

**Renfrewshire Council
Scrutiny Board**

**Review of Post Office
Card Account Scheme**

APPROVED

by Renfrewshire Council
6 March 2007

Report 1: 2006/2007

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**Renfrewshire Council
Scrutiny Board**

Review of Post Office Card Account Scheme

Approved by Renfrewshire Council: 6 March 2007

Convener: Councillor Terry Kelly (Labour)

Depute Convener: Councillor Nan Macgregor (Liberal Democrat)

Board Members: Provost Ronnie Burns (Labour)
Councillor John Hood (Labour)
Councillor Sam Mullin (Labour)
Councillor Richard Vassie (Independent)

Lead Officer: Ian Simpson
Principal Officer - Regeneration Strategy and
Communications
Chief Executive's Department

RENFREWSHIRE COUNCIL

REVIEW OF POST OFFICE CARD ACCOUNT SCHEME FINAL REPORT

1. Summary

- 1.1 At its meeting on 9 May 2006 the Council agreed that the Department of Work and Pensions (DWP) decision to withdraw the post office card account scheme should be subject to a scrutiny board review.
- 1.2 The review undertaken by the Scrutiny Board examined the background and nature of the scheme, the rationale for its withdrawal and the implications for such a withdrawal for the council and users of the scheme.
- 1.3 The Scrutiny Board report, which is appended to this report, details the scope of the investigation; the approach undertaken; consideration of evidence submitted; issues arising from the evidence submitted to the Board; and recommendations arising from the evidence considered by the Board..
- 1.4 The report and recommendations were approved by the Scrutiny Board at its meeting held on 19th February, 2007.

2 Recommendation

- 2.1 That the report and its recommendations be approved; and.
- 2.2 That the Council's thanks be conveyed to those persons who contributed to the review.

IMPLICATIONS OF THIS REPORT

1 **FINANCIAL IMPLICATIONS** - The Council requires to consider transactional costs and implications in relation to the replacement of the scheme post 2010.

2 **PERSONNEL IMPLICATIONS** - None.

3 **COMMUNITY PLAN IMPLICATIONS**

Social inclusion - Access to appropriate financial services for the most vulnerable individuals in Renfrewshire is critical to addressing social exclusion within Renfrewshire.

Modernising government - A co-ordinated approach which improves efficiency and effectiveness contributes to modernising government agenda by improving service delivery to residents of Renfrewshire. Implications arising from the report therefore require to be considered by the Council to ensure that transition is as seamless as possible.

Sustainable development - Ability to access appropriate financial goods and services is critical to residents in Renfrewshire. This is particularly true for vulnerable residents in contributing to the sustainability of their local communities.

4 **LEGAL IMPLICATIONS** - None

5 **PROPERTY IMPLICATIONS** - None

6 **INFORMATION TECHNOLOGY IMPLICATIONS** - None

7 **EQUAL OPPORTUNITIES IMPLICATIONS** - This review will address equal opportunity issues in relation to an assessment of the availability and accessibility of proposed services to particularly vulnerable and/or disadvantaged groups.

RENFREWSHIRE COUNCIL

Post Office Card Account Scheme

1 SUMMARY

- 1.1 At its meeting on 9 May 2006 the Council agreed that the Department of Work and Pensions (DWP) decision to withdraw the post office card account scheme should be subject to a scrutiny board review.
- 1.2 The review undertaken by the Scrutiny Board examined the background and nature of the scheme, the rationale for its withdrawal and the implications for such a withdrawal for the council and users of the scheme.
- 1.3 This report details:
 - The scope of the investigation
 - The approach undertaken by the board
 - Consideration of evidence submitted to the board
 - Issues arising from the evidence submitted to the board
 - Recommendations arising from the evidence considered by the board for further consideration by the Council.
- 1.4 Prior to the Scrutiny Board considering the final evidence for submission by Post Office Ltd on 15 January 2007, the Secretary of State for Trade and Industry announced on 14 December 2006 that the Government were proposing to publish a consultation document on a restructuring of the Post Office network. Consultation will end in March 2007 and it is intended that the restructuring proposals will be implemented over an 18 month period starting in the summer of 2007. At the same time the Minister indicated that the Government have decided to continue with a new Post Office Card Account after 2010. The account will be available nationally and customers will be eligible for the account on the same basis that they are now. The Minister advised, however, that European Union procurement rules leave the Government with no option but to tender competitively for this new product to ensure best value for money for the taxpayer is achieved.
- 1.5 Given this announcement came at the end of the Scrutiny Board's review process, much of the evidence contained in this report commented upon the Government's decision to end the Post Office Card Account in 2010. However, a great deal of the evidence concentrated on issues relating to replacement products and is therefore still current and topical in relation to the consideration of any replacement Post Office Card Account scheme.

2 BACKGROUND

- 2.1 In April 2003, the method for receiving benefits changed from receiving benefits in cash at Post Office's to receiving a direct payment into a bank account. In order to meet the needs of benefit recipients who do not have access to bank accounts the Post Office introduced a Post Office Card Account scheme (POCA).
- 2.2 This is a basic account where benefits, state pensions and tax credit payments are paid into the account. No other payments can be made into the POCA, such as wages, cheques or housing benefit.
- 2.3 The account is very simple in nature you cannot overdraw, no credit checks are carried out when opening it, no interest is paid on balances and no direct debits can be set up from it, ultimately the benefit is credited to the account and the recipient can withdraw some or all of the money directly at a Post Office. However the POCA system differs from the previous Giro/Payment book system in that cash can be withdrawn from any Post Office rather than one single nominated office via cash machines and by use of a PIN number.
- 2.4 Around 3.6million customers of DWP currently have their benefit or pensions paid into a POCA. HM Revenue and Customs and the Northern Ireland Social Security Agency also pay some of their customers by POCA, taking the total number of card accounts in the UK to around 4.25million. The POCA contract is estimated to cost the Government £1billion between 2003 and 2010. The precise value of the contract will depend on how many customers use the card account between now and the end of the contract period.
- 2.5 The Secretary of State for Works and Pensions initially indicated this scheme was a pilot scheme with no intention that it should be funded beyond 2010. The scheme was introduced to help benefit recipients get used to receiving their benefits directly into an account and become familiar with the basics of banking. The POCA was therefore seen as a stepping stone for people without bank accounts and as a means of introducing them to banking concepts and processes with the longer term view of moving people into utilising banking services for receipt of benefit.
- 2.6 The Secretary of State for Works and Pensions advised that 70% of people who have a POCA already have access to a bank or building society account suitable for benefits to be paid into. The Government have indicated that the remaining 30% have now experienced how to operate a bank account through using the POCA scheme and should therefore be able to manage a bank or building society account. The Government advise that benefits can still be collected from the Post Offices after 2010 as there are currently 25 bank and building society accounts that can be accessed from the Post Office at present and benefits can easily be paid into these rather than POCAs.

- 2.7 However, the Secretary of State for Work and Pensions advised Parliament on 14 December 2006 that the Government remained committed to allowing people to get their pension or benefits in cash at the Post Office if they choose to do so via a range of available accounts. He indicated that while the current POCA contract ends in March 2010, the Government have decided to continue with a new account after 2010. The new account will be available nationally and customers will be eligible for the account on the same basis as they are now.
- 2.8 European Union procurement rules, however, require the Government to tender competitively for this product and to ensure that best value for money for taxpayers is achieved. The Secretary of State indicated that the Post Office is well placed to put in a strong bid given the size of the network and the access criteria that the Government will be introducing. The Minister indicated that in addition cash will be available at the Post Office through some 4,000 free to use ATMs which are being introduced across the network, as well as a range of interest accounts. The Minister indicated that these will be attractive to the general public as well as POCA users who choose to build up balances on their card account.
- 2.9 It is against this background that the Scrutiny Board examined the implications of the Government's initial decision not to renew the POCA.

3 SCOPE OF THE REVIEW

- 3.1 The scope of the Scrutiny Board's review was to:
- Explore the Department of Works and Pensions rationale for its decision to end the pilot scheme.
 - Establish a baseline position of the extent of the POCA usage within Renfrewshire.
 - Identify potential impacts for users of the scheme, Post Office's and the Council
 - Consider alternatives available to the POCA scheme within the context of the Government's Financial Inclusion policies.
 - Examine transitional arrangements to assist POCA holders access alternative financial services.
 - Consider the role of banks and financial services industry in providing alternative products and assisting in transitional arrangements.

4 THE EVIDENCE

- 4.1 Evidence was given in response to questions set by the Lead Officer, supplemented by questions from members of the board and by way of presentations and submissions. Evidence was taken from a wide variety of witnesses including Department of Works and Pensions, Renfrewshire Council's Department of Finance and IT, Post Office Ltd, National Federation of Sub Post Masters, Postwatch Scotland, Age Concern and Halifax Bank of Scotland.

- 4.2 The Department of Works and Pensions submitted written evidence for consideration by the Scrutiny Board. In summary the departments evidence indicated that the POCA was introduced in April 2003 to help support the conversion of some customers from having their benefits or pensions paid by order book to having their money paid directly into an account (Direct Payment). The POCA was aimed at those who did not already have an account and was designed as a stepping stone to help people who had not previously used a bank account get used to banking before moving onto an account offering more features.
- 4.3 The DWP estimate that 5,800 customers in the West Renfrewshire constituency use the POCA which equates to 25% of the DWP customers in the constituency and 8,100 use POCA in the Paisley and Renfrewshire constituency or 28% of DWP customers in the constituency.
- 4.4 The DWP stated that although POCA was designed for those who did not already have a bank or building society account, Post Office research has shown that 70% of people who have opened a POCA also had a bank account. The remaining 30% has demonstrated that by managing to open and operate a POCA they should be able to use other easy to operate banking products, including basic bank accounts which are widely available and accessible at post office branches.
- 4.5 The DWP accept that customers will be best served if the DWP and Post Office Ltd work together with the best interests of joint customers as plans are developed to move people from the POCA. DWP priorities will be to ensure that this is as straight forward a process for the customers as possible with the DWP and Post Office Ltd working together to manage the transition from POCA's to other products. DWP indicated that Post Office Ltd have already introduced a new savings account and is developing other savings and banking products which are likely to be more suitable for many of its customers than that current POCA. The DWP accepted that there must be appropriate products in place for vulnerable customers when the POCA ends in 2010. DWP indicated that they are working with Post Office Ltd to meet the differing needs and circumstances of vulnerable customers. DWP indicated that they are therefore looking at a range of alternative accounts. DWP indicated that for some people using an existing bank account may be the most appropriate alternative. DWP indicated that a range of banks also offer basic bank accounts which are very similar in functionality to a POCA and a number of these are accessible via the Post Office.
- 4.6 The DWP indicated that many POCA users may be better served by a savings account such as an instant saver account which the post office introduced on 3 April 2006. The DWP advised that Post Office Ltd is running a three month trial when it will be writing to 10,000 existing POCA customers (with £500+ balance) who do not make frequent withdrawals, to encourage them to open one of its new instant saver accounts.

- 4.7 The DWP also indicate that clearly there will be some need for a product similar to a POCA, because some individuals cannot manage or do not wish to manage a bank account. However DWP indicate that they could contribute more to financial inclusion if alternative products were better targeted at POCA customers without bank accounts.
- 4.8 DWP indicated that the process for developing alternatives to POCA will not happen over night. The DWP advised that POCA still has several years to run, but that planning is starting at an early stage to consider alternatives post 2010.
- 4.9 The DWP indicated that it supports the Post Office's efforts to encourage all major banks to become accessible at Post Offices. However they do recognise that some major banks within Scotland still do not cater for customers in this manner, e.g. HBOS and the RBS.
- 4.10 The DWP indicated that they still wish customers to continue to access their cash at Post Offices. They indicated that there is no reason why the end of the POCA funding in March 2010 should automatically lead to Post Office closures. There is no reason why Post Office Ltd should not be able to retain the business of existing POCA customers if it offers them the service that they want, or, indeed, it improves on what is currently available via POCA through its own new products.
- 4.11 DWP indicated that they are not terminating the POCA scheme. They indicated that the scheme is fully funded to March 2010 as originally planned, which meets the DWPs contractual commitments in full. The DWP note however that it is important that all branches of Government seek to obtain best value for the tax payer. DWP indicate that it costs £1 to make a payment into a POCA compared to 1p into a bank account. They reiterated that 70% of POCA customers currently have a bank account.
- 4.12 The DWP indicate that the current POCA is very similar to a basic bank account offered by some banks. They both involve using a plastic card and PIN number and can be accessed at Post Offices. The main differences are that the basic bank accounts can also be used at ATMs, they can pay bills through direct debits and pay other money (e.g. wages and occupational pensions) into them. The FSA have produced a leaflet on basic bank accounting which provides useful information on the functionality of such accounts.
- 4.13 The DWP indicate that they are aware that some particularly vulnerable customers may require assistance during the transitional phase from POCA to other products and services. They indicate that DWP plan to put in place arrangements to provide help and support for customers to open new bank accounts where appropriate. As they have done in the past the DWP could support, where appropriate, customers requiring assistance in completing an application form to open a bank account or in obtaining the required documents to prove their identity. The DWP also indicate that they would anticipate that

some individuals would turn to organisations such as Citizen's Advice, Welfare Rights or Money Advice Teams for assistance.

- 4.14 Finally DWP indicated that they recognise that some individuals may not be able to access banking services e.g. those with a record of fraud against a bank. In such cases the DWP indicate that they could continue to pay these people by DWP cheque.
- 4.15 The Scrutiny Board heard the evidence from Elaine McCue, Department of Finance and IT which highlighted the following issues for consideration by the Scrutiny Board.
- 4.16 Elaine advised that the Government's decision not to renew the above contract may result in a loss of income for the 34 Post Offices in Renfrewshire, which could place them at risk of closure. The income from the management of benefit payments is seen as vital to their viability. Elaine further advised that any large scale closures of Post Office outlets could jeopardise the Council's income. The volume and value of council tax payments received via the Post Office network is the second largest income source after direct debit. It is the largest non electronic payment receiving facility.
- 4.17 As well as impacting the Council's cash flow there may also be an impact on cost. The Council has negotiated a payment collection fee with the Post Office which is based on current payment volumes. Any reduction in the volume of payments made at Post Offices may have a consequential impact on the negotiated collection fee. The Council has a long established relationship with the Post Office as a collection partner and the Post Office is viewed as the payment location of choice for many of our customers who made 213,000 payments to the Council last year. The Council would not be in a position to make alternative facilities available on this scale. Despite the Department of Finance & IT's attempts over recent years to encourage customers to take up electronic payment options, there are still customers for whom direct debit is not an option.
- 4.18 Elaine advised that should the decision not to renew POCA result in Post Office closures, the Council would require to try to secure alternative payment receiving locations to ensure that the cashflow to the council is protected. This may require the Council to explore the banking network with attendant costs associated with that solution.
- 4.19 Elaine advised that it is clear from research undertaken to support the Council's Financial Inclusion strategy that certain client groups, principally those on benefits have difficulty gaining access to reasonably priced secure financial products including fully operational bank accounts. It is clear that if access to POCA's were to cease, it would be imperative that Government support those individuals to gain access to secure bank accounts which meet their needs.

- 4.20 Elaine further advised that one of the principal reforms that the Government is taking forward is the introduction of local housing allowance to replace housing benefit for private sector tenants. This will result in tenants receiving a cheque each month in payment of their rent. Currently this payment is made directly to the land lord of the property. In order to manage their finances and maintain their tenancy by paying their rent on time, tenants need to have access to bank accounts. Many individuals in this client group will have operated POCA's to manage their state benefit payments.
- 4.21 Elaine advised that the Council withdrew the facility to make a payment at banks through bank giros some years ago due to the cost of the service and relatively small number of people using it. She further advised that any large scale move of banking from the Post Office to mainstream banks may need the Council to reconsider that decision and open up a banking network for use. Elaine advised that this would incur additional costs per transaction (unknown at the moment but estimated at around £2 compared to 50p transactional costs for the Post Office). Elaine further advised that the Council currently receives around 25% of council tax payments in any year for customers using the Post Office as a preferred payment location. This amounts to around £11.5million of income.
- 4.22 The Scrutiny Board heard evidence from Tricia Dow of Postwatch Scotland and the Linda Smith of the National Federation of Sub Postmasters. In summary, Postwatch Scotland worked closely with the Department of Works and Pensions and many statutory and voluntary organisations before and during the Government's payment modernisation programme, which aimed to migrate individuals from receiving benefits by order books and giro cheques to using one of three accounts: basic bank accounts, current accounts and POCA's.
- 4.23 The introduction of the POCA and its use by £3.4 million people has helped the Post Office Ltd retain some £400 million worth of transactions which could have been otherwise lost through the Government's change to the direct payment of pensions and benefits. The POCA is therefore important in providing many sub post masters with a significant proportion of their income. The POCA has several advantages over the old system of order books and giro cheques. Firstly instead of having to receive weekly pension or benefit in a lump sum, POCA holders can withdraw some of their benefit from their account. Secondly POCA customers can access their account at any Post Office throughout the UK.
- 4.24 Postwatch expressed a number of concerns regarding the termination of the POCA contract in 2010, specifically in connection with the timing and manner of the announcement. Postwatch Scotland intimated that when POCA was introduced it was not promoted as a pilot or temporary product. Postwatch Scotland are also unaware of any research or consultation undertaken by the DWP to determine what customers needs will be in 2010.

- 4.25 Postwatch Scotland are particularly concerned regarding the withdrawal of the POCA and its impact on the viability of Post Offices and Sub Post Offices. This relates not only to the direct subsidy which POCA represents but also through a reduction of foot fall traffic and subsequent buying of additional products from Post Offices and Sub Post Offices, which further jeopardises their financial viability.
- 4.26 Postwatch Scotland believes that the government needs to recognise the impact of its decision on the viability of the Post Office network and produce a coherent cross government strategy for the networks future. In this regard the withdrawal of POCA cannot be looked at in isolation.
- 4.27 Postwatch Scotland intimated that any new product or products should be developed in consultation with relevant stakeholders. Postwatch Scotland are particularly concerned regarding the design of new products which will require to take into account the needs of financially excluded individuals. Postwatch Scotland reiterated the need to ensure that products made available cater for customers who do not wish or cannot use a bank account to receive their benefit or pension.
- 4.28 Postwatch Scotland further advise that the Government needs to make every effort to encourage banks to make available more current accounts at Post Office Counters. Currently only 40% of UK current accounts are accessible at Post Offices.
- 4.29 Postwatch Scotland are extremely concerned that the withdrawal of POCA will have a severe financial impact on Post Office's and Sub Post Offices. Postwatch Scotland noted that Post Office Ltd made an operating loss of £111million in 2005/06. Government business transacted through Post Office Counters is down by £168million per year on year and this trend is expected to accelerate following the DWP's decision to end funding of the POCA from 2010. The POCA has brought an average of £249 (10% of a sub postmasters net pay) according to recent research conducted by Moray for the National Federation of Sub Post Masters. Sub Post Masters in urban deprived areas are most dependent on POCA's as a source of income, as the Card Account brings them an average of £403 (12% of net pay).
- 4.30 The potential closure of sub post offices will in Postwatch Scotland's view have a detrimental impact upon communities, particularly rural communities. In addition alternative banking facilities are not readily available for particularly elderly rural customers who depend on obtaining cash from pensions at post offices. Postwatch Scotland have raised a number of concerns regarding the withdrawal of POCA in a letter to the Secretary of State and Works and Pensions.

- 4.31 Linda Smith indicated that the National Federation of Sub Postmasters viewed the POCA as very successful with many people utilising POCA as a means of increasing their financial inclusion. The National Federation indicated that DWP never identified that POCA was a temporary measure which would cease in 2010.
- 4.32 The National Federation are also concerned regarding the potential for closures of Post Offices and Sub Post Offices, not only from losing the direct income from POCA accounts but also retail business as a reduction in the numbers of people using post offices and sub post offices will be inevitable following the withdrawal of POCA.
- 4.33 In addition to direct services post offices currently provide, the National Federation indicated that there was a strong social service to customers, particularly in rural areas where sub post offices often acted as a community hub.
- 4.34 The National Federation indicated that there are potential difficulties in offering alternative services through the banking network. Some alternative services would have to be developed to meet the needs of current POCA customers taking into account individuals needs and circumstances.
- 4.35 In addition the National Federation reinforced Postwatch Scotland's concern regarding the number of banks who were currently operating services via the Post Office. The National Federation however stated that POCA could not be looked at in isolation and had to be examined within the Government's review of the Post Office Network, including the type of functions that the network would undertake.
- 4.36 The Scrutiny Board heard evidence from Vincent Finney of Age Concern Scotland. Age Concern indicated that the POCA was introduced for people unable to open a bank/building society account for reasons such as lacking sufficient ID or having a poor credit history. The need for such an account has not necessarily changed with the introduction of basic bank accounts. Therefore the withdrawal of POCA would only be acceptable if suitable alternatives were in place.
- 4.37 Age Concern also indicated that another important feature of POCA is that it is a product that is available from the Post Office. It is therefore popular with people who wish to support their local post office or who do not have a bank or building society nearby. The fact that some limited banking services are available through the Post Office is not a sufficient alternative because not all banks offer a service via the Post Office and individuals would require to have a functioning bank account in the first place.

- 4.38 Age Concern advised that older people who will be affected the most are those without a local bank, who do not have the financial literacy or skills to manage a bank account; or who sometimes require someone else to collect their benefit. Age Concern also highlighted that the ending of POCA could incur further loss of business to Post Offices which may result in further Post Office closures. Age Concern indicated that supporting elderly people to transfer to an alternative scheme may require one to one support in exploring individual options for utilising alternative products and services. Age Concern emphasised that support would require to be independent of the Department of Works and Pensions.
- 4.39 Age Concern is closely monitoring the current situation and will continue to ensure that older peoples interests are represented. They will contribute to any consultation of a replacement product for POCA.
- 4.40 Age Concern indicated that any replacement product should take into account the needs of people who are unable to collect their pension or benefits themselves, unable to open or manage a bank account and are unable to access a bank due to geographic distances.
- 4.41 Age Concern indicated the introduction of basic bank accounts and availability of limited banking services at Post Offices does not mean that the majority of people have an alternative to the POCA. Age Concern further stated that because alternatives exist does not necessarily mean that they will be suitable for elderly people.
- 4.42 The Board noted written evidence from Halifax Bank of Scotland which indicated that in its view access to financial services had improved a great deal in the last twenty years. According to the British bankers association, 25 years ago only 38% of the population had current accounts and one third of all adults had no account of any type. Now 94% of all households have an account of some kind.
- 4.43 HBOS and the banking sector is committed to working with the Government to achieve the target set in December 2004, to half the £2.8m unbanked households within two years. HBOS has a long tradition of social banking having introduced the first social banking product in 1983. HBOS are also one of the largest providers of social banking, with a current market share of between 35-40%, three times HBOS's market share in personal banking as a whole.
- 4.44 HBOS current basic bank account product is the easy cash account. The account is aimed at customers aged 16+ who require a basic bank account, without access to credit facilities. The account offers limited branch, telephone and online banking, plus access via the Post Office and an ATM card. Historically HBOS have offered customers requiring a bank account with limited facilities a card cash account. HBOS stopped offering card cash accounts to new customers 18 years and over in March 2005.

- 4.45 HBOS advised that major banks provided funding to establish the current POCA. The banks did not provide assistance with the design or infrastructure of POCA accounts. HBOS advised that they understand that the British bankers association will initiate discussions following the DWP announcements regarding the ending of POCA by 2010. HBOS will engage in this debate once they have considered their position in light of Government announcements.
- 4.46 HBOS advised that products, whether offered by the Post Office or by financial service providers, need to offer certain functionality as standard in order to effectively tackle financial exclusion. Direct debit, standing orders, an ATM and debit functionality are all important features. HBOS's experience with social banking market tells them that functionality is what really matters to consumers. HBOS have recently introduced debit card functionality to their easy cash account as a direct result of research conducted with basic bank account customers to find out which facilities they value.
- 4.47 HBOS advised that they believe that in terms of functionality current alternative products do meet the needs of current POCA holders. What is more difficult to determine is how people will feel about moving their POCA to another product and/or another provider.
- 4.48 HBOS advise that some customer analysis will be necessary to establish what sort of assistance, if any, consumers will need. Some customers will already hold bank accounts and so may require less assistance. Other customers may need more guidance about where to transfer their accounts. HBOS believe that two key elements are very important:
- Consumers need to have a choice about which institution/post office or financial service provider they can transfer their POCAs to.
 - The Government and the Post Office need to communicate the 2010 deadline to POCA holders in a clear concise way so that these customers understand that they will need to take some action to avoid being financially excluded.
- 4.49 HBOS also advised that it is possible that banks will have a role in conjunction with the DWP in marketing alternative financial products and services. However until DWP makes its proposals clear and consults with the industry it is difficult to assess what that role will be.
- 4.50 HBOS further advised that the Government did not consult with the industry in its plans to end the pilot scheme in 2010. This means that the industry needs to operate in line with the Government's decision and continue to offer social banking products to help society move towards financial inclusion.
- 4.51 The Scrutiny Board heard evidence from Julia Morrison and Ian Smith of the Post Office Ltd. Julia and Ian advised that there are currently 1,676 Post Office branches in Scotland of which 559 are urban, 1117 are rural and 44 are Crown

branches. Two million people collect benefits at Scottish Post Offices. There are currently 5 rural transfer advisers working throughout Scotland helping local communities keep Post Offices open. There are currently 14,300 Post Office branches in the UK, 8 times the number of Tesco stores and more than all banks put together in the UK.

- 4.52 Post Office Ltd have 48 Post Office branches in Renfrewshire, 35 urban and 13 rural.
- 4.53 By way of background, Julia and Ian advised that recently the urban Post Office network had been restructured and that the rural network is currently supported through Royal Mail group reserves until March 2008. The Post Office is also the number one retailer in the UK for foreign currency. The Post Office have also put in place a 5 year programme to instal free to use ATMs in branches. Currently 1,500 branches have such ATMs installed.
- 4.54 Julia also advised that all basic bank accounts can be used in Post Office branches and current accounts with 17 UK banks including Clydesdale Bank, Lloyds TSB, Co-op and online banks Cahoot and Smile are also accessible via the Post Office network. Julia advised that Post Office Ltd deal with 24 million customers per week in the UK.
- 4.55 In looking to the future, Julia advised that the Post Office is seeking to develop a range of new products and services such as home phone, financial services via credit cards, instant savers and travel cards, personal loans, car insurance, home insurance, savings products and growth guaranteed equity saving bonds, savings stamps and child trust funds.
- 4.56 However, Julia indicated Post Office Ltd are facing a number of key challenges. These include:
- Need to develop more new products/businesses and find new, more efficient, ways of working.
 - Need to deal with the overall losses of £111 million per year (2005/06).
 - Rural branches losing £3 million a week (2005/06) and 80% of branches not financially viable.
 - Some 4 million fewer people are using the Post Office over the last two years.
 - Government led transactions are expected to fall to less than 10% of branch business by 2010.
 - An increasing number of people are buying car tax online.
 - 8.5 million out of 10.8 million pensioners now use bank accounts for pensions.
 - In the UK, 800 smallest post offices serve just 16 people a week, a total of 1,600 offices serve fewer than 20 customers a day.
 - 35% of Scottish branches have less than 100 customers per week.
 - The size of the Post Office network depends entirely on Government funding.

- 4.57 Julia advised that the Post Office have looked at innovative ways to strengthen the current Post Office network, such as franchising arrangements with retail groups such as Spar and W H Smith and promoting partnerships with other agencies to deliver services in a shared way with organisations such as Fife, Lothian and Borders Police. The Post Office have also run some rural pilot schemes providing outreach Post Office services to small villages including mobile Post Offices and core and outreach branches.
- 4.58 Julia advised that the Secretary of State for Trade and Industry's statement in December 2006 indicated that the Government anticipate Post Office Ltd losses of £200 million per year and these are expected to rise. In addition it was indicated that 2,500 urban and rural Post Offices will close. The Department of Trade and Industry has announced a consultation on the Post Office network which will run until 8 March 2007. The Royal Mail group will be consulted along with other interested parties as part of this process. The Government announced packages worth up to £1.7 billion investment in the network over the next 5 years which includes £150 million rural subsidy until at least 2011. Such subsidy is subject to state aid clearance from Europe. In addition, the Government announced its criteria for the new Post Office network which includes proposals to ensure that:
- Nationally 99% are within 3 miles and 90% of population within a mile of a Post Office.
 - In deprived urban areas 99% are to be within a mile.
 - In urban areas 95% are to be within a mile.
 - In rural areas 95% are to be within 3 miles.
 - In remote areas 95% of the population in post code districts within 6 miles.
 - Across the country the Post Office need to take into account of local conditions such as rivers, mountains, motorways and seas crossings.
- 4.59 In addition the Post Office Ltd is to set up 500 innovative outlets in the UK based on its rural pilot branches report. These include mobile branches, services in halls and community and core and outreach branches. An investigation is to take place into what role local authorities and the Scottish Executive/Parliament might play in influencing how services are best delivered in the future. After consultation the Post Office Ltd will develop its restructuring plans on an expected 2,500 branches at a mix of urban and rural sites based on the new criteria identified above.
- 4.60 Julia advised that Post Office Ltd are keen to work in partnership with a range of agencies. She intimated that Post Office Ltd is the largest and most trusted network of high street outlets in the country. The Post Office can also work with local authorities and other agencies to provide services to local communities. New methods of operation offer opportunities for local authorities to work with the Post Office to meet efficient government targets and make substantial savings.

4.61 Specifically in relation to the POCA scheme, the Post Office welcome the Government's decision that the current POCA account will be turned into a new account for 4.3 million users. The Post Office Ltd will have an opportunity to tender for this work along with other agencies and is in a strong position given its network. The new account will be available nationally and customers will be eligible on the same basis as they currently access the scheme.

5 ISSUES EMERGING FROM THE EVIDENCE

5.1 A number of issues emerged as a result of the evidence given by witnesses. These can be summarised as:

- Any alternative product that is being developed must be flexible in nature and meet the needs of particularly vulnerable groups. e.g. the elderly. The functionality and accessibility of any product therefore is critical in terms of providing a choice to meet individuals needs.
- There is a requirement for the Government to consider what work is required in conjunction with the banking sector to ensure accessibility to the widest range of products possible. This will necessitate work with banks which currently do not provide their services via the Post Office, if the Government wish to see an increase of individuals with bank accounts utilising Post Office's to access those accounts.
- There is a requirement for any replacement product to meet the needs of individuals with a poor credit history or who have difficulty in providing sufficient identity documents to open mainstream banking accounts. In addition any replacement product needs to consider third party collection particularly for elderly individuals and this should form a key component of any replacement product.
- More research in general to determine the needs of existing POCA customers needs to be undertaken by the DWP in determining the range and functionality of any replacement product prior to its introduction.
- The Government in developing an alternative product require to consider:
 - Better targeting of any replacement of the POCA
 - The product must provide better value for money
 - The product must have more features than the current POCA
- A number of witnesses commented that the application process for POCA is somewhat complex. Again the Government should consider simplifying this process for any replacement of alternative product that it intends putting in place.
- The Government need to consider that only 40% of existing mainstream current accounts are available via the Post Offices. The Abbey, HBOS,

HSBC, RBS and Natwest don't make their accounts accessible via Post Offices and this issue will require to be addressed. In general terms only 2.3million of the 5.7million basic bank accounts are available via Post Offices.

- While part of the motivation for reviewing the POCA is greater efficiency for central government there are potential hidden costs for local authorities as a result of the replacement of the POCA. As indicated in section 4.17 and 4.21 of the report Renfrewshire Council currently has a preferential agreement with the Post Office for payment of Council Tax which is more advantageous to that which could be obtained via the banking sector. This issue may not be unique to Renfrewshire and therefore there is a potentially wider implication for other local authorities in relation to their current arrangements for Council Tax collection.

6 RECOMMENDATIONS

6.1 Following on from the evidence provided to the Scrutiny Board and subsequent issues arising, the following general and specific action is recommended:

1. That the Council should make representation to the Minister for Works and Pensions indicating that while the Council welcomes the commitment to continue the POCA post 2010, the Minister requires to consider:
 - a. The need for further research to determine the needs of current POCA holders, for any replacement scheme requires to be undertaken
 - b. How the needs of the most vulnerable will be taken into account in any proposed replacement product with regards to accessibility and third party collection.
 - c. That there is a requirement to simplify the current POCA application process with any replacement products.
 - d. There is a requirement to ensure the accessibility of any replacement products via the Post Office network both in terms of geographic distance required to travel and the accessibility of alternative products via the Post Office network.
 - e. There is a requirement to address the issue of accessibility of bank accounts with the banking sector given that 60% of current accounts are not available via the Post Office Network.
2. That the Director of Finance & IT should carry out a risk assessment on the potential for increased transactional costs to the Council as a result of POCAs replacement and contraction of the Post Office Network.

3. That the Director of Finance & IT should investigate via COSLA the extent of hidden costs to Local Authorities across Scotland in relation to the replacement of POCA and contraction of the Post Office Network and if required via COSLA make subsequent representation to the Minister.
4. That the Head of Policy, Chief Executive's Department, explores shared services with Post Office Ltd within a Renfrewshire context.