

Department of Trade and Industry Post Office Network Consultation

Response from the National Federation of SubPostmasters

1 The National Federation of SubPostmasters

1.1 The National Federation of SubPostmasters (NFSP) is the only body representing the interests of subpostmasters throughout the United Kingdom. Sub post offices make up 97% of the national network of post offices and are run by subpostmasters, private business people.

2 Background

2.1 In December 2006 the Department of Trade and Industry made a number of proposals aiming to deliver a strong, stable, sustainable national post office network. The proposals include making further funding available over the five years to 2011; new access criteria for the network; a continuation of a new account following the end of the Post Office card account in 2010; 2,500 post office closures; new outreach services for small remote communities; support to enable Post Office Ltd to expand into new areas of business; finance to restructure and modernise the Crown office network; and an investigation into the role local authorities and devolved administrations might play in how Post Office services are delivered.

2.2 The Department of Trade and Industry has invited views on any aspect raised in the consultation document which sets out the Government's proposals. This is NFSP's response to the consultation.

3 Social and Economic Role

3.1 NFSP is delighted that the Government recognises the important social and economic role played by post offices and acknowledges the need for ongoing Government payments to support this role where it cannot be commercially viable.

3.2 The evidence for the social and economic contributions made by post offices is overwhelming. Many studies have highlighted the extremely valuable role played by the network in supporting local communities. This includes assistance for vulnerable residents, such as older and disabled people – interpreting official letters, fielding lost property, taking messages and offering emotional support. In urban deprived areas and rural areas between 35% and 41% of post office customers have been found to use subpostmasters as a source of informal advice.^{1,2} Post offices also provide a focal point for communities by offering a place to come together and a venue for agencies like the police, local authorities and tourist attractions to display information. In urban deprived areas 61% of customers use their post office to access free community services, in rural areas this is reported to be as many as 69%.³

3.3 Post offices provide an important function in supporting local retail. Around 75% of post offices have a shop or other business attached to the post office. In deprived urban and rural communities post offices are frequently the only local place to take out cash. Post offices provide services for local businesses, especially through cash and deposit facilities, stamps and mailing. The Federation of Small Businesses found 20% of small businesses use the post office every day and 47% use it more than once a week.⁴

3.4 Post offices play an essential part in supporting local economies. A recent study by the New Economics Foundation (NEF) emphasises the role of post offices as an anchor for local communities.⁵ Based on detailed analysis of Manchester post offices, NEF concluded each post office contributes around £310,000 to the local economy each year, of which £120,000 is direct spending on local goods and services. In addition, NEF's analysis reveals that each post office saves small businesses in their direct vicinity in the region of £270,000 a year.

3.5 The All Party Small Shops Group has reached similar conclusions and highlights the fact that at the local level, small shops clustered together rely on each other for survival.⁶ Outlets such as post offices, newsagents, butchers and grocery stores may all depend on each other to attract people to a location rather than any one specific shop. The loss of a few of these shops may render a local shopping trip unviable for customers and lead to further closures – a domino effect. Post offices are particularly key because of their unique social value and the sheer diversity and range of services provided which distinguishes them from other retailers. The post office is also highly valued and trusted compared with other retailers, especially in disadvantaged communities.

4 Stable Network

4.1 NFSP welcomes the Government's commitment, expressed in the consultation, to place the post office network on a stable and more sustainable footing for the longer term. This was confirmed by Rt Hon Alistair Darling MP, the Secretary of State for Trade and Industry, to the House of Commons Trade and Industry Committee.⁷ Mr Darling attested that following the Government's proposed closures there would be around 11,600 post offices and 500 remote services. Mr Darling states this is a stable figure for the medium term and said that "if you do not have about 12,000 odd post offices you will not get the national network that we need". NFSP welcomes these comments. It is essential for subpostmasters to know their offices have futures, both individually and as part of a wider thriving network. Without this, subpostmasters will find it very difficult to invest in their businesses and will lack the confidence necessary to do so. Nor will it be easy to sell post offices on to new owners when existing incumbents need to retire or move on. Such outcomes would result in a stagnating or declining network.

4.2 It is also necessary for Post Office Ltd clients to know the number of post offices is stable. Fears of an ever diminishing network are not likely to bring in new business or renewed contracts if there are alternative networks or methods of service delivery. Additionally, NFSP is pleased to see recognition

of the need for a minimum number of post offices. The strength of the network lies in its depth and reach, and we fear an ever reducing network would inevitably undermine its strength and future viability.

5 Government Investment

5.1 In December's press statement accompanying the publication of the consultation document, the Department of Trade and Industry declares plans for "an investment package worth up to £1.7 billion for the Post Office designed to preserve the national network, and set it on a firm footing."⁸ NFSP welcomes the Government's plans to provide essential finance that the network so urgently requires. However, we are concerned about precisely how the sum announced is to be used.

5.2 At the House of Commons Trade and Industry Committee's oral hearing in January, the Secretary of State for Trade and Industry seems to indicate that the £1.7 billion sum may also be used to help Royal Mail Group in relation to their pension deficit.⁹ At another point during the hearing the Secretary of State for Trade and Industry also suggests that some of the £1.7 billion announced includes money that has already been paid or allocated prior to December 2006.¹⁰ NFSP is very unclear about the nature of the Government's investment. NFSP would like to know whether any of the £1.7bn is to pay for Royal Mail Group's pension deficit; whether any of the £1.7bn has already been paid or previously allocated; what precisely the £1.7bn is intended to pay for and how the sum is to be broken down.

5.3 In the consultation document the Government explicitly recognises that there will be a need for an ongoing social network payment of up to the current level of £150m a year. This is due to continue at this level until 2011. The payment is made to Post Office Ltd, and up to 2008 it had been earmarked for the rural network. Between 2003 and 2006 it was reserved to cover the assigned office payments to rural subpostmasters; rural network infrastructure including IT and cash delivery; and pilot work to test new ways of delivering services.

5.4 NFSP is delighted that the Government recognises the ongoing need to provide financial support to the parts of the post office network that are not commercially viable. However, we have a number of concerns regarding the social network payment. Firstly, NFSP understands that this payment is now due to cover the urban deprived network and other urban non-commercial post offices, as well as the rural post office network. Even with a reduced rural network, this seems to indicate a thinner spread of the fund. We would welcome an explanation of the rationale behind this decision. We are also concerned that the £150m will not increase with inflation and remains at the 2003 level over the following eight year period until 2011. This represents a real terms reduction in the social network payment.

5.5 The social network payment is a payment which is made to Post Office Ltd. This sum is clearly essential to support the infrastructure necessary to maintain the non-commercial parts of the post office network. However, NFSP is concerned that there is no sum available to provide direct support to the

sub post offices. We know that when subpostmasters' businesses are not viable, post offices close and we are deeply concerned that a great many subpostmasters' businesses are currently on the very edge of viability. There is considerable evidence to support this conclusion.

5.6 Last year's independent research study by Ipsos MORI research shows that in January 2006, 40% of subpostmasters were unable to cover their post office staff costs, overheads and personal drawings from their net post office pay – i.e. they made a loss. An extremely worrying 39% of subpostmasters, 54% in urban deprived areas, said they saw no future whatsoever for their business.¹¹ A separate study carried out for Postcomm last year supports these findings. The Postcomm study found between 66% and 71% of urban subpostmasters say they are worried about the future, see no future whatsoever or expect to be bankrupt in the near future. Between 37% and 43% were also considering selling their post office. But only 15% of subpostmasters who were thinking of selling thought it would be easy to do so.¹²

5.7 NFSP believes the Government needs to provide ongoing payment directly to the non-commercial parts of the network for the social and economic service these post offices provide. The social network payment to Post Office Ltd is a necessary but not sufficient payment to support these important functions.

6 Network Modernisation and Restructuring

6.1 The consultation paper sets out plans to modernise the Crown offices. It states Post Office Ltd needs to refurbish and invest in these offices, transforming them into flagships of the Post Office brand. As well as improvements to the premises and layout, the customer services are to be brought up to the standards "customers expect of a modern retail business".

6.2 NFSP is extremely concerned that whilst there is money for Crown offices, there is no sum available to help refurbish and provide physical improvements to the sub post office network. Under the previous Urban Network Reinvention programme, subpostmasters affected by nearby closures were able to apply for grants of up to £10,000. The grants were available to make capital improvements, including refurbishment. In practice, we understand, grants averaged at around £6,000. This is a very low amount for refurbishing a retail outlet, even when match funded by the subpostmaster. Nevertheless, independent researchers have concluded that such investment grants may be important in improving the quality of the "offering" provided by the post office. As this may act to stop the decline in use in the future it is "an important component in ensuring the ongoing viability of the branch network".¹³

6.3 A considerably more generous grant was available during 2003 and 2004, to assist subpostmasters in deprived urban areas. This grant offered up to £50,000 and did not require match funding. The grant in England was run by the Office of the Deputy Prime Minister, in Scotland and Wales grant programmes were run by the devolved administrations. An evaluation of the English grant, the Deprived Urban Post Office Fund, found it to have been

hugely beneficial to the post offices that received it. 77% of subpostmasters have increased sales turnover since the grant funded alterations, with an average increase of 18% in profitability. 70% of subpostmasters reported an increase in the number of customers and 72% of the public felt that the alterations had improved their access to particular goods and services. In addition, 61% of subpostmasters had taken on new staff following the improvements.¹⁴ However, NFSP believes there remains significant unmet need for grant aid in the urban deprived sector. To take the English figures, around 82% of subpostmasters in deprived urban areas did not receive a DUPOF grant and significant numbers of subpostmasters continued to enquire about grant availability after the fund closed.

6.4 The grant situation for rural offices has always been extremely limited. The current rural grant for existing sub post offices (the Rural Investment Challenge Fund) is very restricted with a total sum of only £1 million and providing a maximum of £10,000 per grant which could equate to a mere 100 post offices a year. Subpostmasters are also required to provide match funding. We are concerned that the need in the rural network is greater than can be met by this grant; and that a considerable proportion of rural post offices could receive a significant boost if able receive adequate grant funding for improvements.

6.5 NFSP believes that to meet current and future refurbishment and general office improvements, a fund should be available on an ongoing basis to provide grant aid to the sub post office sector.

6.6 As part of the modernisation of the Crown office network, NFSP understands that the radically updated open plan layout Crown offices will include highly trained staff with specialised areas of expertise. These proposals form part of Post Office Ltd's five year plan, *Forward:five2eleven*. We also understand the sub post office network itself will be divided into two tiers. The first tier will be of around 2,700 commercial sub post offices and offices run by some retail chains ('multiples'). The remaining sub post offices will be known as 'community' offices. We are deeply concerned that Post Office Ltd resources will be directed to the commercial offices; leaving the community offices as a "Cinderella" service with less well-trained staff offering significantly fewer services. Inevitably, a more restricted range of services and products on sale in community offices will mean these offices will be limited in the Post Office revenue they can generate.

6.7 NFSP believes that not only is more financial investment, in the form of grant aid, required for the sub post office network; but investment in people in the form of training is also needed. We fear current proposals will result in a stratified post office network, including a two-tier sub post office network. Community offices risk a downward spiral; becoming increasingly less cared for and with inadequately trained staff, unable to provide the full range of products and services therefore powerless to turn their fortunes around.

6.8 In contrast we hold that training for all sub post office staff needs a considerable boost. We know that some subpostmasters are not selling some

of the newer products and services because they do not understand the offer. Many subpostmasters are dissatisfied with the training provided to them. Currently most training is either after business hours or via written material that subpostmasters are expected to read in their own time. The subpostmaster is also expected to train his or her own staff on the job. Such arrangements make it difficult for a subpostmaster who already works long hours in his or her office to gain the maximum benefit from any available training.

7 Post Office Card Account

7.1 NFSP is delighted that there is to be a successor to the Post Office card account after 2010 and that the Department of Trade and Industry states that Post Office Ltd is well placed to put in a strong bid to run it. We understand the EU procurement rules mean the Government must tender competitively for the account. However, we believe that if Post Office Ltd does not win the tender, the outcome will be catastrophic for our national post office network. Over four million people use the card account which brings in £200 million a year to Post Office Ltd. On an individual level, Post Office card account transactions bring subpostmasters an average of £249 a month (10% of a net pay). In the case of subpostmasters with offices in deprived urban areas, card accounts bring them a monthly average of £403 (12% of net pay).¹⁵ These figures, of course, only refer to income directly derived. People undertaking card account transactions are likely to use other post office services, or purchase services or goods from businesses attached to post offices while they are on the premises. In this way sub post offices also benefit indirectly from providing card account services.

7.2 NFSP notes that little detail about the proposed successor to the Post Office card account has been released. NFSP is extremely concerned that there should be a seamless migration between the card account and its successor and that account holders – many of whom are amongst the most vulnerable and least literate in our society – will not have to fill out further forms or overcome other hurdles in order to use the new account. It is essential that Post Office card account customers can continue with their chosen account and are not cajoled into opening bank accounts.

7.3 We also note the comments about increasing the existing functionality of the card account for the successor product. NFSP supports this vital proposal. We believe that this offers an excellent opportunity to develop an account which genuinely meets the needs of people on low incomes. We recommend that note should be made of existing research around banking for people on low income, and this should be used to inform the design of the card account's successor. For instance the House of Commons Treasury Committee and the National Consumer Council have highlighted shortcomings of the high street banks' basic bank accounts – including issues around account opening, direct debits, penalty charges, counter access, cheque clearing times, day-to-day account monitoring and face-to-face support.^{16,17} The older people's charity, Help the Aged, has undertaken specific research into the needs of older people and makes recommendations

about the design and features of a successor to the Post Office card account.¹⁸

7.4 NFSP is keen to work with the Department for Work and Pensions, Post Office Ltd and consumer groups to ensure that a new re-vamped Post Office card account makes important inroads in the promotion of financial inclusion, as well as retaining and developing a critical source of income for the post office network.

8 Subpostmaster Income

8.1 Income levels are a major concern for subpostmasters, and we are extremely concerned that there is nothing in the Government proposals that will increase subpostmaster pay. Recent independent research carried out by Ipsos MORI confirms the precarious state of subpostmaster income.¹⁹

8.2 Following encouragement from the Government, over the past three years Post Office Ltd has introduced a range of services designed to make up for a considerable amount of the business lost in processing benefits following the introduction by the Government of Direct Payment. The new services include banking, financial services and telephony. Post Office Ltd has stated that these services are vital to the future of the post office network. The NFSP fully supported this work, believing that this was an essential step in bringing new income streams into the network. However, in practice the new services are bringing in very little income to sub post offices. Ipsos MORI found that in January 2006, average earnings from banking services were £46 per month (1% of average net post office income); financial services brought in £7 a month on average; and telephony £5.

8.3 At the same time overheads and staff costs have been increasing. Average overheads rose by 19% and staff costs by 12% between 2004 and 2006. Over the same period, subpostmasters' personal drawings from their post office business reduced by 6% in real terms. A quarter of subpostmasters were found to be using personal savings and a quarter supplementing their income with pensions. Two fifths of subpostmasters were operating at a loss - unable to cover their post office staff costs, overheads and personal drawings from their post office pay.

8.4 NFSP understands that the 2,500 proposed post office closures are intended to improve the viability of the remaining offices. However, without a clearer vision of the additional products and services which post offices will offer, we are deeply sceptical that closures alone are likely to make much of an improvement to the viability of those sub post offices which remain in the network. An in-depth study of post offices following the previous closure programme, Urban Network Reinvention, drew no clear conclusions about post office business improving following the closure of nearby offices. The study concluded that any increases in business *may* reflect migration of business from closed branches; but was also likely to be due to network wide non-Urban Reinvention Programme income changes and the revised pay structure introduced by Post Office Ltd over the relevant period.²⁰

9 New Business

9.1 A key part of the Government's proposals for putting the network on a more sustainable footing is the development of new market and business opportunities and improving the products and services currently on offer. NFSP agrees that this is an essential aspect of any plans for the future of a viable and sustainable network. However we believe the suggestions put forward in the consultation document are inadequate and massively insufficient for turning the network around and providing it with a sustainable future in the longer-term. The major business areas addressed in the consultation are mails, financial services, telecoms and government services.

9.2 NFSP agrees it is right for the post office network to build on its traditional products and position as the retail arm of Royal Mail, and that the Post Office should be the place to go for all mail needs. However, we do not believe that new services, such as packet picking up and working with eBay and mail order houses will bring in significant income to sub post offices or the network as a whole. For example, the current Royal Mail Local Collect service, which allows customers to pick up mail order packages from their local post office, pays subpostmasters 18.4p per parcel. Whilst NFSP is pleased that subpostmasters are able to offer this useful service, it should be noted that subpostmasters' remuneration for providing it is little more than that paid for selling half a dozen first class stamps (7.6p per £1 of sales).

9.3 A further possible new source of mails income for the post office network may derive from the liberalisation of the UK postal market. Postcomm has suggested that new mails operators may want to use the size and geographic coverage of the post office network to sell their products and services to domestic customers and small businesses. Whilst NFSP agrees that if this is how postal competition develops, the post office must act as a universal postal services hub, providing access to all the relevant postal operators' services, we caution about this bringing the sub post office any additional income. It seems unlikely that there will be a very significant net increase in domestic mails business, and therefore much of the gain in business from alternative operators will be at the expense of losses of Royal Mail business. In addition, we would stress that if post offices are to work with mails operators other than Royal Mail, this must be done on the basis of network-wide agreements having been reached. The alternative scenario of mails operators being able to chose to work with individual post offices in prime locations would only serve to polarise and thereby undermine the network further.

9.4 The consultation document refers to Post Office Ltd aiming to build on its successful launch into financial services. While we support this approach to expand into new areas for the business, we have grave concerns about how much extra revenue can be derived in practice in this already crowded market. From the subpostmasters' view the success of Post Office financial services so far has been extremely limited. In January 2006 we found these services were bringing subpostmasters a negligible £7 a month on average. Half of all subpostmasters received nothing from financial services sales that month.²¹

9.5 The consultation states Post Office Ltd has built a significant business in the telecoms arena, in particular the HomePhone service, and that there are plans for a broadband offer. Again, while welcome in principle, we contend that in practice this is already an extremely crowded market. Moreover, once more subpostmasters are receiving an absolutely minimal benefit from this service; HomePhone sales bring them a mere £5 per month on average. 83% of subpostmasters received no income at all from HomePhone in January 2006.²²

10 Central Government

10.1 The consultation document mentions that post offices will “continue to provide a broad range of Government-related services”. Traditionally the provision of Government services has delivered a considerable proportion of the post office network’s income. Currently post offices provide a number of services for the Identity and Passport Service, the Department of Health, DVLA, National Savings and Investments, the Department for Work and Pensions, HM Treasury and the Environment Agency. But in recent years the amount of Government business provided through post offices has been reducing.

10.2 In 2000 two-thirds of the state benefits paid in the UK were paid over the post office counter. These transactions brought in around 40% of the post office network’s income. The introduction of the direct payment programme in 2003 led to the electronic payment of benefits into accounts and a serious reduction in benefit income for post offices. By 2006 the Post Office card account, now the main vehicle for benefits payment at post offices, was bringing in 10% of a sub post office’s net pay.²³

10.3 More recently the BBC decided to discontinue the provision of TV licensing services through post offices (June 2006); the DVLA has encouraged internet renewal of vehicle excise duty; and Post Office Ltd did not obtain the contract for conducting new passport interviews. In January 2007 the Department for Work and Pensions announced that it will transfer its bulk mail business from Royal Mail (like Post Office Ltd, part of Royal Mail Group) to UK Mail.

10.4 These bilateral arrangements have led to extensive criticism of the lack of coherent cross-departmental Government policy on post offices. For instance, the House of Commons Trade and Industry Committee has accused Government departments of lacking in joined up thinking over the post office network. The committee pointed out that this leads to “taxpayers’ money going round in a circle” since it results in the Department of Trade and Industry subsequently having to put money in to keep the network going.²⁴

10.5 NFSP is concerned that whilst the Government’s current proposals for the future of the post office network refer to the role of local authorities, there are no plans for any review of central government services provided through the network. We are deeply concerned about this key part of the post office network’s services. We have long held that subpostmasters are ideally placed to act as Government General Practitioners, providing information and basic

advice on government issues and helping the public carry out routine transactions with both local and national government. In 2000 there were plans to enhance this traditional role. It was proposed that post offices were to offer a Government General Practitioner service which was envisaged as a trained and IT-enabled staff acting as a guide to government.²⁵ This was to provide information and low level advice on central and local government issues and allowing citizens to carry out routine transactions with central and local government bodies. In practice a very limited version of the original proposal, called Your Guide, was trialled. This was largely based around a touch-screen system. Following the trial the Government declared that a publicly funded national Your Guide service would not provide value for money and all development of this proposal was halted.

10.6 This Government's Modernising Government White Paper (1999) committed that Government to making "certain that citizens and businesses will have a choice about how and when to access Government services".²⁶ The paper stated that Government should be organised so that "people don't have to hunt down services by a process of trial and error" and cited one-stop shops as a way of delivering integrated services. The People's Panel, which followed the publication of the White Paper, found that 64% of people would find post offices as attractive places to access Government services and undertake transactions. Whilst since this work was carried out, the DirectGov website which provides a virtual one-stop shop for Government information, has been introduced, we hold that a need remains for a complementary face-to-face service. NFSP believes the Government should use the post office network more effectively and actively encourage departments to make their services available through post offices. We hold that the original idea of formalising and extending this role should be looked at again and introduced with the aim of providing convenient local face-to-face access to government services, as well as a reinforcing a key facet of the Post Office's offer.

11 Local Authorities and Devolved Administrations

11.1 The consultation document states that the Government intends to investigate what part local authorities and devolved administrations might play in the future. We welcome these proposals and are concerned the implementation of any resulting recommendations is co-ordinated centrally. To date much local authority support for post offices appears to have been provided on a piecemeal basis; but we hold that a good practice guide and a resource to offer advice and support for local authorities would greatly assist them in fulfilling this role.

11.2 Given the Post Office's unrivalled network, post offices are the ideal venue for providing payment collection facilities for local authorities. For local authorities this has the advantage of freeing up administration, particularly regarding residents who need or wish to make very frequent low value payments. Currently many local authorities offer some payment facilities at post offices – this may include rent payments, council tax, payment for social services provision, meals on wheels, travel permits and passes, blue badges and leisure centre passports. Local authorities use a range of mechanisms for collecting these payments such as swipe cards and stamps. NFSP would like

to see the current arrangements extended across the board to all local authorities and for all regular payments for services. Provision of such services brings income directly into post offices which will receive payment for dealing with the transactions. It also increases 'footfall' – people undertaking these transactions are likely to use other post office services or the attached shop while they are on the premises, again assisting the viability of the whole outlet.

11.3 Complementing the provision of payment collection facilities at post offices, all local authorities should also consider using post offices as a communications channel – providing information and signposting to both residents and visitors.

11.4 Local authorities support the post office network through the provision of business rates relief. In London post offices with rateable values of under £21,500 may be eligible for up to 50% reduction from their business rates bill. In other parts of England this applies to post offices with rateable values of under £15,000. In rural areas some post offices receive a discretionary reduction of up to 100%. Current Welsh Assembly Government proposals would see post offices with a rateable value under £9,000 receive 100% business rates relief, and those with a rateable value between £9,000 and £11,999 receiving 50% relief, as part of the Welsh Assembly Government's objective to increase the sustainability of small communities. Currently post offices in Northern Ireland do not receive any rates relief.

11.5 Subpostmasters in England must apply to local councils each year in order to receive their relief. In Scotland, however, subpostmasters on the lowest band of rates relief receive their reduction automatically. Recent research shows relatively low take-up of rates relief in England. For example, in London only 34% of eligible businesses are taking up relief.²⁷ NFSP would like to see local authorities promoting the scheme more effectively; with rising overheads and marginal incomes for many sub post offices, it is vital that they apply for the tax relief they are entitled to. We recommend an investigation into the possibility of providing automatic reductions for all eligible post offices. We would also like to see all local councils offering the current discretionary 100% relief to eligible rural post offices.

11.6 Local authorities can assist post offices in their area through the provision of high quality support services for local businesses. These may be offered in partnership with others, such as Business Link and Regional Development Agencies. Support should include advice and information on business issues, training, consultancy, grants and loans. These services are of particular importance in assisting the businesses that run alongside the post office.

11.7 NFSP believes many local authorities could take a more strategic role over planning for local retail. We support the position of the All Party Parliamentary Small Shops Group which holds that all UK local authorities should develop regeneration units.²⁸ These units, tasked with strategically and positively managing town centre growth, should develop a long term strategy

for local retailing, researching the local business environment and taking into account related trends such as housing and employment. The units should in particular be able to link local planning decisions with the local business community, for example with respect to traffic flow, car parking, signage etc. A more joined-up approach to the planning and development of local retail would provide an important platform for support to the post office network.

12 Banking

12.1 One important Post Office service not addressed in the consultation document is non-Post Office card account banking in the network. Following the introduction of the direct payment programme, the Government agreed that post offices should work with more high street banks to offer their customers a broad range of transactions at post offices. This would maintain free services for bank customers, particularly in rural and urban deprived areas which have seen the closure of many bank branches, and represent a new source of revenue for post offices.²⁹

12.2 A number of recently published reports provide new evidence of the need for local access to cash and banking services. For instance, the House of Commons Treasury Committee has highlighted the fact that lack of access to a bank branch can be an important source of geographical financial exclusion, particularly for the more vulnerable groups.³⁰ Help the Aged identifies local post offices as a key factor likely to reduce financial exclusion amongst older people. Help the Aged emphasises the importance of having relatively easy access to financial outlets, and the importance of post offices where the staff know their older clientele and are more aware of their needs. Describing post offices as “crucial outreach points” the charity stresses the role they play in enabling people to go on managing their own affairs.³¹

12.3 Both Post Office Ltd and Government have emphasised the key future role that post offices should play in the provision of banking facilities. Post offices are ideally placed to offer banking services in the community and provision of these services could bring a good source of income and footfall for the network. However, NFSP is concerned that although a number of banks do offer banking services at post offices, significant numbers of bank accounts still remain unavailable at post offices. Three major banking groups – HSBC, Halifax Bank of Scotland and Royal Bank of Scotland Group, which between them represent around 40% of the market – do not offer any access to their current accounts at post offices. Furthermore, seven in ten basic bank accounts are not accessible at post offices. Many of the banks that do offer services to their account holders, limit the range of transactions available. For example Barclays does not allow their account holders to make balance enquiries at post offices. The majority of basic bank account holders with post office access cannot make cash or cheque deposits at post offices.

12.4 NFSP believes that all the major high street banks should offer a comprehensive service for their current, basic and business account holders at post offices. This would provide an excellent free community banking service for the public. Widespread use of post office banking is also likely to inject considerable sums into the local economy. Studies show that, on

average, people who withdraw cash from a bank or cashpoint spend 50-67% in nearby shops.³² The universal availability of these services would also make post office banking easier to promote. Currently the banks do not advertise their post office services and it is a difficult message for Post Office Ltd to promote given the present limitations in terms of the number of accessible accounts and the restricted range of transactions. We believe that the Government should take a lead in facilitating discussions to achieve full access to all bank accounts at the Post Office.

13 Closures

13.1 One of the key issues that needs to be addressed as part of a post office closure programme, is how to ensure that the post offices that remain are optimally sited in order to meet the needs of the public and configured to ensure their long-term viability. The question is how to get the right subpostmaster, in the right post office, in the right place. Under the proposed closure programme it is highly likely that some subpostmasters will want to leave and some will want to stay in the network. However, there will not always be a direct match between those that want to leave and those whose offices are no longer needed. Similarly those that want to stay may not have offices that are well-located or otherwise viable.

13.2 NFSP believes there needs to be financial assistance to help Post Office Ltd manage this issue. Post Office Ltd will need resources to match subpostmasters with post offices. Money will also be required to help individual subpostmasters transfer offices – e.g. to cover costs in moving, soft loans to help upgrade mortgages on post office properties etc. Moved subpostmasters may also require some security of tenure – people are less likely to swap offices if only offered the usual three month notice period. Such issues will need to be resolved in order to retain the ‘right’ post offices, and their management clearly has to be funded.

13.3 Rural subpostmasters who wish to leave often face particular problems. In many rural areas the premises sold as a private dwelling may be worth four or five times more than if sold with a shop front. It is not uncommon for a subpostmaster to apply to the local authority requesting permission for change of use because they wish to withdraw from their Post Office contract, only to have it refused. This often leaves an unwilling subpostmaster who cannot leave. Many rural subpostmasters have low Post Office incomes, frequently only around £8,000 a year, and thus are unlikely to receive significant compensation payments. We would like to see such subpostmasters being granted permission by local authorities to convert their premises into private dwellings. Post Office Ltd would then subsequently need to be tasked, and resourced, to ensure that there was adequate post office provision in the area – for example by the opening of a new post office.

13.4 A further aspect of the proposed closure programme that needs good management is the case of subpostmasters whose offices are originally scheduled for closure, but do not subsequently close. During the Urban Reinvention closure programme, 95 post offices had their closure proposals withdrawn after local public consultation. Research carried out for Postcomm

on a subset of this group suggests that post offices whose closure was revoked were negatively affected by the experience. Many customers believed that the office was closing and had gone elsewhere. As a result many subpostmasters were left having to re-build their businesses. Post Office Ltd data and information from the subpostmasters affected confirms that the experience reduced business for most affected subpostmasters.³³

13.5 The closure proposals set out in the consultation leave subpostmasters in a difficult position - in limbo and unable to make business decisions. Many subpostmasters feel isolated and as if their lives are on hold until the process of consultation is over and decisions have been made. During local consultation periods, customers will be aware that offices under consultation may close, and we know that speculation about closures amongst local residents and post office customers can have a damaging impact on business. Post office closures under these proposals will be compulsory and therefore potentially devastating for subpostmasters. To minimise distress amongst subpostmasters, it is important that the local consultation process is carried out sensitively and speedily. Prolonging decision making regarding sub post office closures will blight the business as well as creating a stressful environment for subpostmasters and sub post office staff.

13.6 NFSP is particularly concerned about the impact of widespread closures on customer use of post offices. Whilst a closure may help improve the viability of nearby offices in some instances, the impact of this potentially positive aspect of a closure programme should not be over-exaggerated. Following the Urban Network Reinvention closures many customers were found to have reduced their trips to post offices. One year after the closures 40% of people in closure areas said they now use the Post Office less than they did. This might be less of a concern if they carried out the same overall amount of post office business, but in fewer visits. However, 46% said they do not do more business each time they visit.³⁴ Nearly half of those affected by a closure now go elsewhere for business they used to carry out at a post office - 55% for stamps, 30% for bill payment, 22% for collecting benefits or pensions, 15% for banking services. Also worryingly, research shows that residents who live in areas where post offices have closed, use the businesses attached to the post offices less than those in areas where no post office has closed. This suggests that post office closures leads to a net loss of business to the post office network as a whole, with very worrying implications for future viability with regard to loss of economies of scale and rising unit costs.

14 Compensation

14.1 NFSP welcomes the Government's proposals to provide support to Post Office Ltd to compensate subpostmasters who are obliged to leave the network under the restructuring programme. The DTI states that this will be on a similar basis to the Urban Reinvention programme, under which compensation of 28 months remuneration was paid, averaging £60,000 per office for urban subpostmasters.

14.2 NFSP is concerned that there is some flexibility in applying this formula. In the case of many smaller offices the exit costs, under the 28 month rule,

will be greater than the compensation. For example one in ten rural subpostmasters in England earns less than £6,000 a year in net Post Office pay.³⁵ The compensation paid on these sums would not allow many of these subpostmasters to clear the lease or mortgage, make staff redundant, move security equipment, change the shop front etc. We are extremely concerned that such subpostmasters whose offices are compulsorily closed by this programme may be left indebted, or bankrupted, by the process. Subpostmasters facing this outcome are also likely to resist forced closure, a move that is unlikely to assist in working towards getting the right subpostmaster, in the right post office, in the right place.

15 Outreach

15.1 The Government intends to provide support for Post Office Ltd to open new outreach locations to provide access to services for small remote communities by building on existing pilot trials. NFSP agrees that this could be a good solution in places that would otherwise lose all post office services.

15.2 NFSP is concerned, however, that in practice the benefits of outreach services to the local community are significantly less than those of a 'normal' fixed counter post office. Whilst an outreach service allows some post office services to be maintained they are used less extensively than those of a fixed counter post office, the post office's role as a social centre is severely reduced, and any attached shop is likely to be lost. These concerns are supported by a recent Postwatch research based on 1,000 interviews of people in 48 villages where Post Office Ltd's pilots were carried out.³⁶

15.3 The Postwatch research shows that the public are negatively affected by the removal of a fixed counter post office and its replacement by an outreach service. People without cars, people with long-term disabilities, single parents and older people are most affected. It results in people having to travel more and spend more on travel. Many people, 40%, simply do not use the outreach service available in their village. Most concerns about the outreach relate to the outreach service's ability to provide a focal point for the village and its restricted availability and opening times. The research finds that 20% of people aged over 65 socialise less often since the closure of the fixed counter post office. Researchers found that overall 12% of those interviewed meet friends at the outreach and like this. In comparison an earlier study of fixed counter rural offices found that 36% of people meet friends there.³⁷ Forty-one percent said they would use their local service more if it was open for longer hours.

15.4 NFSP believes the outreach models used need to be considered carefully. Home service seems to be least popular, with 92% of respondents not using the home service available in their village. This is supported by a separate research study which emphasises the problems of door to door delivery of postal services including concerns that it diminishes choice and flexibility as access to services is no longer on the user's 'own terms' or spontaneous.³⁸ This conclusion is also backed by Age Concern who also found the home service the least popular option amongst older people as it would do little to overcome the isolation of individuals and maintain

community identity and spirit.³⁹ Mobile services also score poorly for providing a focal point for the village and clearly have limited availability.⁴⁰

15.5 Critically for outreach post office services to work, the outreach model must be financially viable for the core subpostmaster whose office supports the service and the outreach provider themselves. However, NFSP has not seen any evidence that it can be.

16 Access

16.1 The consultation document states the Government proposes the restructuring of the post office network to establish one that meets a set of new access requirements to an outlet. NFSP has a number of concerns about these proposals.

16.2 Under the new proposals for access criteria to post offices in remote rural areas, 95% of the population should live within six miles of a post office service. However, 38 of the 2,795 postcode districts throughout the UK do not currently meet this criterion, and they would continue to be exempt from doing so. At the House of Commons Trade and Industry Commission evidence session, the Secretary of State for Trade and Industry stated that the Government “are not going to close any post offices in those 38 districts under the [proposed closure] scheme.”⁴¹

16.3 NFSP asks whether the 38 postcode areas include any areas of over provision of post offices. We are concerned that there could be towns or larger villages within these areas where there is more than one post office; and where the viability of one of the offices could be hugely improved were one of the post offices to close. NFSP is concerned that post offices remaining after a new closure programme are sustainable for their subpostmasters. We believe it would be a mistake to exclude the 38 postcode areas if there is any chance of overprovision within them. To do so could result in unplanned closure of offices, which could well lead to the worst outcome for local residents, as well as subpostmasters themselves.

16.4 NFSP is also concerned about the access criterion for urban deprived areas. Residents of urban deprived areas use the post office very frequently – 55% use at least weekly, rising to 74% amongst people aged 65+. Over a quarter (28%) of people in urban deprived areas uses the post office to access cash and often it is the sole local source of cash. Following a post office closure, 52% of people in deprived urban areas say they have been affected personally a great deal or a fair amount by the closure. 64% said the community had been affected a great deal by the closure and only 10% said there had been little or no impact on the community.⁴² Despite this strong evidence of the importance of post offices in deprived urban areas, the Government plans to weaken the access criterion for these post offices. Under the previous Urban Network Reinvention Programme, closures of urban deprived post offices were disallowed unless another office was located within 0.5 miles. However, under the new proposals, 99% of the population are to be within one mile of a post office.

16.5 In order to attain the right post office in the right place it is important that any access criteria such as those suggested in the consultation document are not applied too crudely. Beyond the rather simplistic formulae we are concerned that other matters are taken into consideration before post offices are closed. Issues such as the walking distance to the closest alternative, socio-economic indicators, availability of public transport provision and the wider impact on the local economy are also critical. In some cases it may be necessary to re-site post offices – for example closing two more peripheral offices and opening a third more centrally - in order to meet need. Clearly such a process will need to be managed and funded.

17 Community Ownership

17.1 The consultation asks for comments on the practicality of community ownership of parts of the post office network, which might involve the transfer of assets to community organisations and/or the establishment of local mutual or co-operative organisations to own and run local services. NFSP is unclear about precisely what is being suggested here. However, if the proposal is for communities setting up a post office on a voluntary basis, as proposed some time ago by Postcomm, we have severe reservations.⁴³

17.2 NFSP believes it is extremely questionable whether an effective post office could be set up on a voluntary basis, and even if it could, whether this would in fact be a cheaper option. Well-run voluntary agencies providing good quality services tend to be backed up with a large sophisticated infrastructure, a high level of support and staff training. Citizens Advice Bureaux (CABx) and Oxfam shops, for example, are run by professional paid managers. Very few, if any, voluntary agencies providing direct services to the community are run entirely on a voluntary basis. Moreover, organisations such as CABx commonly have difficulties with recruitment of volunteers, retention, staff supervision and development and having a sufficiently large volunteer base to provide regular opening hours. Many traditional voluntary agencies are professionalising and moving towards having paid employees to provide the core service and using volunteers to supplement them. At a time when Post Office work is becoming more professional – subpostmasters are being required to meet increasingly high standards and compliance with, for example, Financial Services Authority regulations – it is even less feasible for the service to be provided on a voluntary basis.

17.3 It also has to be asked if the local community can be relied on to provide money through bonds etc. The least commercially viable post offices, i.e. those in deprived areas, are least likely to be those whose customers have the money or the inclination to contribute towards their running. Post offices situated in communities that are willing and able to contribute towards their running are likely to be the exception rather than the rule. Even in cases where the community can raise substantial sums, as Postcomm has suggested, community donations are likely to have to be backed up with government grants.⁴⁴

18 Conclusions

18.1 NFSP welcomes the Government's proposals as an important first step in ensuring the future sustainability of the post office network. In particular, we welcome the proposals to develop a successor to the Post Office card account, and to extend the social network payment. In view of the number of citizen's lives touched by the post office network, with 26 million customers visiting a post office each week, and the contribution which a sustainable post office network can make to the sustainability of local communities and economies, we believe this to be a highly cost-efficient use of public funds. However, we remain concerned that these proposals alone will not provide the network with the viable and sustainable future which it urgently needs.

18.2 We believe that it is vital that the post office network must stabilise and not continue to shrink following the proposed closure programme. The strength of the network lies in its depth and reach. An ever diminishing network will not bring new business to post offices; nor will it encourage personal or financial investment from subpostmasters.

18.3 It is absolutely necessary that the Government pays for the social and economic service provided by non-commercial offices. Some of this payment needs to go directly to subpostmasters themselves. There is also an ongoing need for investment grants for refurbishment. Investment in subpostmaster training is a further need. We are particularly concerned that the 'community' sub offices are not left behind as a "Cinderella" service, but receive appropriate training and are able to thrive and offer a full range of services to the public.

18.4 Whilst a closure programme may help Post Office Ltd to balance its books in the short term, we are unconvinced that closures alone will be sufficient to ensure the longer term viability of those sub offices remaining in the network. Post Office Ltd needs to be adequately resourced to ensure the network attains the right subpostmaster, in the right post office, in the right place. Subpostmaster compensation schemes accompanying a closure programme must be flexible; and, at a minimum, sufficient to cover the subpostmasters' exit costs.

18.5 New and improved business and services are essential if the network is to thrive and survive. We welcome the Government and Post Office Ltd's emphasis on this important potential income stream. However, we are deeply concerned about the inadequacy of the suggestions made by the Government. Whilst we are delighted that the Post Office card account is to have a successor, it is essential this remains a Post Office run product, with a full migration of current card account holders into the new account. The re-vamped card account needs to be complemented by a comprehensive Post Office banking offer - full access to all major high street bank accounts at the counter.

18.6 NFSP holds that central and local government needs to use the network more effectively. We believe that the government services already provided by the Post Office should be extended, formalised and branded as a one stop

shop for the public. Local authorities should also make rates relief more accessible, ensure they use post offices as payment collection facilities for their own services, and take a greater strategic role over planning for local retail.

18.7 It is essential that the post office network continues to act as a public postal services hub, mirroring future developments in the liberalised mails market. However, we consider that any additional income derived from this role will be limited. Similarly we are unconvinced that new initiatives in the already crowded financial services and telephony markets will bring in significant new revenue for subpostmasters.

18.8 NFSP agrees that outreach services could be a good solution for villages that would otherwise lose all post office services. However, outreach services have serious limitations in terms of their limited availability and diminished role in providing a focal point for communities. For the outreach model to succeed it must be financially viable both for core subpostmasters and outreach providers, but NFSP has not seen any evidence that they can be.

18.9 It is imperative that sub post offices are viable for the UK's subpostmasters. To achieve viability and sustainability our post offices need a good range of products and services to offer; government funding and support; and trained and rewarded post office staff. Without viability and sustainability for subpostmasters and the network, mass unplanned closures, along with the knock-on social and economic impact on local communities, are inevitable.

References

- 1 Postcomm, 2001, *Serving the Community I – evidence of the community value of post offices in rural areas*
- 2 Postcomm, 2001, *Serving the Community II – evidence of the community value of post offices in urban deprived areas*
- 3 See 1 and 2
- 4 Federation of Small Businesses, December 2006, *Small Businesses and the UK Postal Market*
- 5 New Economics Foundation, December 2006, *The Last Post – the Social and Economic Impact of Changes to Postal Services in Manchester*
- 6 All Party Parliamentary Small Shops Group, February 2006, *High Street Britain: 2015*
- 7 Trade and Industry Committee Oral Evidence Session on the Post Office Network, 24/1/07
- 8 Department of Trade and Industry, press release 14/12/06
- 9 See 7, question 3
- 10 See 7, question 7
- 11 Ipsos MORI, March 2006, *Subpostmaster Income Wave 3 – research study conducted for the National Federation of SubPostmasters*
- 12 NERA/Accent, October 2006, *Post Office Urban Reinvention - One Year On – research study for Postcomm*
- 13 See 12

- 14 Middlesex University Business School, April 2005, *Evaluation of the Deprived Post Office Fund*
- 15 See 11
- 16 Treasury Committee, November 2006, *“Banking the Unbanked”: Banking Services, the Post Office Card Account and Financial Inclusion*
- 17 National Consumer Council, November 2006, *Three Steps to Inclusive Banking: Compliance, Standardisation and Innovation*
- 18 Help the Aged, February 2007, *Losing the Post Office Card Account – How Future Change May Affect Older People*
- 19 See 11
- 20 See 12
- 21 See 11
- 22 See 11
- 23 See 11
- 24 Trade and Industry Committee, October 2006, *Royal Mail Group*
- 25 Performance and Innovation Unit, June 2000, *Counter Revolution – Modernising the Post Office Network*
- 26 Government White Paper, *Modernising Government*, March 1999
- 27 Local Government Association press release, 1/6/06
- 28 See 6
- 29 University of Nottingham, February 2006, *The Changing Geography of British Bank and Building Society Branch Networks 1995-2003*
- 30 See 16
- 31 Help the Aged, February 2007, *Financial Exclusion Among Older People*
- 32 New Economics Foundation, December 2003, *Ghost Town Britain II*
- 33 See 12
- 34 See 12
- 35 Ipsos MORI, March 2006, *Subpostmaster Income Wave 3 – research study conducted for the National Federation of SubPostmasters Additional Analysis for the Commission for Rural Communities*
- 36 Steer Davies Gleave, January 2007, *Postwatch Rural Pilot Research Report*
- 37 See 1
- 38 Ipsos MORI, December 2006, *Alternative Postal Service Provision – report for Postwatch South East*
- 39 Age Concern, September 2006, *Stamped Out? Lets Make Rural Post Offices Work for Older People*
- 40 See 36
- 41 See 7
- 42 MORI/ERM, June 2006, *The Future of the UK’s Rural and Deprived Urban Post Office Network - for Postwatch and the Commission for Rural Communities*
- 44 Postcomm, December 2001, *Preserving Access to Post Offices in Rural Areas*
- 44 See 43

**National Federation of SubPostmasters
March 2007**