred strongly in their local area and the loss of any local resource inevitably had a greater impact. The post office afforded people the opportunity to meet other members of the community and in the case of the elderly, a routine in collecting their pension. Residents affected by closures lamented the loss of what was considered an integral tool in promoting social cohesion and an essential element of the community.

It was found that the lack of transport in rural areas also presented a major challenge for communities that lose a local post office, even if a post office is in a nearby village. The limited number of bus services may mean that customers would have a very short turnaround at their destination post office or a long wait for a return journey.

The report found the closure of post offices was a contributory factor in some areas social and economic decline. The presence of a post office was linked with attracting people to the area and benefiting surrounding businesses, the loss of which led to an increase in dereliction and anti-social behaviour in some communities observed. Beyond the direct loss of post office employment, closures can contribute to rural 'flight' to urban areas, further contributing to the decline of rural life and communities.

Post offices provide crucial social, economic and administrative services to communities in rural or isolated areas. The loss of such services can limit people's access to basic state services including social welfare payments and financial services. The Post Office Network plays an important role in ensuring the equality of access to important services to all citizens.

The post office provides an array of hard to quantify benefits. Examples of benefits of social value include;

- Improved social linkage and sense of community;
- Access to government services;
- Information exchange;
- Safety and security;
- Postmasters with local knowledge and community engagement;
- Access to financial services, including those without traditional bank accounts; and
- Local employment.

In 2016, YouGov conducted a study to try to measure the social value of UK post offices. The study was based on large scale surveys of individuals representing households and the representatives of small and medium-sized enterprises. It used three separate valuation methods and the three values obtained from these methods were £4.3bn, £7.3bn and £9.7bn per year, which represented a multiple of the PSO funding received. The study defined social value as customers willingness to pay for the post office and the services it provides.

Impact on local communities

In a 2020 Red C survey conducted on behalf of the IPU the following responses were received which demonstrate the high regard and support the public have for the Post Office Network.



91%

of adults aged 18+ in ROI agree 'my local post office provides a valuable service to my community'.



86%

of adults aged 18+ in ROI agree 'more government services should be made available through my local post office'.



86%

of adults aged 18+ in ROI agree 'government funding should be provided to ensure post offices remain open'.

The three key findings from the survey were:

1. An overwhelming majority of the Irish public acknowledge the importance of their local post office in the community. There is broad agreement across all key demographic groups, but it is strongest amongst those in older age groups.
2. Most people also want to see more government services be delivered through their local post office. Support for this is strongest amongst those in older age groups and is somewhat higher amongst those living outside Dublin.
3. The vast majority of respondents are in favour of the state providing financial support to keep post offices open. This feeling is strongest amongst those in older age groups, those in middle/lower social class groups and those living outside of Dublin.

Source: IPU - 2020 Red C survey

Devon: Case study

In 2007, a programme of post office closures began across the UK known as the Network Change or post office Closure Programme. The Closure Programme was sought due to the increasing losses being made by Royal Mail and the need to stabilise the Post Office Network. As with all closure programmes, the changes resulted in local concern with the loss of a service many viewed as essential and a social hub.

In a review of the long-term impacts of the closures on the affected communities, many of the concerns relating to access to services were realised. The closure of the post offices was found to have disproportionately affected the older and vulnerable members of the community as many areas were poorly connected to public transport.

The closure programme resulted in the loss of 2,500 post offices, with 500 outreach services being introduced in their place. A study was undertaken by Consumer Focus to examine the effects on these communities. Devon was chosen as the focus of the report as it is a deeply rural community with a sparse population, the type of community most reliant on such services despite not being a deprived part of the UK.

The closure resulted in users with access to transport to transferring their services to the nearest available post office. For those without a car or easy access to public transport, such as the elderly and ill, the changes required them to plan their visits, rely on the goodwill of neighbours or use taxis at significant personal expense. In the case of Stokeinteignhead, a town of 700 people, there was only a twice-weekly bus service (on Wednesday and Friday) to the next nearest post office. In other cases the return buses from the nearest post office were several hours after their inbound bus, creating a major disruption to peoples lives.

For SMEs and micro-businesses who typically use the post office frequently to post parcels, withdraw cash, and deposit takings, the post office closures meant that business owners had to travel to the nearest town incurring time and fuel costs.

Although the replacement outreach services were positively received, this alternative was only provided for 10% of the affected post offices. The trade-off for those that did receive an outreach service included inconsistency, technical disruptions and reduced product availability which diminished the post offices relevance to many businesses.

The report also found that 57% of rural sub-Postmasters provided the only shop in their village. The post office closure had a striking effect on the co-located business;

In Devon, in virtually every instance where the in-shop post office was closed, it has had a significant effect on the viability of the shop. In a majority of cases, the village shop has subsequently closed.

The loss of post office cash services contributed to financial exclusion and additional costs, as many towns had no alternative than using cash machines that charged a fee up to £1.75 per withdrawal. The cost is borne by individuals often least able to afford it. Low-income groups were found to withdraw small sums of money up to four times as much as higher-income groups.

Such was the impact on communities, the local council stepped in to provide a support scheme to aid post offices and the adjoined local village shops. The support scheme was successful in ensuring the preservation of the post office and shops in a majority of cases. In rural areas, just half of households had access to an hourly or better bus service within 13 minutes walk, compared to 96% of households in urban areas. With half of the pensioners in rural areas also having no access to a car, the loss of the post office was found to be debilitating to their way of life. A disproportionately large proportion of rural dwellers are older with 40% of over 55s using the post office every week.

As the populations of developed national age as projected, it is reasonable to assume the usage of the post office will remain high amongst this cohort of people despite the growing use of online and digital platforms.

Importance to local businesses

Local post offices are a benefit to the businesses they serve in the community as they encourage customers to shop locally and offer the opportunity to regularly deposit takings. Postwatch Scotland researched five rural communities to examine how the community would view the closure of their local post office. Over a quarter of the residents across all age groups stated that they would seriously contemplate moving away if the post office were to close. The report stated that if this was to occur it would seriously undermine the rural economy and further concentrate economic activity in urban areas.

The UK National Audit Office study found that the closure of UK post office branches had led to local businesses changing or adjusting their banking arrangements, often by changing provider from the post office. The proximity to small and medium businesses is an asset that could be undermined by closures of post offices in certain communities where alternative post offices are not available or are burdensome to access.

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. The post office plays an important role in facilitating commercial activities. Across Ireland, small and medium-sized enterprises do a large portion of their daily business with the post office. For many of these companies, there is no option to use another service provider given their location.

The UK Post Office Network faced similar issues when a policy decision resulted in post office closures. Independent studies demonstrated that these closures had a significant impact on the local community and resulted in significant expense for local governments. 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 should be considered, particularly when awarding Government contracts.

An Post operations facilitate business growth more broadly through the provision of core business services such as e-commerce delivery, direct marketing and financial services. post offices can also be key to the sustainability of small businesses in rural communities, especially ones that are co-located with post offices. Such co-located post offices benefit the local community through the provision of a broader range of products and services, while also benefiting the licensee by providing a more diversified revenue stream.

Through the social welfare contract with DEASP, the Post Office Network in Ireland distributes approximately €4.6 billion in cash payments to welfare recipients much of which is then expended with local businesses. This ensures a vital income stream for businesses which would be significantly reduced in the absence of a local post office resulting in such customers travelling further afield to collect their payments.

As examined in the economic analysis, many of the post offices in the Network are dependent on an adjoining business through co-location. Retail businesses that co-located with post offices have also been found to experience serious financial consequences as a result of closures in the UK. Certain customer groups such as pensioners or those claiming benefits were found to be less likely to use services of surrounding businesses after a closure. Other benefits include:

- post offices generate economic activity at nearby retail locations and benefit from better access to supplies and services;
- a universal post service establishes a competitive baseline price for the delivery of goods and services to areas, preventing unfettered pricing;
- provides access to banking facilities outside urban areas;
- provides direct mailing services to businesses; and
- supports small businesses.

Research conducted on behalf of the Scottish government found that 19% of small and medium enterprises (SME) stated that their business would not be able to function without the postal system. This figure was 29% for SMEs in rural areas. However, 47% of SMEs surveyed were found to use the postal system as an administrative function only and did not consider it as core to their service delivery.

Recently, An Post committed €2m funding and expertise for Irish SMEs as part of its remit to support local businesses. These were practical supports to help Ireland's SMEs get back to business and selling online successfully and sustainably. These included;

- discounted prices for the period of COVID-19;
- A €1 million marketing fund offering €1000 worth of Direct Mail to small firms for a local advertising drive or as part of a larger marketing campaign; and
- a dedicated e-commerce advice hub providing information and advice for SMEs to start trading online.

Importance to local businesses

This serves as an example of some of the activities An Post does to support communities and businesses that would be unlikely to be found in a purely commercial Post Office Network without the obligations and expectations placed on the Post Office Network.

As commerce is increasingly conducted online, post offices can be expected to play an increasingly important role in facilitating SMEs. Small businesses, home-based workers, independent online sellers, micro-businesses and the self-employed are more prevalent in rural areas than urban areas. Data from the Central Statistics Office shows the proportion of people working from home was highest at 9.8% in 'Highly rural/remote areas', compared to 2.3% in 'Cities'. Twice as many people worked from home in the three rural areas studied (63,728) than in the three urban areas (31,227). These groups were found to be heavily reliant on local facilities, particularly village shops and post offices. Often these are one of the same with the post office and village shop co-located. Withdrawal of a post office from a village has a significant impact on the remaining shop businesses e.g. with some €4.6 billion in social welfare payments transacted across post office counters annually on a weekly basis a significant proportion of that will be spent in retail premises in the post office and the immediate surrounding commercial premises providing a substantial boost to local economic activity. If customers are required to travel elsewhere to visit the post office the tendency will be for them to carry out other shopping at the alternative location. This will undermine retail development which is critical to the vitality of Irish towns and villages.

A 2007 report by Manchester City Council found that the closures of UK post office branches were likely to have a profoundly negative impact on local businesses such as pubs and shops. The report found that for every £10 a post office earns it generates £16.20 for the local economy, including £6.20 in direct spending on local goods and services. The majority of survey respondents felt that the closure of a local branch would result in a reduction in customers for nearby business (75%) or even lead to their closure (56%), with only 7% feeling that there would be no impact.

A survey conducted by the Federation of Small Businesses' survey found that "82% of small businesses think that the closure of their local post office would have a significant impact on their business, including increased travel time, increased queuing time, and even the potential closure of a business".

As an open high-tech economy, Ireland is likely to experience continued digitisation and globalisation in the coming years. In this changing landscape, the Post Office Network will continue to play an important role in facilitating business activity, connecting local communities and providing access to services for consumers who do not have alternative options. While the traditional mails business will continue to diminish in significance, new opportunities will be created by these changes that will enable the Network to adapt its services to deliver new value in achieving its commercial and community objectives.

An Post's delivery Network represents an important part of the national infrastructure that enables Irish businesses to export into international markets and grow e-commerce trade in the future, thereby supporting economic growth and job creation across the nation. The e-commerce industry in Ireland has more than doubled in value since 2010. It is forecasted that the Irish e-commerce industry will grow at a compound annual growth rate of 11.2% over the next five years. An Post will need to leverage its Network in the face of increasing competition in the parcel sector if it is to successfully diversify its revenue beyond its traditional services.

Challenges faced by the Post Office Network



**500,000
PEOPLE**

**DEMAND
GOVERNMENT
TO SUPPORT
& SECURE
THEIR
POST
OFFICES**

SWOT analysis

Strengths

An Post is one of the largest retail enterprises in Ireland in terms of branches, turnover and number of employees. It has several strengths that are difficult to replicate, which include;

- A household name with positive customer perception;
- Proven track record of service delivery;
- Loyal customer base;
- Community and social centre;
- Local knowledge and customer knowledge;
- Social welfare fraud deterrent - face to face contact;
- High level of customer satisfaction;
- Strong distribution Network of 944 branches (45 Company Post Offices). An Post has built a reliable distribution Network. There are high barriers to entry for any new entrants to replicate;
- The geography and location of An Post branches provide it with a cost advantage in serving its customers, when compared to that with the competition; and
- An Post has invested in the training of its employees that has resulted in it employing a large number of skilled and motivated employees.

Weaknesses

One of the challenges facing An Post is maintaining its universal service obligations when its core services are in decline and parts of the Network are increasingly financially unviable. Weaknesses include;

- The structural decline in letter-post volumes;
- Growing digitalization and e-substitution;
- Dependence on social welfare contract;
- Structure – the inherent difficulty of independent entities following aligned strategy;
- New entrants in the parcel segment;
- Needs more investment in new technologies; and
- Reliance on third-parties for financial products.

Opportunities

An Post has sought to increase the number of services provided by its retail partners. The continued development of An Post's services represents a huge opportunity to cross sell to customers, particularly in the area of financial services. An Post already provides a number of insurance, banking, foreign exchange, payment and cash lodging facilities. At a time in which the banking industry is consolidating and reducing the number of bank branches, An Post can leverage its relationships with customers and the existing footfall to offer a comprehensive service offering through the Postal Network.

- Assuming responsibility for additional Government services;
- Capability and infrastructure - ability to extend business;
- Available capacity to grow service offerings for public and private sector organisations;
- Banks and other commercial service providers are facing cost pressures and branch closures and seeking alternative solutions;
- E-commerce parcel growth; and
- Capture new customers and increase its market share through to provision of complementary services and products.

Threats

From our analysis of potential threats it's clear that there are a number areas of potential challenges for the Postal Industry that will have significant implications for the Post Office Network sustainability into the future.

- Deregulation and increased competition from international postal operators;
- Shrinking mail volumes and potential further consolidation of mails delivery points operated by Postmasters resulting in falling postal revenues;
- Weak economy and decreasing disposal income;
- Loss/reduction in value of Government contracts e.g. social welfare payments;
- Lack of overarching Government strategy for the future of the Network;
- Substitutes (email, online banking, paying bills online);
- High dependence on external decisions (Government, An Post);
- New products and services have not had sufficient impact in generating additional revenue for Postmasters;
- Political reluctance to allow An Post compete with Pillar banks and credit unions; and
- Technological developments by competitors within the industry.

Falling revenue

Even prior to the COVID-19 epidemic, the Post Office Network was facing a challenging environment. The Postal Sector has faced declining revenues from the traditional mails business over a long period of time.

An Post faced with falling mail revenues has sought to diversify the Network's revenue streams through a range of measures many of which have been recommendations from previous reports considering the future of the Post Office Network. These have included the provision of foreign exchange (FX) services, credit cards, retail products and various 'white label' offerings to customers.

While some success has been achieved in this area most noticeably in the provision of additional financial services which has seen significant growth in revenues, the majority of these new service gains have been targeted at online users and have so far provided little additional revenue to Postmasters.

Reliance on Social Welfare Contract

As a result, the delivery of social welfare payments on behalf of the DSP remains the major source of revenue for Postmasters, the loss of which would strongly undermine the sustainability of the Post Office Network. The Post Office Network handled over 45 million government service transactions in 2018 with over two-thirds of these being social welfare transactions providing cash in the order of €4.6 billion to recipients. When combined with the NTMA State Savings contract and Billpay, these three services account for over 50% of total revenue for Postmasters.

The Post Office Network has long been dependent on these services and they remain critical to the sustainability of the Network as other revenue sources have fallen. However, government efforts to seek cost reductions and the increased drive towards an 'online first' approach coupled with the greater demand for electronic payments rather than cash has and is likely to continue to further undermine this essential revenue stream. If Ireland follows the UK model where welfare services were withdrawn from the post office this would see further contraction of these revenues which would have a detrimental impact on the viability of many post offices across Ireland.

It is worth noting that in the UK, an annual subsidy or PSO was introduced to ensure the retention of what were categorised as community and outreach post offices, those who had a significant social value but a limited commercial value.

Retail Challenges

As the Network tries to transition away from traditional revenue streams towards retail products and services it will increasingly face challenges similar to those impacting existing retail businesses. Increasing levels of online purchasing, often from international or overseas based businesses with no physical presence in Ireland, remains one of the largest threats to traditional retail. Remaining competitive against companies that benefit from a reduced cost base and far greater economies of scale is a major challenge for most retailers.

It is unlikely that the post office would become the first stop for most consumers looking to purchase a specific product, instead it is more likely that there will be a reliance on purchases of additional products made while attending a post office for an alternative service. This relies on sufficient footfall to generate revenue which in turn requires the post office to be well located in a busy area. This is not the case for many post offices and seemingly irreversible trends such as increased out of town shopping and online shopping even for things such as groceries further limits the potential growth in these areas.

Rising costs

As well as falling revenues, many post offices are facing significant pressures and challenges from rising costs over the past several years.

The 2018 'Cost of Doing Business' report compiled by the Oireachtas Business Committee found that Irish businesses are facing increasing costs ranging from rents, commercial rates in addition to increasing labour costs while insurance costs were the fastest growing cost base for retailers. Small independent businesses like post offices are most affected by these changes and remaining viable with a growing cost base can be extremely difficult.

An Post has made strong efforts to reduce its cost base through restructuring the organisation, while the government invested €30 million into the company to safeguard its five days a week mail delivery and collection as well as enhancing other post office services. The Network as a whole has taken steps to rationalise its costs in order to become more competitive but to date this has been insufficient to restore profitability for many Postmasters operating post offices.

Labour

The cost of labour is the single biggest cost factor for many businesses. While Ireland has a high minimum wage compared to other EU countries, this is largely offset by lower employer social contributions, with Ireland's hourly labour cost in line with similar EU countries. The National Competitiveness Council in its submission to the Oireachtas committee on budgetary oversight in 2019, stated that wage costs were now rising four times faster than the rate of inflation and in certain sectors were out of line with the UK and other peer countries. The unemployment rate, which peaked at 16% in 2012, fell to 5% in 2019. This has made the job market increasingly competitive with average annual earnings for full-time employees in 2018 at €47,596 (up 2.6% on 2017) while the average for part-time employees were €17,651 (an increase of 3.5%) according to CSO figures.

Rents and Rates

A 2017 report from Retail Excellence Ireland, '*Tackling the rates burden*' highlighted that there has been a 10% growth in business rate contributions to local government since 2010. This has placed a great strain on retailers already operating within very tight margins and presents a significant challenge to small independent retailers such as post offices. Unlike other core essential services to the public such as schools, libraries, Garda stations and TD constituency offices, post offices are not exempt from rates. This is also different to Northern Ireland where small post offices in disadvantaged areas are provided with exemptions from rates.

One reason for the increase is that rates are typically tied to rents which have steadily increased as Ireland has recovered from the economic downturn. While increased rents have directly led to increased rates there is a more mixed picture across the country. In Dublin, Cork and Galway, commercial rents continued to rise as a shortage of suitable property resulted in a squeeze of supply but in other parts of the country e.g. Sligo commercial vacancy rates are far higher.

Insurance

The issue of insurance has been extremely challenging for the retail sector. Retail Excellence Ireland highlighted that retail businesses are particularly exposed to excessive and false claims and insurance is amongst the biggest concerns of its members. Some key findings from its survey of its retail members were:

- liability insurance has risen by 204% over the last five years with the retail industry's premiums rising by 212% over the same time;
- 63% of respondents have been hit with increased excesses or new exclusions to their policy; and
- 49% of respondents say rising insurance costs are threatening the future of the organisation.

The Alliance for Insurance Reform found one-fifth of its survey respondents had seen premiums rise by over 70% while almost half experienced rises of more than 30%. 45% of its members viewed the cost of insurance as a threat to their business. RGDATA, the representative association for over 4,000 independent family-owned grocery shops, convenience stores and forecourt stores surveyed its members on the cost of insurance and found that its members experienced between 30-70% increases in their premiums over the past three years.

Challenges faced by the Post Office Network

Financial impacts of COVID-19

The Post Office Network is far from alone in experiencing significant negative financial impacts from the global COVID-19 pandemic that is still preventing a return to normal lives and business conditions. As a business that relies on customer footfall the lockdown measures taken to limit the spread of the virus will have had a devastating effect on the Network's number of customers. While the Network was designated as a key service during the crisis it did not benefit from any Government supports which will inevitably result in potentially unwearable financial losses in the short-term.

However, perhaps of more concern are the medium to long-term effects of the crisis.

Medium to long-term effects

While measures have been taken to ease lockdown and move towards a return to normality there is still a long way to go. Concerns over:

- public safety;
- restrictions on movement;
- the need for social distancing;
- increased preference for card payments and particularly contactless payments at the expense of cash;
- increased levels of working from home; and
- realisation for all demographic cohorts, even those less technological adapted, that it is possible to purchase online and receive a far wider spread of goods and services whether it be financial products or groceries.

will have lasting impacts on society and will significantly change what we perceive as normality.

While it is not possible to know for certain the extent of the impact of these they provide further uncertainty for the Network as it looks to transition to a more sustainable model.

Challenges of implementing a coherent strategy

Over recent years there have been a number of previous attempts to review the state of the Post Office Network and identify recommendations that can ensure its survival as a financially sustainable and valued contributor to Irish society.

Each of these have highlighted the same challenges, indeed Grant Thornton's previous reports in 2012 and 2013 identified many risks and threats that have either formalised over the intervening years or continue to present a significant risk to the Network.

Equally, many of the recommendations that have emerged from these reports including Grant Thornton's own have been consistent over the years with each seeing varying degrees of progress made and success achieved.

The challenges and recommendations of this report do not vary dramatically from these previous reports and no doubt further reports will identify the same.

The challenge is not in identifying these issues or in recommending appropriate measures to take, the challenge is in enacting and implementing a strategy which is coherent and acceptable to all stakeholders.

The fragmented independent nature of Postmasters within the Post Office Network makes this challenging, however, the greater need is for government to establish a strategy which considers the short, medium and long-term role of the Post Office Network, if it is to have one. Efforts to date have been limited and ineffective.

If the Network is to survive and thrive then a conversation must take place and a strategic roadmap set out for the future direction of travel. To date, this has not been achieved.

Understanding the financial position of the Post Office Network



Our approach

The approach taken to determine the preliminary figures has been laid out into the following step by step process.

Step 1: Revenue

- Matched transactions with revenue by comparing transactions for 2019 with remuneration levels set out in the contract.
- Calculated variable revenue by applying remuneration levels
- Topped up revenue by fixed fee according to contract terms

Step 2: Wages

- Determined opening hours in a year for post offices.
- Matched transactions with standard minute values to calculate the amount of staff required to service clients, which was adjusted for efficiency.
- Applied a fixed time per day for staff to carry out non-client facing activities (such as opening the post office and bookkeeping).
- Should the required staff hours be less than the minimum opening hours, this was adjusted to the minimum.
- Two wage rates were considered: a living wage for general employees and a management wage for managerial staff.

Step 3: Rent

- The size of the post office was determined based on their total revenue, categorised into Micro, Small, Medium, and Large.
- The rental cost was applied based on the footprint of the post office, considering the region and the type of settlement area.
- Standard rates per sq. ft. were applied.

Step 4: Overheads

- Overheads were determined by a standard rate across all post offices, based on variable revenue.

Step 5: Return

- A reasonable rate of return on investment was included as a standard rate across all post offices, based on the total cost

Step 6: Balance

- This was taken to be revenue less wages, rent and other overheads.

Step 7: Outputs

- The number of post offices at risk of closure was taken to be the number of post offices with expenses exceeding revenues.
- The gap identified has been taken to be the total shortfall, ie the aggregation of negative balances.

Post offices considered

Our analysis is based on individual anonymised post offices. We were provided information for 944 post offices of which 899 post offices are analysed in the model i.e. it excludes the 45 which are An Post operated (Company) rather than Postmaster operated.

A detailed breakdown of the post office categories provided in the below table.

Post office categories under observation

Category	# offices
Type of post office	
Co Located	255
PM Co Located	250
Stand Alone	385
Company	45
No Details	9
	944
Settlement description	
No Details	4
No Settlement	190
Settlement	496
Town Sub	19
Large Towns	42
City	193
	944
Size of post office	
Micro	360
Small	200
Medium	117
Large	267
	944

Source: 1. 2019 Transaction, provided by An Post; 2. Grant Thornton analysis

Revenue assumptions

Category	Assumption	Source
Revenue	Revenue for post offices is based on <ul style="list-style-type: none"> • Variable revenue (described below); and • Fixed revenue (described below). 	<ul style="list-style-type: none"> • post offices transaction 2019, provided by An Post. • Sample contract between Postmaster and An Post, provided by IPU.
Variable revenue	Revenue for post offices are remunerated on: <ul style="list-style-type: none"> • a per transaction basis; and • a value of transaction basis. The following services, which had an immaterial value/volume, have been ignored: <ul style="list-style-type: none"> • Elf Packs • Prepaid Boxes / packs sold • Investment services Repayments • Postshop Greeting Cards • Garda Age Card • Other Post Mobile Fees • Wild Atlantic Way • Mails Data Recording (DSO only) • Advantage Card • ExamPost. 	<ul style="list-style-type: none"> • post offices transaction 2019, provided by An Post. • Sample contract between Postmaster and An Post, provided by IPU. • Discussions with An Post.
Fixed revenue	A flat rate is paid to Postmasters depending on their band of variable revenue, as per below. <ul style="list-style-type: none"> • Band 1: Variable revenue less than €25,000 per annum – Fixed revenue of €10,000. • Band 2: Variable revenue between €25,000 and €50,000 per annum – Fixed revenue of €7,500. • Band 3: Variable revenue between €50,000 and €75,000 per annum – Fixed revenue of €5,000. • Band 4: Variable revenue over €75,000 per annum – Fixed revenue of €2,000. 	<ul style="list-style-type: none"> • post offices transaction 2019, provided by An Post. • Sample contract between Postmaster and An Post, provided by IPU.

Categorisation assumptions

Category	Assumption	Source
Size of operation	<p>Size of operation has been categorised based on the total revenue per post office, that is variable and fixed revenue, as follows:</p> <ul style="list-style-type: none"> • Micro: Revenue less than, or equal to €35,000 per annum. • Small: Revenue more than €35,000 and less than, or equal to €57,500 per annum. • Medium: Revenue more than €57,500 and less than, or equal to €80,000 per annum. • Large: Revenue more than €80,000 per annum. 	<ul style="list-style-type: none"> • Provided by IPU.
Size of post office	<p>Size of post office has been categorised based on the size of operation (above).</p> <ul style="list-style-type: none"> • Micro – 250 sq. ft (or 23.23 sq. m); • Small – 400 sq. ft (or 37.16 sq. m); • Medium – 600 sq. ft (or 55.74 sq. m); and • Large – 800 sq. ft (or 74.32 sq. m). 	<ul style="list-style-type: none"> • Provided by IPU.
Settlement information	<p>Type of settlement in which the post office operates has been split into the following categories:</p> <ul style="list-style-type: none"> • No Details; • No Settlement (Highly rural/remote areas); • Settlement (Rural areas with moderate urban influence); • Town Sub (Rural areas with high urban influence); • Large Towns (Satellite urban towns); and • City (Cities). <p>An exact definition has not been provided on the difference between these categories.</p>	<ul style="list-style-type: none"> • Provided by An Post. • Grant Thornton analysis.
Region of post office	<p>Region of post office has been assigned according to the county of the post office. Regions have been split as follows:</p> <ul style="list-style-type: none"> • Connacht/Ulster • Dublin • Rest of Leinster • Munster • No details 	<ul style="list-style-type: none"> • Regional information for the Republic of Ireland.
Type of post office	<p>post offices were split into the type of post office, categorisation being:</p> <ul style="list-style-type: none"> • Co Located – where the post office has been co located with another business which is not operated by the Postmaster. • PM Co Located – where the post office has been co located with another business that is operated by the Postmaster. • Stand Alone – where the post office has not been co located. • Company – An post offices. • No Details – No details provided. 	<ul style="list-style-type: none"> • Provided by An Post.

Cost assumptions

Category	Assumption	Source
Total costs	Total costs have been simplified into four categories: <ul style="list-style-type: none">• Wage costs (described on the next page);• Rental costs (described below);• Overheads (described below); and• Return on investment (described below).	Grant Thornton analysis, benchmarked against a selection of information provided by post offices
Wage costs	Inputs which determined the cost allocated for wages have been described further on page 36. Note – the analysis does not consider the level of involvement of the individual Postmaster e.g. are they active in the post office or from a manager/owner level	Grant Thornton analysis, benchmarked against a selection of information provided by post offices
Rental cost	Rental cost has been estimated based on the region, settlement type and size of the post office. The inputs used to determine rental prices has been described further on page 38. Note that rental costs have been allocated to all post offices irrespective of whether the premises are owned or rented as this information was not available and so the rental cost is applied and considered as the opportunity cost of rent foregone where the premises are owned.	Grant Thornton analysis, benchmarked against a selection of information provided by post offices
Overheads	Overheads have been assumed to cover all other costs not covered by wages or rent. This is assumed to amount to 20% of total revenue.	Grant Thornton analysis, benchmarked against a selection of information provided by post offices
Return on investment	A reasonable rate of return on investment was assumed to be 5% of total cost.	Grant Thornton analysis, benchmarked against a selection of information provided by post offices

Wage assumptions

Category	Assumption	Source
Wage calculations	<p>Employees are assumed to earn living wage, that is €12.30 per hour, that is €479.70 per week, or €25,013 per year. Applying an 11.05% PRSI contribution would require an additional cost of €2,764 per year in PRSI with total wage cost amounting to €27,777 per year per FTE.</p> <p>Each post office is assumed to have an individual employed at the the hours set out in the 'Manager Requirement' section below at a managerial level typically the Postmaster, with all other staff required employed at average wage levels described above (€16.52 per hour). The managerial FTE is assumed to be remunerated at an appropriate level estimated to be €23.68 per hour, that is €923.52 per week, or €48,155 per year. Applying an 11.05% PRSI contribution would require an additional cost for management of €5,321 per year in PRSI with total wage cost amounting to €53,476 per year.</p>	<ul style="list-style-type: none"> • Minimum wage taken to be national minimum wage for 2019. • Staff other than management taken to be living wage, living wage set at the 2019 Living wage set by the Living wage technical group. • Management taken to be average hourly regular working for 'Public administration and defence; compulsory social security'
Opening hours and days of a post office	<p>Days open taken to be 5 ½ days a week, open for the full year less 9 public holidays. This amounts to 304 days open a year. Considering post offices must remain open for 46 ½ hours during a normal 5 ½ day week, this amounts to 2,532 hours a year.</p>	<ul style="list-style-type: none"> • Provided by IPU
Working hours per FTE	<p>One FTE is assumed to be employed for a full year, working 5 ½ days a week and 39 hours per week. Each FTE is entitled to the following:</p> <ul style="list-style-type: none"> • 9 days public holidays • 21 days annual leave <p>Therefore total hours worked per FTE would amount to 1,839 hours per year. Remuneration is based on 2,034 hours per annum.</p>	<ul style="list-style-type: none"> • Provided by IPU.
Minimum labour resources	<p>The post office must have a minimum of one person during opening hours. Therefore there is a minimum labour resource requirement of 1.28 FTE based on the number of</p>	<ul style="list-style-type: none"> • Grant Thornton analysis.
Manager requirement	<p>It is assumed that a manager will be present</p> <ul style="list-style-type: none"> • Micro – 6 hours a week; • Small – 12 hours a week; • Medium – 23 hours a week; and • Large – 46 ½ hours a week. 	<ul style="list-style-type: none"> • Provided by IPU and An Post.

Wage assumptions

Category	Assumption	Source
Additional labour resources	<p>On top of the minimum labour resources, an additional labour resource was added by calculating the active labour hours required to be able to cover the post office's level of transactions. This considers:</p> <ul style="list-style-type: none"> • Fixed time required per day (described below; and • Variable time required (described below). <p>Additional labour resource requirement considered any increase in labour requirement over and above the minimum labour requirement to carry out those tasks.</p>	<ul style="list-style-type: none"> • Grant Thornton analysis.
Fixed time required	<p>A flat amount of time has been allocated per day to carry out non-client facing activities, such as opening and closing the post office and basic bookkeeping. This is assumed to be:</p> <ul style="list-style-type: none"> • Micro – 15 minutes a day; • Small – 30 minutes a day; • Medium – an hour a day; and • Large – an hour a day. 	<ul style="list-style-type: none"> • Provided by IPU and An Post.
Variable required	<p>The volume of work derives from services which are remunerated on:</p> <ul style="list-style-type: none"> • a per transaction basis; and • a value of transaction basis. <p>The model therefore calculated the time required by taking the specific transaction type and applying the standard minutes required to complete the transaction based on available information on expected time requirements.</p> <p>Transaction basis For services which are remunerated on a per transaction basis the model applied the standard minutes per transaction.</p> <p>Value basis For services which are remunerated on a value basis (ie based on the value of the product – typically a % of the value), and where the value was available this was translated into a time per transaction based on an average transaction value.</p> <ul style="list-style-type: none"> • Peel & Stick Stamps – €1.507197643 per transaction; • Stamp Booklets – €10.85807293 per transaction; and • Xmas booklets – €12.48289461 per transaction. <p>For all other services remunerated on a value basis, where the average transaction value was not available, a conservative estimate for the standard minutes required was derived considering other available information.</p>	<ul style="list-style-type: none"> • An Post Study Programme, September 2017. • Provided by An Post.

Rent assumptions

Category	Assumption	Source
Settlement type comparison	<ul style="list-style-type: none"> Rental values for Prime 3rd Generation properties were assigned to post offices with settlement type of City Rental values for Peripheral 3rd Generation properties were assigned to post offices with settlement type of Large Towns Rental values for Older Central Offices properties were assigned to post offices with settlement type of Town Sub Rental values for Georgian Offices properties were assigned to post offices with settlement type of Settlement Rental values for post offices with settlement type of 'No Settlement' and 'No details' were assumed to have rental prices half that of Settlement 	<ul style="list-style-type: none"> Grant Thornton analysis.
Rent in Connacht/Ulster region	<p>Rental cost for the Connacht and Ulster region are assumed to be as follows:</p> <ul style="list-style-type: none"> City – €130/sq. m/annum Large Towns – €118/sq. m/annum Town Sub – €106/sq. m/annum Settlement – €85/sq. m/annum No Settlement – €43/sq. m/annum No details – €43/sq. m/annum 	<ul style="list-style-type: none"> Society for chartered surveyors Ireland, Annual Commercial Property Review & Outlook 2018
Rent in Dublin region	<p>Rental cost for the Dublin region are assumed to be as follows:</p> <ul style="list-style-type: none"> City – €500/sq. m/annum Large Towns – €260/sq. m/annum Town Sub – €400/sq. m/annum Settlement – €375/sq. m/annum No Settlement – €188/sq. m/annum No details – €188/sq. m/annum 	<ul style="list-style-type: none"> Society for chartered surveyors Ireland, Annual Commercial Property Review & Outlook 2018
Rent in Rest of Leinster region	<p>Rental cost for the Rest of Leinster region are assumed to be as follows:</p> <ul style="list-style-type: none"> City – €200/sq. m/annum Large Towns – €160/sq. m/annum Town Sub – €115/sq. m/annum Settlement – €100/sq. m/annum No Settlement – €50/sq. m/annum No details – €50/sq. m/annum 	<ul style="list-style-type: none"> Society for chartered surveyors Ireland, Annual Commercial Property Review & Outlook 2018
Rent in Munster region	<p>Rental cost for the Munster region are assumed to be as follows:</p> <ul style="list-style-type: none"> City – €130/sq. m/annum Large Towns – €120/sq. m/annum Town Sub – €100/sq. m/annum Settlement – €87/sq. m/annum No Settlement – €44/sq. m/annum No details – €44/sq. m/annum 	<ul style="list-style-type: none"> Society for chartered surveyors Ireland, Annual Commercial Property Review & Outlook 2018
Rent where no details are available	<p>In the cases where no details on region were available, the minimum estimated value available from the other regions was used.</p>	<ul style="list-style-type: none"> Grant Thornton analysis.

Wage assumptions

Living vs Minimum Wage

In developing the financial analysis that underpins this report a conscious choice was made to model the impacts on a Living Wage as compared to a Minimum Wage.

Living Wage is based on the concept that work should provide an adequate income to enable individuals to afford a socially acceptable minimum standard of living.

- It is calculated based on the Minimum Essential Standard of Living (MESL) research in Ireland, conducted by the Vincentian Partnership for Social Justice (VPSJ).
- The MESL data uniquely provides an evidence-based measure for assessing the minimum income need of households in Ireland.
- The 'Living Wage' is the average gross salary needed for a single person to afford a minimum standard of living.
- Counts the actual average weekly cost of the 2,000+ essential goods and services.

The annual update for the living wage has been suspended for 2020, but the figure was calculated at €12.30 an hour in 2019. By comparison, the national minimum wage set by the Government and provided to 137,000 workers in the State is €9.80 – a difference of €2.50 per hour. The low pay commission recommended an increase in this amount to €10.10 per hour, however, in light of Brexit this measure was deferred due to economic uncertainty.

Proponents of the living wage movement argue that this gap must be funded by other means if not by the employer. The difference is subsidised one of three ways:

- by the State through social welfare payments such as the Family Income Supplement;
- by the family of the worker, such as the parents of the 460,000 adult children who live at in the family home as the accommodation is prohibitively expensive; or
- through diminished living conditions for the worker.

Unlike the National Minimum Wage, the Living Wage is an evidence-based rate of pay which is grounded in social consensus. It is derived from Consensual Budget Standards research, which establishes the cost of a Minimum Essential Standard of Living in Ireland today. While the recommendation is not legally binding, it is becoming increasingly popular amongst many businesses and organisations.

This is particularly important as there is evidence to suggest that Postmasters are receiving (as an independent self-employee they do not receive a fixed salary) what amounts to less than the minimum wage.

A 2019 UK survey of Postmasters carried out by the National Federation of Sub Postmasters of 1,000 of its 8,000 members who run 98% of the franchised post offices in the UK found that 76% of sub-Postmasters worked for less than the minimum hourly wage. Earnings below the living wage suggest employees are forced to do without goods and services that could be considered essential.

Given the important role that Postmasters play in Irish society and the retention, succession and attraction challenges faced by the industry for Postmasters as well as the wider benefits of moving to a Living Wage model this report adopted the living wage as the base minimum for Postal workers in our economic model.

Minimum Wage

Living Wage

A rate which is set by policy makers	A rate which is based on evidence and research
Is arbitrarily determined, and does not reflect the cost of a standard of living	Benchmarked against the cost of minimum standard of living
Does not change as living costs change	Updated each year to reflect changes in the cost of a Minimum Essential Standard of Living

Sample profit and loss accounts

Using the assumptions set out on Pages 32-39, we can determine what a typical post office's profit and loss account would look like. The below table shows an average profit and loss for post office split by size according to revenue using 2019 transaction data and prices. The table does not include any of the An Post financial supports, agreed under the 2018 IPU/An Post Agreement and which are due to cease at the end of June 2021.

In the below, it is clear that in the case of micro post offices, revenue levels are insufficient to cover even the estimated wage requirement. Without being able to cover their short-term costs, post office closures would be inevitable.

In the cases of all other size categories, post offices are unable to generate income which is sufficient to cover their full estimated cost base of wage, rent and overhead costs. Without being able to cover the post office's medium-term costs, post office closures will be expected in the medium-term.

If we assume that either post offices are businesses run to maximise economic profit by a rational owner, or that those owners cannot sustain ongoing losses no matter how altruistic then a significant proportion of post offices in all post office categories are considered to be at risk of closure within the short to medium-term whether micro or large, rural or urban.

Proforma profit and loss for post offices using 2019 transaction levels

	Micro	Small	Medium	Large
Revenue	24,526	46,096	68,930	121,163
Costs				
Wages	(39,531)	(43,485)	(53,996)	(96,344)
Rent	(1,715)	(4,657)	(12,024)	(17,902)
Overheads	(2,934)	(7,764)	(12,889)	(23,833)
Required rate of return	(2,209)	(2,795)	(3,945)	(6,904)
Total costs	(46,389)	(58,702)	(82,853)	(144,982)
Profit/(Loss)	(21,863)	(12,606)	(13,924)	(23,819)
Total companies under observation	360	200	117	222
Number of companies at risk of closure	360	200	117	208
Total shortfall using average profit and loss	(7,870,620)	(2,521,155)	(1,629,067)	(4,954,394)

Revenue

The table shows the breakdown of revenue streams for Postmasters. As highlighted, post offices are highly reliant on Department of Employment Affairs and Social Protection contracts which constitute over 30% of total revenue. Without the continuation of this contract beyond its current 2021 or even an extension at a lesser value would quickly result in post offices becoming unviable.

The traditional mail business that the general public would think of first when they consider the role and activities of post offices provides just 17.3% of revenue. However, this figure has been steadily declining over a number of years with little potential for a future recovery.

Other services such as Billpay and the NTMA State Savings contracts are also essential in providing revenue to post offices.

Fixed revenue represents a fixed payment in the order of €6 million per annum agreed with An Post and distributed to post offices according to current revenue levels to support smaller Postmasters to remain in operation

Revenue by service categories

	Proportion of variable revenue	Proportion of total revenue
Mails	19.5%	17.3%
DSP	33.8%	30.0%
Billpay	12.4%	11.0%
State Savings	13.5%	11.9%
TV Licence	2.7%	2.4%
Money Transmission	1.4%	1.3%
Foreign Exchange	3.0%	2.7%
Western Union	1.4%	1.3%
Banking	5.1%	4.6%
Other Misc	4.2%	3.7%
Mobile Topup	0.4%	0.4%
Post Mobile	0.2%	0.2%
SMART Account	0.5%	0.4%
Lottery	1.5%	1.3%
Passports	0.4%	0.3%
Fixed revenue	n/a	11.3%

Source: 1. 2019 Transaction, provided by An Post; 2. Remuneration rates provided by IPU; 3. Discussions with An Post and IPU; and 4. Grant Thornton analysis

Total post offices at risk of closure

The table shows the total number of post offices at risk of closure given the assumptions set out on the previous pages if no action is taken. This is not to say that this number of post offices are expected or even likely to close in the short to medium-term. Instead, it is representative of the scale of the challenge faced by the Post Office Network in terms of its viability and sustainability. The analysis demonstrates the number of Postmasters who, when the additional financial supports from An Post cease, will face the challenge of operating a post office despite they and their employees not receiving a living wage and despite them receiving no return on their investment.

The closure levels are shown as a total, as well as split into the different post office categories, ie by type, settlement and size. It is important to note that this model is a snapshot of an estimated financial position as of 2019. This is calculated without the financial supports that were paid in that year as these are being phased out by June 2021. The additional financial supports agreed with An Post were to ensure that Postmasters' incomes would not fall below that which would have been received under the 'old contract' for a two-year transformation period. During this period it was envisaged that recommendations from previous reports including the development of 'new' services delivering additional revenue streams for Postmasters would be progressed, however, where such services have been introduced these have to date proven to be insufficient to make up this shortfall.

The impact of these considerations, either combined or individually would undoubtedly result in unrestrained closures of not just small post offices in rural areas which are typically the least commercially viable and the most impacted but of even medium and large scale post offices in urban large towns and cities.

Post offices at risk of closure

# of offices	
Total at risk of closure	885
Type of post office	
Co Located	254
PM Co Located	250
Stand Alone	374
Company	-
No Details	7
Total	885
Settlement description	
No Details	4
No Settlement	189
Settlement	480
Town Sub	19
Large Towns	13
City	180
Total	885
Size of post office	
Micro	360
Small	200
Medium	117
Large	208
Total	885

Source: 1. 2019 Transaction, provided by An Post; 2. Remuneration rates provided by IPU; 3. Discussions with An Post and IPU; and 4. Grant Thornton analysis

Approaches to dealing with these financial challenges



Approaches to dealing with these financial challenges

Over recent years there have been a number of reports and reviews of the Post Office Network in Ireland with a view to enhancing its business model to better reflect the changing needs of society to ensure its sustainability. These have included:

- A New Vision for post office Services in Ireland;
- McKinsey Report;
- Post Office Network Business Development Group (Kerr Report); and
- Grant Thornton Reports etc.

While each of these reports have highlighted a series of recommendations with significant overlap across reports, many of these continue to await significant progress or show sufficient levels of success in terms of developing additional new revenue streams for Postmasters to overcome the financial challenges faced.

These recommendations have also helped form the strategy of An Post with regards its retail services.

An Post's strategy for new products and services is based on its three-pillar approach.

- out-of-home e-commerce backbone;
- government services; and
- financial services.

Financial services is a growing area for An Post with services including foreign exchange, bill payments, banking and western union services becoming important new revenue streams. While significant potential may exist in areas such as smart current accounts, currency cards, insurance, credit facilities and other banking services, it is questionable as to how much of this revenue will find its way to Postmasters due to the online nature of many of these transactions.

This section details some of these reports' previous recommendations.

Basic Payment Account

The 2018 Kerr Report recommended that the Government and An Post agree on a business model that would facilitate the introduction of payment accounts for social protection recipients and other potential users. The introduction of such an account facility was viewed as critical to the Post Office Network as it would strongly incentivise users to transact in post offices.

This would represent a new revenue stream for the Post Office Network and would likely lead to increased customer footfall and encourage these users to make use of other service offerings.

The features of such accounts were to include:

- debit card;
- full access to ATM and point of sale worldwide;
- standing orders and direct debits;
- jam jars to facilitate budgeting; and
- internet, phone and app-based banking.

Such a service offering represents a growth opportunity for the Post Office Network, as it can take advantage of the contraction that has occurred in the Irish Banking sector. Many financial institutions are retrenching their retail footprint by closing hundreds of branches nationally.

While the UK banking sector has been very aggressive in its approach to branch closures, Ireland has not yet experienced the same level of closures. For example, HSBC has cut the number of bank branches in the UK by 40% as its customers switched to online and mobile banking. Lloyds and TSB branches in the UK have made similar reductions. A Financial Services Union survey in Ireland found that 129 bank branches in Ireland were shut in the past seven years.

Bank of Ireland is the largest retail bank Network in Ireland with 250 branches. As many branches have consolidated or transitioned to a self-service model, the post office is often the last remaining entity for face to face financial services in many urban and rural communities. With a branch Network exponentially larger than the biggest Irish retail bank these changes present an opportunity for An Post to become a key provider of banking services, particularly in rural communities.

The launch of the An Post Money brand brought the organisation's financial services under one umbrella, better allowing An Post to compete strongly in the financial services space. Financial services are a crucial new business area for An Post, accounting for a significant proportion of growth in business revenue earned by the company and transaction earnings of Postmasters, according to The Post Office Network Business Development Group report (2016). The biggest opportunity for An Post going forward is in the provision of an extended suite of banking/financial services. To date, the focus has been on providing services such as An Post's Foreign Exchange and Current Account, which has achieved significant year-on-year growth. Three new products were launched in early 2019 include;

- An Post Multi-Currency card;
- Credit Cards; and
- Consumer Loans.

Approaches to dealing with these financial challenges

Credit Union type credit facilities

The Kerr Report recommended the Post Office Network explore the potential for cooperation with credit unions through developing some form of representative organisation to establish how such cooperation would work. The Joint Report into community banking by the Citizens Information Board has concluded that there is no impediment to organisations such as Irish Rural Link engaging with the Central Bank, the credit union sector, An Post or any other private sector body in developing additional financial services without state funding.

There is significant potential for An Post to support SMEs in ways that conventional banks or other lending institutions do not. The funds that community banks lend to borrowers are typically gathered by the local community itself and the community has more control over its operations and lending priorities. Community banks also tend to cater to the financial needs of all members of a community. Increased cooperation with credit unions and the development of community financed credit represents an enormous untapped potential for An Post. An Post has several traits that place it in a strong position to develop this service line, including;

- a large distribution network;
- a unified structure;
- an established IT infrastructure; and
- experience in working with social welfare recipients.

The credit unions have €11 billion of funds available to lend which could be used to provide credit and develop financial products. An Post and the credit unions provide many complementary and competing service offerings. Given the structural challenges facing the Irish banking sector since the great recession, the potential exists for cooperation to result in a new banking force in Ireland.

There are several challenges that An Post and the Credit Union would need to overcome should such cooperation be pursued. Both organisations would be operating in an increasingly competitive space where even the national pillar banks are under pressure from new digital services. One such competitor is digital bank Revolut which has amassed 1 million customers in Ireland in the past five years. These digital upstarts are well funded and do not have the legacy costs of its competitors.

The challenge for An Post and the Credit Unions would be establishing a digital platform when no universal and coherent platform exists between the organisations. However, both organisation share an ethos in providing an essential service to the communities they serve, where their mission is not driven by a purely commercial focus. In this respect, both would have a common understanding in seeking to provide financial services to the underserved, unbanked urban communities and rural Ireland. The 2015 report emphasised this need, stating;

It is essential that An Post develops an increased capacity in financial services as the main banks are withdrawing from rural Ireland.

“ ”

Approaches to dealing with these financial challenges

A government front-office 'State on your Doorstep'

An Post needs to continue to develop and expand on its product and service offerings in the face of declining mail volumes and lessen its reliance on revenues generated from its social welfare contract. An Post provides a variety of government services, some of which are detailed below.

A key strategy for An Post has been to leverage its expansive Retail Network to act as a front-office for many government departments which are also seeking opportunities to realise expenditure savings and ensure a more sustainable public service. Some of these services are either not appropriate for digitisation or automation as they require identity verification or require an alternative personal engagement to ensure accessibility. Postmasters can check, authenticate and digitise all government applications and then forward them to the relevant government department and provide the universal physical presence across Ireland to maximise accessibility to those that need it.

Significant opportunities exist for An Post to grow these revenue streams as the Network has the capacity, facilities and capabilities to accommodate the provision of further government services and in doing so, can support those services to rural areas of Ireland. While An Post has increased the number of products and services available at its post offices, the revenues from these are low relative to key government contracts.

Motor taxation

Motor tax is an annual duty payable to the Government on motor vehicles that are used in public places. The rate varies as the rates are based on the vehicles Co2 emissions and Engine capacity. Currently, payment of this duty is made through one of three different channels;

- online through www.motortax.ie;
- over the counter at the Motor Tax office of a local authority; or
- via a postal application.

There are currently 42 government front counters available in Ireland for the payment of motor tax, with over €1 billion collected and processed annually. The 2011 Local Government Efficiency review proposed a €10 processing fee for over the counter transactions to reflect the significant administrative costs of manual payments. Despite the availability and growth of online payments, there remains a significant cohort of the population which prefer or require the use of a physical location to make such payments.

Given the scale of the Post Office Network, there is a strong case for An Post to either replace or supplement the over the counter services provided by local authorities.

One of the recommendations arising from Bobby Kerr review was the potential for the provision of motor taxation collection in post offices as a realistic option for increasing the number of Government services that could be offered through the Network. The Post Office Network could easily facilitate motor tax payments while reducing administrative costs associated with the processing of motor tax transactions.

In its spending review, the Local Government Implementation Group has previously highlighted motor tax processing and payment collation as a significant cost and administrative burden. The removal of this task and the associated reduction in staff numbers could represent a significant saving for government expenditure while also delivering a new revenue stream for An Post and the Network, much of which is currently underutilised. In 2012 Grant Thornton placed the potential benefit of assuming this role at €63 million over 5 years. €46 million of this value was attributed to the Government savings and €17 million for An Post. For any such proposal this will have to be re-examined for the current context to ensure that those savings remain relevant and that current levels of service and efficiency are maintained.

Identity/Verification Services

The Kerr Report identified the potential for the provision of identity and verification services in post offices. Such services have been provided by post offices internationally, with Royal Mail previously winning a contract for the provision of such a service through GOV.UK Verify, a secure service that allows individuals to prove who they are online to access popular government services. The post office can also check details against records held by mobile phone providers, credit agencies, HM Passport Office or the Driver and Vehicle Licensing Agency. This information can then be used for accessing universal credit, making tax returns and providing identity confirmation to employers among many other uses.

This process normally takes between 5 and 15 minutes for first-time users. An Post is uniquely positioned to provide such a service as has nationwide coverage, high community trust, and already provides several government services. Identity Verification helps mitigate the risk of fraud as well as assist obliged public and private entities to comply with relevant regulations.

Approaches to dealing with these financial challenges

ATMs

The European ATM Industry is also experiencing challenges as consumers transition away from the use of cash. European operators forecast that 25,000 - 30,000 ATMs across Europe could be removed or start charging customers in the coming years.

There are currently around 3,000 ATMs owned by banks, and another 750 owned by independent providers. However, in January 2020 Bank of Ireland and AIB announced their intention to sell off their Network of ATMs comprising of 700 and 375 respectively.

Ulster Bank previously sold a Network of 400 ATMs to US ATM firm Euronet, which now operates 600 ATMs in Ireland. It is commonplace in mainland Europe for such operators to charge up to 3 euro per withdrawal. This has raised concerns regarding the accessibility of cash and there are concerns that rural areas will suffer the most from this trend.

Consumer groups have highlighted that companies that buy these ATMs independently of banks are likely to impose similar charges in Ireland. These fees would be in addition to the fees imposed by banks for withdrawing cash from an ATM.

External ATM services have been very profitable for Royal Mail while its introduction of 1,500 free external ATMs has also made a considerable contribution to UK Post Offices. The free ATMs led to a significant increase in their usage with some cash machine transactions increasing more than ten-fold.

The introduction of paid or free external ATMs may be an opportunity for An Post to develop an additional income from fees or indirect benefits through increased footfall while also providing valuable and fair access to cash services. The Kerr Report made a recommendation that An Post explores the potential for ATMs on post office premises and whether such a service would be sustainable and profitable for the Irish market.

SME cash services

The Kerr Report recommended that An Post investigate the possibility of providing additional services to SME customers through the Post Office Network. Tax collection is a considerable overhead cost that An Post may be able to minimise through facilitating the early collection of tax liabilities through the bill pay system.

Currently, tax is paid to revenue on an annual basis which results in businesses needing to pay large lump sum tax liabilities that are built up throughout the year. This can lead to cash flow and working capital issues that can undermine the viability of SMEs. The provision of a monthly instalment service by An Post could help businesses to avoid these challenges.

The 2015 Post Office Network Business Development Group recommended that An Post work facilitating social and private enterprises by providing local access to expertise, cash and other services. An Post can try to more actively engage with local organisations to identify what services are being sought that are not adequately provided for by the pillar banks in their communities. The Irish Small and Medium Enterprises Association identified the following as areas which An Post could consider providing:

- a drop and go branch service for parcels – a fast track service for SMEs;
- business banking - including international payments;
- e-commerce solutions for small businesses to trade online;
- business Insurance - self-employed, homeworkers, shopkeepers, property owners, van, office and surgery;
- selling office supplies and equipment;
- click and collect (and returns); and
- facilitation services for local mailings.

Approaches to dealing with these financial challenges

Peace Commissioners

Peace commissioners have been present in communities since the 1920s, having replaced 'Justices of the Peace' in 1922. There are more than 5,000 of them currently active around the country. A Peace Commissioner is a person appointed by the Minister for Justice and Equality to perform certain duties within the communities. It is an honorary position and every single area in the country has people performing these duties.

There are a wide range of duties these commissioners including signing or witnessing signatures on documents by various authorities, like local councils. A Peace Commissioner can also be called on to sign a warrant for Gardaí or a court summons. While the role is currently voluntary and without remuneration, it strongly complements the community role many Postmasters currently play and can contribute to increasing visitation to post offices.

Proposed new services

The 2017 post office Hub Working Group explored other uses for underutilised post offices to either raise additional revenue or deliver increased community benefits. These have included;

- The post office providing a full suite of communications and office services such as PCs, Broadband, Printing/Photocopying, Binding, Laminating, Stationery, PC Supplies and Passport Photo service.
- Providing space available for training courses on PC usage and specific applications (Internet, email, Microsoft Office). The room would be rented to a training provider to generate income for the post office.
- Provide a venue for social meetings, scheduled regularly with a nominal charge for the use of a meeting room. A potential enhancement of this service is the provision of a Coffee Shop facility.
- Provide a venue for scheduled visits by Expert Advisors on various topics to assist with completing Government Forms/Application(e.g. Teagasc etc.).

There has been some progress in recent years in attracting younger users back to the post office through the collection of social welfare benefits and availability of services such as Gift Vouchers, PostMobile, AddressPal, FX, and mobile top-ups.

However, as many of these services are widely available elsewhere, it is an ongoing challenge to retain customers who are unlikely to have the sense of brand loyalty to the post office of older generations.

An Post has been investing in the renovation and modernisation of its stores, products and services. In addition to this, An Post has been trailing a new generation of flagship post offices involving a complete renovation and overhaul of the premises.

The two new concept branches are open plan with a variety of customer service areas including self-service kiosks, ATM units and information points. These stores are designed for ease of use through maximising the use of technology. They also feature some of the first parcel lockers to be introduced in Irish post offices.

- One of the concept stores experienced year on year growth in 6 out of 7 key product groupings after renovation. Outperforming the national trend.
- The second store similarly outperformed the national trend, seeing growth in 5 out of 7 key product groupings. This was achieved despite the second store being less established.
- The less established store experienced 20% Yearly growth in Money In, demonstrating the potential for major uplifts in business when investments are made into the Post Office Network.

Approaches to dealing with these financial challenges

Progress made

Since the publication of the 2015 report into the future of the post office, there has been inconsistent progress made in implementing its recommendations. As a result many of the aforementioned potential product offerings which formed part of the recommendations made in 2015 have not delivered the benefits that were anticipated.

For An Post, the provision of financial services such as FX services, credit cards and other white label offerings has seen the most progress and will be essential to the company's future prospects. However, the benefits of these measures to date have not been of sufficient scale and are largely restricted to An Post and so have not benefited the Network as a whole to the same extent.

The prospect of a community banking system operating out of post offices was ruled out by the then Finance Minister. A contributing factor may have been the weak state of Ireland indigenous banking sector since the economic downturn, which has resulted in the Irish state being a major shareholder in the three biggest Irish banks. The Local Banking in Ireland report found the costs of setting up a banking system in post offices to be prohibitively expensive at €170 million. It also found that such a banking model would overlap with existing services available in banks and credit unions.

With Irish consumers paying above the EU average in interest rates, there remains a strong case for a community banking system to challenge the pillar banks and improve access to credit by SMEs and the unbanked.

Other proposed initiatives such as the provision of further Government services including Driving Licence Front Office, Passport Office, Identification and Verification services and additional DEASP cash services have either failed to materialise or have not progressed sufficiently to the stage that they are generating revenue for the Network with no guarantees that they will do so in the future.

If the fortunes of the Irish Post Office Network is to be turned around, there needs to be a stronger emphasis on imaginative and innovative ways of extending and revitalising the Network and placing it on a more sustainable footing.

Approaches to dealing with these financial challenges

Further consolidation and co-location

Under an agreement approved by the Postmasters Union, certain protocols have been established regarding the consolidation of post offices going forward. These included a voluntary severance package being made available for Postmasters wishing to retire and agreements that no further closures be sought for the duration of the agreement.

In areas where An Post seek to continue the provision of services where a Postmaster has retired, assessments are made according to the following criteria:

- the intentions of the current Postmaster;
- the presence of a customer base and the transaction levels to support the post office;
- the proximity of other post offices;
- the suitability and accessibility of the premises;
- the capacity of other local retailers to provide post office services; and
- whether a suitable appointment can be made in the area.

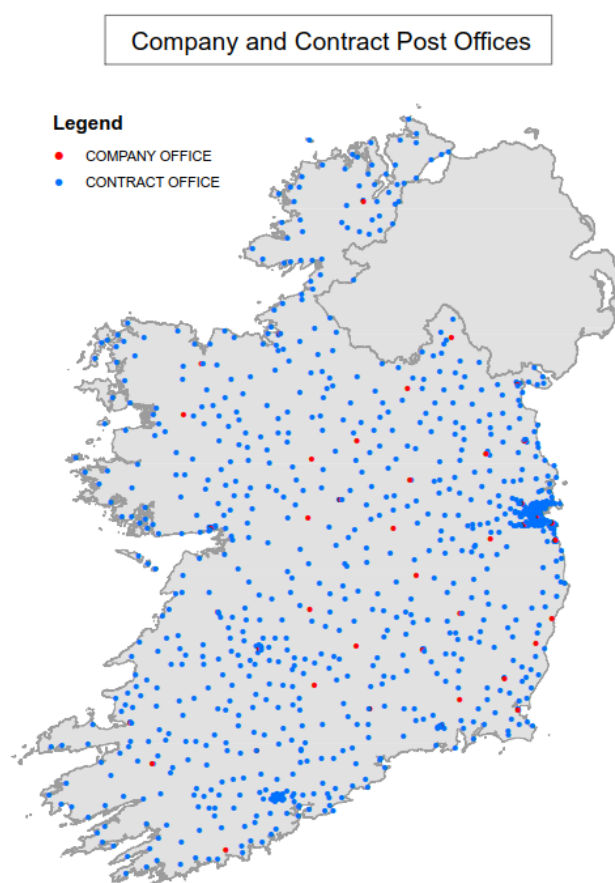
These decisions are made in the context of maintaining compliance with the minimum service levels required by the contractual agreement.

There have been significant technological and societal changes that have presented a major challenge to the sustainability of the post office model and Network. The government has sought to support the rationalisation and modernisation of the Network and its services while continuing to protect a service that meets the needs of communities across Ireland, particularly in rural areas.

In 2018, 159 voluntary closures were announced arising from an agreement reached with the Irish Postmasters Union, which was endorsed by 80% of its members. The previously mentioned investment into Network modernisation and a voluntary redundancy package were also agreed as part of these changes.

In 2000, Post Point was established and has grown to over 1,800 locations through partnerships with major retail chains and newsagents. These partners can provide many of the services of traditional post offices and have supplanted some services otherwise lost by post office closures. This presents a challenge to the traditional post office model and their franchisees.

The graphic below illustrates the number of company and contract post offices nationally and their geographic spread. An Post operates 45 post offices directly which are spread throughout Ireland. The remaining 899 post offices are contracted to individual Postmasters, many of which are clustered around the Dublin region



Source: An Post – company and contract offices nationally

Approaches to dealing with these financial challenges

The closure of post offices has always been a politically contentious subject, but the consolidation of post offices has been permitted under multiple governments. Co-location, however, is not a particularly contentious approach. There is a consensus that the use of co-location to support the viability of post offices is a pragmatic and reasonable approach.

The managed consolidation of post offices nationally is typically achieved when Postmasters retire and/or opt to voluntarily leave the market. It's aim is to make the remaining post offices as sustainable as possible. According to An Post, 75% of the business of a closed post office is transferred to the nearest available branch which increases the viability of this branch.

Post offices have also been co-located with existing retail outlets to facilitate greater convenience, share costs and benefits from retail concentration and increased footfall for both units. Without major modernisation or seeking co-location many Postal Offices have struggled to be viable. It has therefore been a major part of An Post's strategy to strongly encourage Postmasters to co-locate with commercial enterprises.

An Post's 2016 report on "Network Renewal and Revival" clearly stated that;

“the majority of post offices, unless they co-locate with other services, be it a shop or otherwise, there is little prospect of them surviving and thriving. The stark choice is to modernise, co-locate or vacate”

- Recommendation 1c: co-location

According to An Post data, 79% of customers visit the post office at least once a week and 56% use multiple services while they're there.

It is not possible to place a precise valuation on the benefit to a post office resulting from co-location, but feedback from retailers has suggested that there is a benefit from locating a post office in or near their retail locations. The Kerr Report compiled on behalf of the government found cases where Postmasters received beneficial rental agreements due to this perceived benefit.

Impact of consolidation to date

The following figures have been provided by An Post and as such are not generated through Grant Thornton's financial analysis model. After an initial bedding-in period, performance improved with close to 10% transaction growth in neighbouring offices, increasing to 17% after one year.

- 152 post office closed since August 2018 with business transferring to 128 neighbouring post offices;
- 114 (89%) of the 128 have seen an uplift in the average number of monthly transactions since consolidation, with 65 (51%) of them experiencing double-digit growth;
- Average growth across the 128 Offices has been 9.64%; and
- 38 post offices have now been operating for one year since absorbing business from a closed office.

Impact of co-location to date

Since August 2018, 49 post offices have been co-located. Analysis conducted by An Post of the performance of 23 offices that were co-located for more than 6 months indicates a small higher year-on-year growth than the national trend. However, as discussed elsewhere in this report, co-location is not an option for all post offices as it requires significant capital investment on which, it would be difficult for Postmasters to gauge any rate of return given the current circumstances faced by the Network.

Approaches to dealing with these financial challenges

An additional and complementary approach and one that is already in use in other jurisdictions across Europe is the introduction of a Public Service Obligation and supporting Public Service Compensation to cover the additional costs incurred by the Post Office Network in carrying out their USO.

Defining a PSO

Universal service obligations (USOs) establish rights of access to services which might otherwise be restricted if the full cost of the provision were imposed on the individual consumer. Public service obligations apply to all firms operating in the sector and usually relate to minimum levels of quality, service standards and sector-specific consumer rights.

Public Service Obligations (PSOs) cover services that public authorities of EU member countries classify as being of services of a general economic (SGEI) interest.

There are three categories of services of general interest: economic, non-economic and social.

- Services of general economic interest, which are basic services that are carried out in return for payment such as postal services. These services are subject to the European internal market and competition rules. However, there may be derogations to these rules if necessary to protect citizens' access to basic services.
- Non-economic services such as the police, justice and statutory social security schemes which are not subject to specific European legislation or internal market and competition rules.
- Social services of general interest are those that respond to the needs of vulnerable citizens and are based on the principles of solidarity and equal access. They can be both an economic or non-economic nature. Examples include social security schemes, employment services and social housing.

EU Policy Objectives

The universal service obligations required under European law are significantly more detailed for telephone and postal provision than any service of general interest. Member States have significant discretion in defining what is a SGEI, and the mechanisms for the compensation for their provision, however, telecommunications and postal services are subject of governing principles at an EU level.

[Universal service] establishes the right of everyone to access certain services considered as essential and imposes obligations on service providers to offer defined services according to specified conditions including complete territorial coverage and at an affordable price.

- European Commission, 2004

The objective of European postal policy is to ensure that affordable, permanent, high-quality postal services are available across 5 working days per week throughout the EU.

The postal market has gradually been opened to competition and has been fully liberalised since January 2013.

The core aims of the EU postal policy are to:

- ensure high-quality universal postal services for consumers and businesses at affordable prices;
- improve the quality of services, in particular relating to routing times; and
- establish independent national regulatory authorities that have sufficient resources and are entrusted with postal regulation (oversight, statistics, authorisation, tariff control, accounting, complaints procedures etc.)

PSOs related to the Post Office Network recognise the role played by the Network in terms of social and territorial cohesion and in sustaining local economic development.

Approaches to dealing with these financial challenges

Their purpose

As much of the world has moved towards market liberalisation a key concern of policy-makers has been the new entrants into previously monopolised markets focusing on profitable customers and services. This can leave the incumbent provider to provide goods and services at prices that do not cover these costs. These incumbents are often state-owned or former state-owned enterprises.

The opening up of Eircom to competition is a strong example of the risks of privatisation and liberalisation of markets where significant cross-subsidies to particular groups, such as rural customers and the disabled, are in place and new entrants to the market can focus their efforts on high-value segments leaving unprofitable segments underserved.

Eir is required by law to provide a 'universal service', which involves a fixed-line telephone and broadband service at an affordable price to people, especially those living in remote areas. The USO rules state that Eir must also provide payphones and cover the €7,000 cost to install phone lines for homes and businesses in rural areas. Such arrangements and cross-subsidies are sustainable where a monopoly or de facto monopoly exists.

Problems can arise if new entrants are given the freedom to choose to selectively serve or 'cherry-pick' certain geographical areas or market segments. New entrants would generally opt to provide a higher quality service than the incumbent in restricted geographical areas. For these reasons, a service providers may be provided with a PSO to cover these costs and/or exclusivity to provide certain services. An Post receives a PSO and is designated the exclusive provider for traditional mail services. This exclusivity is granted as duplication of Network assets when competing with a new entrant would make the whole Post Office Network unsustainable.

The concept of a universal service is a dynamic one which needs to adapt to changing societal and technological needs. Issues such as affordability and access to broadband have become more important as the internet became perceived increasingly as a basic need. There is also a danger that regulators insist on the provision of certain services which are no longer used extensively, such as public payphones.

PSOs and USOs exist across telecoms, postal services, electricity, gas and railways service across Europe. The table below details some of the universal and public service obligations across telecoms, electricity, post and railways at the European level.

	Telecoms	Electricity	Postal Service	Railways
Universal Service Obligations	<ul style="list-style-type: none"> Ubiquity Geographical coverage of classical Network Non discrimination. Equality of tariffs whatever the location 	<ul style="list-style-type: none"> Geographical coverage Continuity of service (reliability) Non discrimination. Equality of tariffs in remote areas for small consumers 	<ul style="list-style-type: none"> Maintenance of distribution in rural areas Equality of tariffs on reserved markets 	<ul style="list-style-type: none"> Services under public service contract (Regional link traffic funding by grants, maintenance, rolling stock)
Public service objective Social equity	<ul style="list-style-type: none"> Social tariffs for vulnerable consumers 	<ul style="list-style-type: none"> Social tariff Rules of disconnection 	<ul style="list-style-type: none"> Access to banking services 	<ul style="list-style-type: none"> Social tariffs (family tariff, elderly population etc.)
Public service objective Other	<ul style="list-style-type: none"> Geographical coverage of new Networks, mobile phone, digital Network/internet Reserved Networks for national defence Access for education 	<ul style="list-style-type: none"> Environmental protection Promotion of renewables and cogeneration Promotion of energy efficiency in consumption 	<ul style="list-style-type: none"> Reserved markets (less than 20g etc.) 	

Table : Source - Finger and Finon (2011)

Conclusion



Conclusion

The Irish Post Office Network is at a critical juncture given the many challenges that it faces.

This report demonstrates the financial implications of those challenges with the Network projected to generate annual revenues of €53 million, around €17 million less than the projected costs it will incur in carrying out its commercially contracted activities from 2021 onwards.

That revenue is heavily reliant on services provided on behalf of the Department of Social Protection to provide access to welfare payments which make up over 30% of retail income for the Network and an even greater proportion of Postmasters' Commissions. The existing contract for these services is due to expire in December 2021 and while there is contingency to extend this for two further two-year periods, there is no guarantee that it will be renewed at current levels beyond the existing contract creating further uncertainty. While it is essential that this contract is renewed for the future of the Network, this business model overall, is resulting in unsustainable shortfalls and losses that will be borne by the individual Postmasters who operate those post offices. To date, this has been done with significant financial support from An Post in the form of additional payments agreed under the most recent commercial contract which were set to reduce by 50% in 2020 and due to be phased out entirely in mid-2021, the loss of which will place further strain on Postmasters.

The financial impact is therefore already being felt by post offices big and small, urban and rural across Ireland. With additional impending challenges and threats such as the impact of the COVID-19 pandemic which while unquantifiable at present is certain to be hugely significant for all business including post offices, it is inevitable that Postmasters currently in the industry will consider their position and new entrants looking to invest in the industry will reconsider their decision.

The viability and sustainability of the Network is currently challenged like perhaps never before in its history though this has been a longer-term trend. Over recent years several reports, most notably the Kerr Report, have highlighted recommendations as to how the Network can transition to a more agile and sustainable service.

However, progress in implementing these changes and the levels of success in generating significant revenue for Postmasters from measures such as greater colocation has either been insufficient to date or can be considered exhausted. Given the scale of the challenges posed and the timelines highlighted in this report it is questionable as to whether they could ever be sufficient.

The threats to the future of the Post Office Network necessitate finding an **immediate solution and taking decisive action** which is both effective and efficient without which there is a serious risk of unrestrained closures of post offices across Ireland.

In the absence of action, whether through further consolidation or exit from the marketplace altogether, a reduction of the number of post offices will likely see many of the services that they provide to and which repeated public surveys have shown are so valued by the local community go unreplaced by other service providers due to their 'public service' nature and inherent commercial challenges.

Despite this, analysis indicates that the Network continues to provide strong value for money estimated at up to 10 times the operating costs of the Network and has many strengths which, if supported and fully utilised could allow the sector to continue its transition towards a new more sustainable business model while ensuring post offices can continue to play a central role in the economic and civic lives of villages, towns and urban communities across Ireland.

The vast consequences of the COVID-19 pandemic are necessitating Governments across Europe and further afield to reassess the supports which they can put in place to ensure that essential services and businesses that will play a significant role in the future social and economic recovery are able to aid that return to normal through mitigating the negative impacts of the crisis.

Conclusion

The use of an annual PSO in the order of €17 million to support the Post Office Network is an approach which is in-line with that taken by other European jurisdictions whose Network faces similar challenges and which will provide a degree of certainty to the Network and Postmasters to continue to invest in its future.

The recently published '*Programme for Government - Our Shared Future*' sets out the Government's view that '*An Post (and the Postal Network) has untapped potential to do more and to make a further significant contribution across many areas of public, business, and community life in Ireland.....An Post can emerge as a central hub for a wide variety of valuable community-focused services.*'

This vision addresses the opportunity that the Postal Network presents to Government and business however in order to realise this vision in the medium to long-term the Network must be supported by Government in the short-term to transition to this new role.

The key recommendations of this report on the options available to address these concerns are that:

- immediate action must be taken to address the current and impending financial crisis for the Post Office Network;
- recommendations from previous studies even if fully implemented are insufficient to provide the necessary revenue uplift for Postmasters within the timelines considered; and
- the only realistic solution that provides the effective and efficient approach necessary within the timelines required is the approval of an annual Public Service Obligation worth circa €17 million to compensate for the projected funding shortfall from 2021 onwards.

PSO funding in Ireland and Europe



PSOs in Ireland

A PSO is an obligation imposed on an organisation by legislation or contract to provide a service of general interest within a country.

PSOs may operate in any field of public service but postal services, social services, energy, transport and banking are identified as specific sectors where PSOs are most relevant. PSOs provide funding for services that have general significance but may not be otherwise provided or may not be profitable, such as postal services and transport.

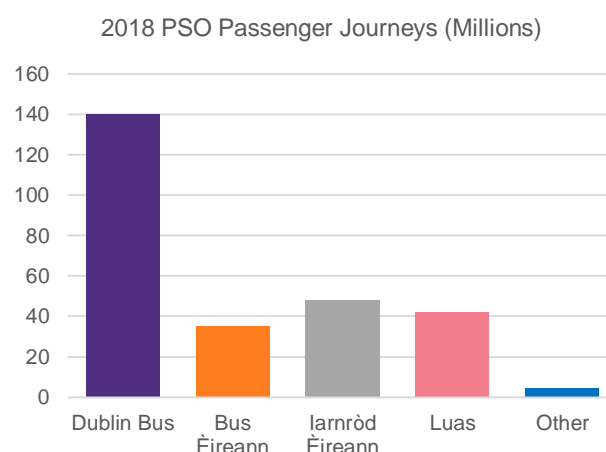
Some industries in Ireland that receive PSO funding include:

- transport (Bus, Rail, Air, Maritime transport);
- utilities (communication); and
- energy.

The transport sector is most closely aligned to the Irish post offices as the transport sector provides services of general significance that may not be otherwise provided and may not be profitable.

Bus Éireann provide services to rural areas that would otherwise be difficult to access and would have limited or no public transport system. The PSO outturn accounted for €268.5 million of Government expenditure in 2018, having increased from a low of €201.2 million in 2015.

There were a total of 269 million PSO passenger journeys in 2018. A breakdown of this among PSO transport operators is below.



Source: NTA Bus and Rail Statistics, 2019

PSOs in Ireland

Reasons for public transport PSO funding

The Department of Public Expenditure and Reform's 'Spending Review 2017' report outlined three rationales for providing PSO to public transport. These rationales were:

1. Firstly, by encouraging and providing services for public transport use through subsidisation, society can reduce the negative effects of driving, such as congestion, higher emissions and increased costs.
2. Secondly, by providing a subsidy for public transport services we can garner a higher level of public transport use which can increase services, reduce waiting times and reduce for both the travel provider and customer.
3. Thirdly, subsidised public transport can facilitate mobility and affordable transport services to lower-income groups and other vulnerable members of society in situations where the services are otherwise financially unviable. As such, public transport services can contribute to improved social mobility and social inclusion. This point is most closely related to the benefits of Irish post offices, particularly in rural areas.

Case study: Dublin Bus & Bus Éireann

In October 2018, the NTA invited submissions from Dublin Bus and Bus Éireann in relation to the proposal to enter into another direct award contract in December 2019, for the provision of public bus services. Dublin Bus and Bus Éireann were awarded new contracts in 2019, for a period of 5 years. The contracts contain certain obligations set out by the (NTA) within 5 categories.

These categories are:

- reliability and punctuality obligations;
- customer information obligations;
- customer experience obligations;
- efficiency targets; and
- environmental obligation.

In 2018, Dublin Bus received €41.1 million in PSO and Bus Éireann received €53.9 million in PSO.

(Dublin Bus & NTA 2018 Financial Statements)

Public transport PSO funding

There are several public transport companies in Ireland with PSO contracts. The National Transport Authority (NTA) manages public transport contracts. There are two kinds of public transport PSO contracts.

These are:

- Directly awarded contracts - net cost contracts under which the operator retains all fare revenue. NTA contracts with Dublin Bus, Bus Éireann and Iarnród Éireann fall into this category.
- Competitively tendered contracts - gross cost contracts under which the tendering party, i.e. NTA, retains all fare revenue. The NTA contract with Go-Ahead Ireland falls into this category.

Iarnród Éireann

In 2009 the NTA awarded Iarnród Éireann a 10-year direct award contract. In 2018 Iarnród Éireann received €89.28 million in PSO.

In 2019 the NTA proposed directly awarding a public service contract to Irish Rail for the provision of public passenger transport services by rail. The contract was envisaged for a period of 10 years and to begin in December 2019. (Neither the NTA nor Irish Rail has published their 2019 Financial Statements so the exact conditions of the proposed contract cannot be determined).

Luas

Luas does not receive PSO funding from the NTA. However, the NTA has agreed to the balancing of any shortfalls from accumulated cash reserves. Furthermore, in 2017, Luas received funding of €6.7 million from the NTA in the form of a PSO grant for the mobilisation of Luas Cross City. (NTA 2018 Financial Statements).

Go-Ahead Ireland

In 2015, the NTA sought expressions of interest from public transport operators to operate bus services on certain routes in the Dublin Metropolitan Area. Go-Ahead Ireland was awarded a 5-year contract for the operation of these services in April 2018. The contract is worth €172 million. (NTA 2018 Financial Statements).

PSOs in Ireland

Utilities PSO funding

The PSO levy is a subsidy charged to all electricity customers in Ireland. It consists of various subsidy schemes to support its national policy objectives related to renewable energy and indigenous fuels such as peat. The Commission for Regulation of Utilities (CRU) role is to calculate the PSO levy annually based on support rates that are set by Government. The CRU considers costs submissions received from suppliers and calculates the PSO levy to be administered.

The PSO levy is €120.63 million for the 2019/20 period, which represents a decrease of €88.56 million (-42%) on the 2018/19 levy of €209.19 million. This levy results in a monthly charge of €1.92 and €7.15 for domestic and small commercial customers respectively.

Reasons for Utility PSO funding

The levy is designed to incentivise the development of renewable electricity generation to help Ireland to meet its target of 40% of electricity coming from renewable sources by 2020.

It supports technologies such as onshore and offshore wind energy, small-scale hydropower, combined heat and power (CHP), biomass (landfill gas), biomass-CHP and biomass-anaerobic digestion. This scheme is closed to new entrants and the only remaining technologies actively supported under this scheme are onshore and offshore wind energy.

Up until 2019, two peat plants were remaining under the PSO – ESB's Lough Ree and West Offaly plants. These plants used to sell their electrical output into the energy market and receive revenue from the market for that output. If the revenue they receive is less than entitled, the ESB could recover the deficit from the PSO.

Comparison of EU Post Office Networks

UK postal sector

Looking into international models of postal service delivery, the UK similarly structures their postal sector to that of Ireland. As with Ireland, the UK post office is owned by the Government. The UK post office was separated from Royal Mail in 2012. Royal Mail manages the delivery of post and the post office manages post offices and post office services. The post office owns a small number of post offices but the vast majority are owned by individual sub-Postmasters, who are contracted to the post office.

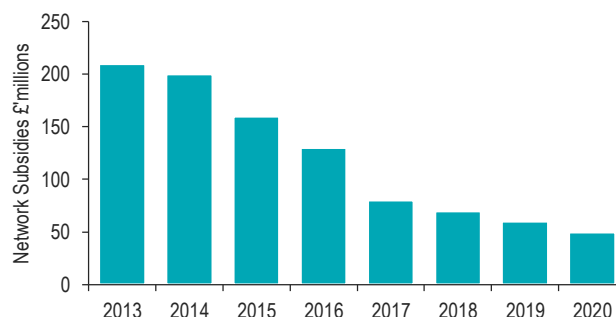


UK Government support

The UK government have committed to funding the UK post offices. UK Government investment falls into two categories:

1. Network Transformation Programme (NTP) is the investment in upgrading and modernizing post offices and post office services.
2. Network Subsidiary Payment (NSP) is designed to cover operating costs of rural post offices that may never turn a profit but are still required in the system.

During 2010-2018 the UK government invested £2 billion in the post office. The UK government have committed to a further £370 million investment from April 2018 - April 2022 £210 million for continued modernisation under the NTP and £160 million under NSP to protect rural branches.



Source: post office Limited Annual Report and Financial Statements 2011/12- 2016/17

In return for Government funding, the post office has committed to investing in the Network and maintaining approximately 11,500 branches. The post office is also required to meet the following targets:

Target %	Population	Distance
99%	UK total	≤ 3 miles
90%	UK total	≤ 1 mile
99%	Deprived urban	≤ 1 mile
95%	Urban	≤ 1 mile
95%	Rural	≤ 3 miles
95%	Postcode district	≤ 6 miles

Source: Table 9: House of Commons, post office Numbers, 2018

Comparison of EU Post Office Networks

Impact of Government funding on Post Office Network

The UK Post Office Network has seen benefits from the UK Government's investment, but issues remain.

Benefits

According to a 2019 House of Commons report on 'The Future of the Post Office Network' the NTP has delivered on a number of objectives:

- transformed a trading loss of £115 million in 2012–13 to a trading profit of £60 million in 2018–19;
- reduced Government support from a peak of £415 million in 2013–14 to £50 million in 2020–21;
- stabilised the Post Office Network at 11,500 branches;
- increased post office opening hours; and
- met the Government's access criteria.

A 2017 report by the UK Department for Business, Energy & Industrial Strategy stated that over 7,000 post office branches had been modernised since the Government's support began in 2012.

A Citizens Review report in 2017 concluded that post office locals, which account for about 35% of post office's, were performing well, and with high levels of satisfaction. The report found that 86% of customers found them accessible and 84% were satisfied with the service they provide.

Issues

Two House of Commons reports in 2018 'post office Numbers' and 2019 'The post office' identified several issues regarding the current position of the UK post office. These issues are outlined below:

- There were 112 post office closures from 2017-2018.
- 61% of sub-Postmasters say they are earning less now than when they started and the average time running a post office was 12 years.
- The research found that nearly 1 in 11 post offices are closed for long periods. Up to 50% of temporarily closed post offices have been closed for over 2 years.
- The NSP funding provided by the UK Government has reduced significantly from £210 million in 2012/13 to £50 million in 2019/20.
- 76% earned less than the national minimum wage per hour for working in their post office.
- Up to one in five post offices could close because sub-Postmasters are struggling to make a living out of running a post office.
- 19% of sub-Postmasters (or their spouse or partner) have taken on work elsewhere in the last year just to make ends meet.
- Many struggle to take time off because they cannot afford to employ other staff and are forced to work longer hours themselves.

Comparison of EU Post Office Networks

French postal sector

La Poste has been a publicly-owned French corporation since March 2010 and is France's traditional postal operator with responsibility for the universal postal service and several additional public-service obligations, including territorial coverage.

It was created in 1991 following the split of French PTT, a government department responsible for mail, telegraph and telephone services in France. Following the opening up of postal services to competition across Europe, private postal services were permitted in France in 2005 and La Poste was transformed into a public-owned company limited by shares. La Poste remains in Public ownership due to public opposition to its privatisation and fear that it would result in post office closures.

La Poste manages the delivery of post and the post office manages post offices and post office services. La Poste owns a 46% of post offices with the majority part of a franchise or partnership, which can be partnerships with public and private entities.



Government support

The French government funds La Poste's public service obligation through a fund called 'fond de péréquation'. This fund is financed from monies saved as a result from La Poste's exemption from local taxes. Since La Poste's transformation into a public limited corporation in 2010, it has continued to be financially backed by the French State. The company has since based its development on 4 strategic pillars:

- the diversification of its activities;
- the development of its parcel business;
- international expansion;
- the offering of new kind of services; and
- the rationalization and restructuring of its postal activities.

A Public Service Agreement was signed between the State and La Poste for 2018-2022 with the new agreement confirming:

- La Poste will receive local tax relief worth a maximum of around €900 million, or € 300 million per year; and
- the State maintains its contribution of €174 million per year or €522 million over three years.

La Poste's 'territorial coverage' mission is designed to ensure high-density postal coverage over and above the universal service obligation, particularly in rural areas. This coverage is provided through approximately 9,147 directly owned post offices, although many post offices are gradually being replaced by partnerships with local shops and town halls as contact points, which are cheaper to run and will, therefore, help to gradually reduce costs.

Target %	Population	Distance
90%	France total	≤ 5 kilometres

Unlike the United Kingdom, under French PSO obligations, the only distance stipulation is that 90% of the population is within 5km or a 20 minutes drive from a post office. The PSO also ensures that a minimum of 17,000 access points are provided nationally through post offices, franchises partnerships or contact points. Certain rural municipalities, disadvantaged areas and overseas departments are considered priority zones which ensures the number of post offices is maintained.

Unlike the trends in the UK and Ireland, transforming post offices into franchised postal points are subject to local political approval. For these reasons, France has not experienced the same level of decline in post office numbers nationally. However, some branches of La Poste have closed with new access points opening in supermarkets and local shops as contact points (points relais/'relais poste) and some local councils offer an 'agence postale communal' on their premises.

Comparison of EU Post Office Networks

Impact of Government funding on the Post Office Network

As a condition of Government funding, La Poste committed to investing in the Network and has been undertaking a huge programme of modernisation in sorting equipment and the post offices. There is a far stronger commercial orientation in the new post offices which offer a broader range of products and services. Some branch offices also offer a range of public service counters as part of a wider rationalisation of government offices across the country.

In 2018, the La Poste's groups operating profit reached €892 million, down 11.8%. The net profit fell 6.3% to €798 million. La Poste chose to maintain its investments and pursue its external growth operations to lay a firm foundation for its future and its successful transformation. In 2019, La Poste groups operating profit remained stable at €889 million while net profit increased to €822 million.

Issues

The European Commission has concluded that tax relief granted to the French post office (La Poste) to maintain the high-density coverage of postal services in France over the 2018-2022 period is in line with EU rules on State aid.

However, some deficiencies with La Poste have been identified;

- The service has been criticised for unsatisfactory opening times (particularly in rural areas) and the waiting time that is sometimes necessary.
- Prices have moved up sharply and the tariff system can be difficult for customers to understand.
- La Poste state that 80% of the post is delivered the next day, however, independent surveys suggest this not the case.
- The Universal Postal Union have identified regulatory barriers set up by the state which might have helped limit market access to new entrants.
- Since 2018 the French postal regulator, in addition to La Poste, has licensed 42 operators in the French postal market. 34 of these postal service providers are for domestic mail and 8 for outgoing cross-border mail.
- La Poste has undergone significant restructuring in a bid to transform it from a public service into a profitable enterprise. This had led to increasing conflicts with trade unions and diminishing morals amongst employees. In 2015 La Poste announced 7,500 job losses as the organisation sought to cut costs and increase competitiveness.

Despite these issues, the French post office La Poste is one of the few public services in France that gets high praise from the public for the quality of its service. The scale of its presence across the country is also one reason why La Poste is one of the most subsidised postal services in the world.

This relative stability in the number of French post offices can be explained by national regulations obliging the USPs to maintain a minimum number of contact points at 17,000.

EU Rules

EU legislation contains minimum standards which Member States must achieve within their territories. There is a general requirement of that postal services should be affordable.

Until 2006, Member States were permitted to reserve part of the market (for items weighing less than 50 grams) to the universal service provider. As of 2010 this is no longer permitted, however, the legislation does provide that Member States can compensate the universal service provider where it is facing an unfair financial burden as a result of the USOs. With the exception of Germany, universal service obligations in the Postal Sector have remained with the incumbents. The nature and extent of USO does vary between the Member States and some of these are detailed further in the table on page 66.

Comparison of EU Post Office Networks

Spanish postal sector

Since 1998, Correos, the largest provider of postal services in Spain, has been the universal service provider for postal services. Correos is a wholly State-owned company. As with Ireland, the Spanish postal service market has been liberalised since 2011. Under its USO obligations, Correos is required to deliver letters and parcels (up to a certain weight), across the whole territory of Spain, at least 5 days per week, at affordable prices.

Correos is the largest provider of postal services in Spain with 8,787 postal points as of 2018 and is the market leader in the Spanish postal sector. Until 2017, Unipost S.A. was its main competitor in the Spanish postal market, however, the company underwent financial difficulties and entered into liquidation in 2018. Other European postal operators (i.e. Deutsche Post, TNT, La Poste, UPS, CTT Correios Portugal and Royal Mail) hold significant market shares in parcel services in Spain.

Correos is obliged to provide universal service in Spain until 2025. Current service levels comply with the Spanish legal requirements however, it has reduced the number of post offices, although the density of the Network is very low compared to other EU countries.

A state aid investigation was launched after Spain's delay in notifying the commission of its subsidies. In May 2020, the European Commission approved the state financing granted by Spain for Correos's universal postal service obligation.

It found the compensation granted by Spain to Correos to fulfil its public service mission during the 2011-2020 period to be compatible with EU State Aid rules. In its decision, the competition authority stated:

Easy access to postal services is vital for all EU citizens. Today's decision enables Correos, to continue deliver basic postal services in all of Spain at affordable prices, without unduly distorting competition.

The ruling was an affirmation of the decision to compensate Correos with €1,280 million for carrying out its universal postal service obligation during this period, equivalent to a payment of €142 million annually. The commission is responsible for making sure member states do not overcompensate companies for such services as doing so would distort competition.

In order to demonstrate its compliance with EU State aid rules, Spain developed a model to calculate the net avoided cost of the universal postal service. This model demonstrated to the Commission that there was no risk of overcompensation as it ensured that discounts provided to certain postal users did not unduly increase the net cost. In the commissions view, losses from discounts cannot be compensated by the state as they do not fall under the obligations as set out by the USO. The funds received from Spain were justified by the net costs to carry out the USO, therefore proving the compensation to be compatible under EU State aid rules.

	EU Level	France	UK	Ireland
Provider	MS may designate one or more undertakings	La Poste (2011-2026)	Royal Mail (until 2021)	An Post
Who monitors USO	Regulatory Authority(ies)	Regulatory Authority for Electronic Communications and Postal (ARCEP)	Ofcom (Regulatory authority)	ComReg
Role of costs of supply for consumers	Affordable prices	Affordable and uniform prices	Affordable and uniform tariffs Specified services of blind or partially sighted persons free of charge Transport of qualifying legislative petitions and addresses free of charge	Affordable and uniform prices

Comparison of EU Post Office Networks

Different Approaches across Europe

incumbents across the world have taken different approaches to cover unmet costs. Sources of additional finance have included:

- from the profits of other businesses bundled with the postal business;
- from an explicit government grant; and
- by allowing the incumbent postal operator to make a loss or a return below the cost of capital.

Country	Approach
Germany and UK	In Germany and the UK the incumbent has expanded into the more profitable international parcels and logistic market, by linking up with a private sector operator (DHL in Germany, GLS in the UK), so the cost of the USO is borne entirely by users of the (privatised) mail business.
France	France has also spread the USO burden over a more widely defined mail business, but any residual loss is covered by the profits from the successful savings bank, Caisse des dépôts, which is part of Groupe La Poste, so the cost is borne by savers to the extent that they get a lower return on their deposits.
Italy	In Italy there is an explicit government subsidy to cover the cost of the USO, so the taxpayer picks up part of the cost. However, the postal business remains loss making even after receipt of the subsidy. So the remaining losses are paid for, as in Japan, by those who deposit their savings with, or buy their insurance from Poste Italiane.
Japan	In Japan, which has also spread the USO burden onto a successful domestic and international parcels business, any residual loss is offset by the profits of the bank and insurance company which are part of Japan Post Group and the cost borne by savers and purchasers of insurance.
Spain, Australia, United States and Canada	In the US, Canada, Australia and Spain, where the mail business is bundled with the Post Office Network and makes a loss or a return lower than the cost of capital, it is ultimately the taxpayer who bears the cost of the USO.

Source: KPMG 2019: Postal Services in the Internet Age

Appendices

Glossary

Term	Definition
To be updated	

