



Post Office Ltd

Local Funding

Guidance for
Local Authorities,
Community Groups and
Other Parties

Draft 7 Version 1

Date 3-7-08

Contents

1.	Introduction	3
2.	Background	3
3.	Key Considerations	4
3.1.	Post Office Ltd's costs must be covered	4
3.2.	The establishment of services in these locations must not impact on surrounding outlets	4
3.3.	Stability, liability and guarantee of funding	4
3.4.	State Aid compliance	5
3.5.	Outlet Type selection	5
3.6.	Making this work	6
4.	High Level Commercial/Contractual Model	6
5.	High Level Financial Model	8
6.	High Level Operational Model	8
6.1.	Cash and Stock Management	8
6.2.	Products	9
6.3.	Opening Hours	9
6.4.	Format	9
6.5.	Other	9
6.6.	Managerial support	9
7.	Process/Next Steps	10
8.	Contacts	10
Appendix A	Glossary of Terms	11
	Funding Party	11
	Retailer-Partner	11
	Outlet	11
	Post Office® Type	11
	Access Criteria	11
	Subpostmaster	11
	Core Subpostmaster	12
	Outreach	12
	Account Managed outlets	13
	Central Support outlets	13
	Screenless Format	13
Appendix B	Essex County Council Approach	14

1. Introduction

This document provides a framework against which interested parties may enter into discussions with Post Office Ltd (POL) where they have a desire to locally fund the provision of essential community services of which Post Office® services may be one example.

The approach set out in this document can be applicable in locations where POL has decided, through the Network Change Programme, that the direct provision of Post Office® services is not required within the Government Policy defined in May 2007. This includes locations that did not have direct Post Office® service provision prior to the Network Change Programme but excludes locations where POL is introducing, or currently has, an Outreach service.

(Note that Appendix A contains a Glossary of Terms and the reader may wish to review this in advance of the main body of this document).

2. Background

POL has been encouraged by Government to look at how best to respond to serious expressions of interest from stakeholders, including Local Authorities and Community Groups, who wish to provide funding to a local retailer who will provide, amongst other things, additional Post Office® services for a particular community.

POL needs to ensure, amongst other factors, that all of POL's relevant costs are covered. A commitment is required for several years and there must be no damaging impact on the remaining network in the area.

POL has been working with Essex County Council and the intention is to use the learnings from this work to inform a generic model that can be deployed with any Local Authority/Community Group.

Outlets provided within this initiative are not required to achieve the Government's Access Criteria or provide the Universal Service Obligation (USO). They are in addition and may be required to meet other social objectives as determined by the relevant Local Authority or Community Group such as to increase the likelihood of people remaining in their own homes and reduce the pressure on Local Authority and other service providers' resources.

In those areas where Network Change has not yet been completed, any discussions taking place between POL and an interested party will not influence the final decision as to whether a particular outlet is closed within the Network Change Programme. These discussions are entirely independent of the Network Change Programme.

3. Key Considerations

3.1. Post Office Ltd's costs must be covered

POL's ability to provide services at loss-making Post Office® outlets is maintained by the provision of Government funding. This funding is only available to Outlets that form part of the network remaining after the Network Change Programme. The Retailer-Provider must therefore be in a position to meet all of the costs incurred through the provision of additional Post Office® outlets including all operating costs are to be covered. The only payments that POL will make to the Retailer-Provider are commission payments based upon the business that is transacted at these locations.

3.2. The establishment of services in these locations must not impact on surrounding outlets

The sustainability of the wider network is a critical objective of the Network Change Programme and one that must be protected. POL will therefore ensure that any additional outlet does not adversely impact on the viability of the remaining outlets in the immediate area after the Network Change Programme. The amount of business expected to migrate to surrounding outlets when an outlet closes (or expected be pulled from surrounding outlets when a new outlet opens) will be calculated by POL. If the expected migration is considered significant, POL will not agree to the provision of Post Office® services in these locations (other than possibly through an Outreach from the affected outlet). POL will continue to review the level of service required.

3.3. Stability, liability and guarantee of funding

These outlets are not required to achieve the Government Access Criteria. The maintenance of service at these locations will therefore not be the responsibility of POL. The local Retailer-Partner will need to provide staff and premises. POL will obviously require that its service standards are met and that customers are provided with a stable service that is consistent with the service provided at Government funded outlets. As such, any outlet must show that it will have the resources to continue at least until March 2011 (the end date of the current Government funding package). It will also be asked to provide a bank guarantee.

Note – POL seeks to adhere to a Code of Practice which governs changes in the Network. As this Code of Practice is currently being refreshed, it is not possible at this stage to confirm what responsibilities a Funding Party may or may not have under the Code of Practice in the event of the Locally Funded outlet closing or that the funding ceases.

3.4. State Aid compliance

While it is for Funding Parties to determine whether any arrangements they enter into are compatible with State Aid rules, POL must also assure itself that any individual arrangement is not at risk of being characterised as un-notified State Aid to POL. This is because POL could be required to repay any funding held to be illegal state aid to POL. Accordingly, POL will assess the State Aid implications of any proposed local arrangement on a case-by-case basis, and reserves the right not to pursue an arrangement that carries a sizeable risk to POL on State Aid grounds.

Such a risk might arise in a case where Funding Parties sought to fund the provision of Post Office services at an outlet in an area where postal and/or other relevant services are already available at other outlets in the same area. For example, this is likely to be the case in most urban areas. On the other hand, there is likely to be less risk in the case of rural communities where the closure of the Post Office® shop has left the community with no immediate alternative access to postal, retail and other community services.

Local Authorities might therefore wish to prioritise funding for outlets that deliver a range of community services, including Post Office® and retail services, which otherwise would not be available to the community.

Appendix B describes an approach that has been developed with Essex County Council. A Funding Party may wish to use this approach. Any other approach may require additional discussions with legal representatives from POL to discuss compatibility with State Aid requirements. The Department for Business, Enterprise and Regulatory Reform (BERR) is also able to provide advice on State Aid.

3.5. Outlet Type selection

POL will work with the Funding Party to identify the best Post Office type for the particular location and circumstances.

There may be a number of reasons why a like-for-like replacement is not appropriate. Below are some examples:

- In many instances, previous Subpostmasters may not wish to continue to provide Post Office® services from their business.
- The nature of the previous post office location and ancillary business may not be the optimum point for the provision of future services.
- The level of customer demand may not warrant the provision of a like-for-like service offer.

Different Post Office® types are outlined in Appendix A. POL is able to advise on the likely costs of different options and on the most suitable and cost effective service offer at the planned location.

3.6. Making this work

POL has learnt from history and experience that managing the provision of Post Office® services is complex and resource dependent. An ongoing commitment, including provision of necessary resource, from Funding Parties will be required for the successful establishment and operation of these schemes.

Whilst service provision of this nature by the Funding Party is not taking over the running of Post Office® outlets, Funding Parties will be responsible for:

- Identifying and confirming potential Retail-Partner locations
 - It should not be assumed that previous post office premises are either available or necessarily best suited in location/format terms.
 - The Funding Party will be responsible for all the activity required to gain agreement for the use of these premises.
 - In the event of premises no longer being made available, it will be the responsibility of the Funding Party to identify alternatives and fund any costs involved in re-establishing service.
 - POL will not be responsible for continuing service provision if there are no premises available.
- Obtaining and retaining Retailer-Partners
 - It should not be assumed that previous Subpostmasters are either willing or necessarily best suited to operate a model of this nature.
 - In the event of a Retailer-Partner resigning from any contract within this model, it will be the responsibility of the Funding Party to identify a replacement.
 - POL will not be responsible for continuing service provision if there is no Retailer/Partner.
- Managing contracts with Retailer-Partners

4. High Level Commercial/Contractual Model

The Funding Party will establish a business relationship with the proposed Retailer-Partner(s) and work with them to agree the basis on which funding will be provided and the service or other commitments expected from the Retailer-Partner.

To the extent that the Retailer-Partner and the Funding Party wish to provide Post Office services through its outlet the Retailer-Partner will need to approach POL to agree the basis on which these services will be provided and to satisfy POL that the funding arrangements do not expose POL to state aid risks.

Such procurement of Post Office® services can be made directly to POL or to a Core Subpostmaster depending upon the type of Post Office® selected (see Appendix A).

POL will raise a charge to the Retailer-Partner or the Core Subpostmaster for the services it provides to the outlet, including the IT system, delivery and collection of cash and stock, Helplines and advice. The charge for each outlet will be set at the beginning of the contract and payable in advance each quarter.

POL will pay to the Retailer-Partner or Core Subpostmaster for the business transacted. This commission will be paid to the Retailer-Partner or Core Subpostmaster on a monthly basis (in arrears as consistent with POL's standard commission payments processes).

There will be an annual review of POL's costs and subsequent adjustment of the quarterly charge for the following year.

In the event of the Post Office® type selected including a Core Subpostmaster, the contract between the Core Subpostmaster and the Retailer-Partner (and any associated financial arrangements) will be a matter for the Retailer-Partner and the Core Subpostmaster. POL will supply example back-to-back contracts, as it does for existing Core & Outreach implementations, to support this relationship.

These outlets will not contribute to the accessibility measurements undertaken to ensure that POL is reaching the minimum Access Criteria specified by Government.

It will be the sole responsibility of the Retailer-Partner/Funding Party to ensure commercial service is maintained at these outlets. In the event of service failure due to Retailer-Partner/Funding Party, closure of these outlets will not be subject to consultation. No compensation will be paid in the event of these outlets closing and any exit costs will be the responsibility of the Retailer-Partner/Funding Party. This will include responsibility for customer communication arising from changes to the service provision.

The contract for the outlet will need to be guaranteed for a period until at least 2011.

5. High Level Financial Model

Given the requirements set out above, from POL's perspective any financial agreement will be with the Retailer-Partner or Core Subpostmaster, who will be required to cover all the costs incurred by POL in relation to the new outlet.

These costs are:

- Any set-up costs incurred in establishing the new locally funded outlet – these will be charged as incurred on an individual basis.
- Ongoing costs – the costs associated with each outlet will be calculated based on the infrastructure POL needs to provide to the locations, including management expenses
- Cash – if required within the Post Office® type, POL will deliver cash to the outlet in the usual way (note that for an outreach this will be to the core not the outreach itself) and the cost of the physical distribution of cash is included within the ongoing costs. However, the Retailer-Partner will provide to POL the typical monthly cash required by the outlet at the outset of the contract, so that POL will not pay any interest on the cash held in locally funded locations.

The final ongoing charge POL will make will be a combination of the ongoing costs of providing the service netted against the value derived by the transactions undertaken at the outlet. This charge is not negotiable as it is a cost not a price. For the avoidance of doubt, it should be noted that POL will not be seeking to make a profit from the funding arrangement.

6. High Level Operational Model

POL's recommendation to the Funding Party will be to use the most efficient Post Office® type available. This will depend upon the location and demand, but it is expected to be primarily outreaches, although some locations may sustain/require a traditional branch type service.

Whatever Post Office® type is adopted, all existing business processes will be followed, with the exception of the following aspects:

6.1. Cash and Stock Management

The Retailer-Partner/Core Subpostmaster will pay POL in advance for the provision of a working cash float. POL will estimate the amount required based on past records and monitor the actual cash usage. Additional funding from the Retailer-Partner/Core Subpostmaster or refund from POL will be made accordingly each year. The value of this payment will be returnable at the end of the contract. POL will be responsible for the regular replenishment of physical cash and the Retailer-Partner/Core Subpostmaster responsible for returning surplus cash as per the outlet operation.

In the event of the Post Office® type selected not requiring cash provisioning from POL, such a payment will not be required.

6.2. Products

This will vary depending upon the Post Office® type – but for the purposes of this guidance document, it should be assumed that certain non-core products (e.g. car tax) will not be included. Products available will be the same as those available through centrally funded outlets of the same Post Office® type. Standard POL contractual requirements relating to the retailing of any products deemed as competitive will apply and the outlet cannot operate from premises where these are on sale.

6.3. Opening Hours

POL will always specify minimum opening hours informed by customer demand but beyond the minimum opening hours are a matter for the Retailer-Partner (subject to any obligations imposed by the Funding Party) to determine, communicate and display.

6.4. Format

Premises must be provided by the Retailer-Partner and agreed by POL. Where new installation is required, format will be Screenless in all cases. All costs will be covered by the Retailer-Partner. This includes the provision of relevant branding/signage.

6.5. Other

All existing business aspects – Marketing, Service Standards, Operational Support – will be supplied as standard (and is part of the cost) and must be adhered to. Liability for any cash losses will be with the Retailer-Partner as they are with a Subpostmaster under the existing standard contractual arrangements.

6.6. Managerial support

POL will provide managerial support to these outlets in the following way:

- Individual outlets will be supported on the basis of similar outlets via the Central Support model that POL has established. These outlets will not be account managed (by POL) except in the event of them being an outreach of a core branch that is account managed.
- Central managerial support may be required as part of the relationship management between POL and the Funding Party. The final structure of this is to be determined and will be dependent upon the scale of deployment of this proposition for each Funding Party. The cost of this will be reflected in the appropriate Retailer-Partner on-going charges.

7. Process/Next Steps

If a prospective Funding Party wish to engage in further dialogue with POL relating to this scheme, please contact as outlined below.

POL will provide you with a standard Non Disclosure Agreement (NDA), the signing of which will enable detailed discussions and the provision of specific financial information to take place relating to any outlet or location that POL agrees is suitable for potential Local Funding support. POL will not supply information relating to any outlet or location we consider unsuitable e.g. in particular where the establishment of an outlet will significantly impact on a nearby outlet(s) or where service is currently provided via an outreach.

In cases where an outlet is to be closed under the Network Change Programme and where a firm proposal exists to provide a locally funded alternative prior to the final decision, POL will automatically establish a 3 month notice period to the exiting Subpostmaster rather than giving the standard option of either 4 weeks or 3 months.

Whilst POL will make every effort to ensure that a suitable Local Funding agreement can be established prior to the outlet closing at the end of this 3 month period, it cannot commit to not having a break in service.

In the event of these detailed discussions leading to the scoping of potential locations, POL will be happy to consider the provision of suitably experienced personnel to support this, financing of which will be the responsibility of the Funding Party. POL's experience in developing this proposition, including feedback gained from existing potential funding parties, is that this greatly enhances the ability of the Funding Party to implement its proposals. (It should be noted that any financing of this is on a non-profit basis to POL).

8. Contacts

mark.s.wright@postoffice.co.uk	Regional Development Manager	07764469019
jayne.l.harrison@postoffice.co.uk	Concept Design Advisor	07715480685
nick.beal@postoffice.co.uk	Network Planning Manager	07710097163

Appendix A Glossary of Terms

Funding Party

Local Authority or Community Group that have identified the need for the provision of Community Services (which may include Post Office® services) in certain locations determined by said Funding Party.

Retailer-Partner

Business operator who will operate Community Services (possibly including Post Office® services) on behalf of a Local Authority or Community Group.

Outlet

Any service point that provides Post Office® services. This can range from a fixed “brick & mortar” outlet to a location where a part-time outreach service is located.

Post Office® Type

Particular service model made available at an outlet, ranging from a full time, multi position outlet to an outreach.

Access Criteria

Geographic and demographic measures defined by Government to which POL's outlet network must adhere, minimum as follows:

- Nationally, 99% of the UK population to be within 3 miles and 90% of the population to be within 1 mile of their nearest Post Office® outlet.
- 99% of the total population in deprived urban areas across the UK to be within 1 mile of their nearest Post Office® outlet.
- 95% of the total urban population across the UK to be within 1 mile of their nearest Post Office® outlet.
- 95% of the total rural population across the UK to be within 3 miles of their nearest Post Office® outlet.

In addition for each individual postcode district:

- 95% of the population of the postcode district to be within 6 miles of their nearest Post Office® outlet.

Subpostmaster

Agent with whom POL contracts to provide services on behalf of POL.

Core Subpostmaster

Subpostmaster (who already operates a Post Office® branch in a community) who provides Outreach Services to nearby communities.

Outreach

Outreach Services are an innovative way to continue to provide Post Office® services and a means by which Post Office® products and services are provided by a 'Core' Subpostmaster (who already operates a Post Office® branch in the community) to nearby communities.

Outreach Services build on Post Office Ltd's experience of successfully operating over 250 satellite outlets since 2000 and have been tried and tested in a number of pilot schemes.

There are currently four different Outreach Service models: the Mobile Service, the Hosted Service, the Partner Service and the Home Service.

Details of the current Outreach Service models relevant to potential Local Funding initiatives are set out below.

Hosted Service

The Hosted Service provides customers with access to a range of Post Office® products and services at a fixed site during specified hours on set days. The Core Subpostmaster will provide the Hosted Service from the premises of a local business or a community building such as a shop, café, church, garage or village hall ("Hosted Premises"). The Hosted Premises will set aside space for the portable Post Office® computer equipment. The provision of a Hosted Service maintains a Post Office® presence in the community and may also lead to increased sales for the Host if the Hosted Premises contain a retail business.

The Hosted Service provides customers with a range of Post Office® products and services including:

- Post Office® Card Account
- Postage and Post Office® Savings Stamps
- Bill and Budget Payment Schemes
- Financial and Banking Services
- Telephony products including Homephone

Other products and services including car tax, travel money, travel card and travel insurance may also be available if these are available at the Core Post Office® branch.

Partner Service

The Partner Service provides Post Office® products and services to customers at a fixed site through a third party retailer. The Partner Service can be operated from many types of existing business premises including convenience stores and cafés. The Partner provides Post Office® products and services to customers from his premises on behalf of the Core Subpostmaster. The Core Subpostmaster will provide support and assistance to the Partner in managing the Partner Service. The Core Subpostmaster pays the Partner for operating the Partner Service which is provided from a fixed counter position within the Partner's Premises. The Partner Service will be available to customers during the same hours as the normal opening hours of the Partner's retail business. The provision of a Partner Service maintains a Post Office® presence in the community and may also lead to increased sales at the retail business of the Partner.

A wide range of Post Office® products and services are available from the Partner Service including:

- Post Office® Card Account
- Postage and Post Office® Savings Stamps
- Bill and Budget Payment Schemes
- Banking Services
- Inland 1st class, 1st class recorded delivery and Special Delivery up to a maximum 6kg, Home Shopping returns (pre paid)
- International letters / packets up to a maximum of 2kg

Account Managed outlets

Outlets which are provided with significant and regular sales support to enable stretching sales growth. POL reserves the right to determine which outlets are supported in this way.

Central Support outlets

Outlets which are not Account Managed but are operationally supported on an as-needed basis.

Screenless Format

Physical layout of counter from which Post Office® service is provided. Such a format is open plan and does not have counter to ceiling screens as per the traditional "fortress" model. This relatively new format is implemented wherever outlets are refurbished/relocated (subject to relevant POL security surveys).

Appendix B Essex County Council Approach

As explained in section 3.4, any funding for these outlets must not conflict with State Aid rules. Where state bodies such as Local Authorities are potential funding parties, aid cannot be provided directly or indirectly to Post Office Ltd.

One type of approach has been developed with Essex County Council (ECC).

ECC wish to support a local outlet which provides postal and other services as necessary to support continued access to a range of essential local services.

Post Office® services might be provided at an outlet supported under the scheme but this would not be the direct focus of the funding nor would the funding be directly calculated by reference to the cost of the Post Office® services to the retailer.

For this type of 'community funding' to work effectively, a number of different services will be required to be available. The Retailer-Partner will be contracted with the Funding Party to provide these services, including potential procurement (by the Retailer-Partner or by a Core for which the Retailer-Partner is acting as an Outreach) of some of these services from POL. ECC have determined the criteria and factors by which they have selected communities as necessary recipients of the service.

Local Funding Parties may wish to draw on the approach used by ECC in developing criteria to select those communities that are to benefit from local funding. These include:

- the lack of availability of the essential services that are considered to be at risk from either the closure or non-existence of an immediate Post Office® service (both Post Office® products/services and retail and other services, such as access to information)
- potential customer demand
- supporting the needs of vulnerable groups
- availability of premises/Retailer-Partner and associated business plan
- assurance that any funding to a Retailer-Partner (including that which may already be in place) does not exceed the State Aid de-minimus level

In addition, the Funding Party may wish to establish a set of factors to ensure the potential partner meets certain standards.

(For the avoidance of doubt, it should be noted that the establishment of such a framework and an outcome indicating that the potential Retailer-Partner meets these criteria bears no relationship to any decision made within POL's Network Change Programme. POL's preparedness to work with such Retailer-Partners on the basis of the achievement of these criteria is not an acknowledgement that the Network Change Programme decision was inappropriate).

POL will also require the Retailer-Partner to undertake POL's standard application and assessment processes.