



The National Federation of SubPostmasters

Annual Review 2008

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About us

The National Federation of SubPostmasters supports subpostmasters across the UK.

We are an independent membership organisation, with a commercial trading company to support the retail businesses of our members. We are the only organisation recognised by Post Office Ltd to represent subpostmasters.

We are committed to sustaining a robust and vibrant post office network. We seek to achieve this by influencing policy makers and working closely with all organisations with an interest in the post office network.

Looking back, looking forwards



Mervyn Jones
National President

The Government must recognise that a sustainable post office network is in the national interest. To achieve this requires the commitment of everyone with a stake in our industry.

Last year the Department for Work and Pensions (DWP) finally announced that Post Office Ltd (POL) would be awarded the contract for the successor to the Post Office card account (POCA). It was excellent news but this alone will not secure a sustainable network for the future. Government departments must use post offices as a major channel to deliver goods and services that are relevant, convenient and cost effective.

Further, it is essential that sufficient income from clients flows through from POL to our post office branches. This will allow subpostmasters to invest in the network and provide a better quality of service. The Government as both the shareholder and a major client must be encouraged to ensure this happens in a fair and transparent manner.

As we move into the final two years of the 'Forward:five2eleven' business plan, we cannot ignore our responsibilities to POL. It is now clear that sales of new products have not met expectations. This is disappointing and we encourage all of our members to recognise their role in the financial success of the company, as we evolve towards a more sales orientated culture.

Customers no longer *have* to use our post offices; our challenge is to ensure they *want* to use them. The Federation supports the creation of a Postbank to deliver increased usage of the network.

The Government requires POL to return to profit. The outcry over the latest round of closures demonstrated that a sustainable post office network is equally important to the public.

One cannot be achieved at the expense of the other, and subpostmasters must be able to operate profitable businesses and at the same time generate income for POL. We have to get the balance right and your Federation will play its part in the coming year.



George Thomson
General Secretary

Our hard work in 2008 could mean that 2009 is the most important year in a generation for the post office network.

The difficult but necessary implementation of Network Change, coupled with our highly successful campaign to keep the Post Office card account (POCA) has given us possibly the best ever chance to persuade Government at all levels in the UK that the post office network is a national asset to be utilised, rather than a problem to be continually addressed.

The Government awarded the POCA to our network and also decided to set up a Joint Review between the Department for Business, Enterprise and Regulatory Reform under the Secretary of State, Peter Mandelson, and the House of Commons Business and Enterprise Committee. The Review team will look closely at what future services, particularly from all levels of Government, could be offered over our counters.

The decisions were massive wins for subpostmasters and would never have come about without the NFSP and the tremendous hard work of its members; and we will continue to keep up the momentum over the course of 2009. Subpostmasters have over £2 billion invested in the network, and own 97% of the physical counters. We are in effect the post office network.

Our task in the future is to step forward and persuade local, devolved and national Government to think '*Post Office first*' when awarding contracts or tenders.

The post office network will only stabilise at around 12,000 outlets if significant volumes of work can be won. We must therefore concentrate our efforts predominantly on four key areas:

- Mails excellence
- Creation of a Postbank
- Other government services
- Retail provision

These key areas will allow our network to move towards sustainability.

Post offices are the heart of the local community – sustaining local retailing and helping to create sustainable communities.

Let's work together to once again create a post office network that we can all be proud of.



Future of the network 'a national asset'

The pivotal role of the NFSP in securing both the Post Office card account (POCA) and a Government review into potential new work should not be underestimated. While both achievements provide some real optimism for the network's future, both have been hard won.

The campaign we launched at our Conference in May 2008 saw over three million postcards signed by our customers and sent to MPs. This was backed by posters on display in post offices highlighting the potential threat of further closures if the POCA was lost. This, combined with effective lobbying and enormous local and national media coverage was instrumental in securing the continuation of POCA.

However it was a very close run decision.

As we headed into October 2008, subpostmasters faced the bleakest of futures. The credit crunch settled on the UK and began moving from purely the financial sector into the real economy. Small businesses started to feel the real pressure of the inability to access funds easily, and a difficult retail sales environment as shoppers cut back on purchases.

The Government claimed to understand the recessionary pressures on small businesses in the UK, and wanted to help them through difficult times, yet was on the verge of the quite extraordinary decision to remove the POCA from the post office network. Had they done so, it would have thrown the post office network into chaotic meltdown. At least 3,000 post offices, four million customers and six million weekly visits would have been lost to the network.

However, after several intensive weeks of NFSP intervention at all levels of Government and Parliament, Ministers made the sensible and correct decision. We are grateful to our General Secretary and all the team at Federation Headquarters, branch officials and members for their outstanding efforts to secure this decision.

Forward together

After many years of closures and lost work, the NFSP must now step forward, outlining our vision of a vibrant, sustainable post office network of around 12,000 outlets. This will be based on Postbank, government services, mails excellence, and our role at the heart of communities.

The NFSP is keen that all opinion formers should buy into our vision, to ensure that genuine viability is attained for our network. To achieve this we will be campaigning throughout 2009 to achieve our ambitions, starting with the launch of a report in early spring outlining our vision for the network. This will be followed by a series of regional events, bringing together everyone who has an interest in a strong, vibrant post office network.

National asset

In addition to the decision on POCA, the Government has also set up a Joint Review team between the Department for Business, Enterprise and Regulatory Reform under Peter Mandelson, and the House of Commons Business and Enterprise Committee led by Peter Luff MP. The Joint Review team will look closely at what future services, particularly from all levels of Government in the UK, could be offered over our counters. These decisions, in addition to the Government statement that the network 'should be around 12,000 outlets', means at long last the NFSP's message that the post office network 'is a national asset to be utilised rather than a problem to be continually addressed' seems to be registering.

Post Office card account

Throughout our campaign we had a clear message – that the post office network is best placed to deliver the successor to the POCA due to our unrivalled cash operation, geographical

reach, high level of customer trust, and the ability to provide a seamless transition from the current POCA.

Against this background, the decision by Government to discontinue its own tendering process and award the POCA to the Post Office again was not only a victory for subpostmasters, but also a victory for common sense.

Subpostmasters will continue to serve the four million POCA customers a week, creating six million visits per week, and paying out £½ billion per week. This adds up to nearly £27 billion per year, with around £2 billion of it spent in local post offices, shops and village stores. This is important in helping to sustain valuable services within local communities, particularly for those who find travel and mobility difficult.

Additionally, as people find themselves in difficult situations – redundancy, homelessness, bankruptcy, and many other distressing outcomes associated with a significantly deep recession (and all available economic data suggests that this could be the deepest downturn in over a century), many people who had previously used other banking channels will potentially move towards POCA, driving the numbers nearer to five million. There is also a significant possibility that those unable to access any form of bank or card account (i.e. those on the exceptions service) could grow. The functionality of the new card account and exceptions service should be improved over time to provide customers with a basic bank account at the Post Office.

Banking and Postbank

With the banking system in chaos, there has never been a more opportune moment for the Government to create a British Postbank based on the public's high level of trust in the post office and our unrivalled presence at the heart of communities. This makes the post office network the natural home for the Government to achieve its own financial and social inclusion objectives.

The four million POCA customers, the 500,000 exceptions service (green giro) customers, and the five million basic bank account customers (three million of whom withdraw all their money immediately, therefore operating in a cash only society), all give the Post Office the real possibility of building a Postbank in the near future. We must learn from the experiences of many of our neighbours, including Ireland, Italy and France, which have established successful Postbanks in recent years, delivering personal and business banking services to urban and rural communities alike and helping to shore up their national post office networks.

We also need to persuade the Government that in the medium term, a savings culture needs to be cultivated again, where children, pensioners, the employed, the unemployed, in fact, everyone, is encouraged to put money aside for the future. This savings culture could be re-established by the Government creating a Postbank that can help the economy by establishing the correct balance between the consumption of goods and services, and the need for savings. Given time, subpostmasters in every community could help recreate that healthy savings culture.

Royal Mail Group and Post Office Ltd

Postcomm, the postal regulator, has already called for the demerger of Post Office Ltd (POL) from Royal Mail Group. Richard Hooper's report to the Government on the future of UK postal services, which called for Royal Mail to enter a strategic partnership with one or more private sector companies and for POL to remain wholly within public sector ownership, also leaves unanswered questions around POL's status within the Group.

The NFSP believes that all models for ownership of POL and Royal Mail Group should be considered, but that without significant new work and revenue streams along with absolute guarantees of future work and income from Royal Mail Letters and Parcelforce, a demerged POL would have little chance of becoming a viable, stand-alone company. In addition, the NFSP has serious ongoing concerns regarding the need for absolute transparency between POL and subpostmasters to ensure that the people who run and provide the physical bricks and mortar of the network are as fairly rewarded as possible for their efforts, and are able to continue to run the outlets.

Network Change

During 2008, almost 2,500 post offices closed under the Network Change programme. These closures, although deeply regrettable, were an essential step in helping to get the network back into a sustainable and viable situation.

Although some subpostmasters were unhappy to be compulsorily closed, the vast majority accepted that it was better to be closed with 28 months' compensation, than to wither on the vine as part of a network that was too large to survive.

Over 80% of the work from closing branches has migrated to remaining offices, helping to make them viable with increased remuneration, and also driving retail sales through the increased footfall.

However, the NFSP now strongly believes that a network of around 12,000 post office outlets is necessary to give adequate

coverage, and to continue to give us the geographical reach so vital to winning and retaining contracts. We believe that there should be no further closure programmes.

As part of creating a sustainable network, 500 outreach services were created. Although there have been teething problems, these services continue to allow the public access to Post Office services within their local communities.

Post Office Essentials is a new concept being trialled in around 20 locations. If successful, it could allow lower cost post office outlets to be provided. Essentials would allow 85% of the transactions to be carried out over a retail counter, but the operators would only get paid per transaction with no fixed payment. The NFSP will keep a close watch on this trial to ensure it is tightly controlled. For any Essentials outlet that is opened under this concept, a conventional post office is closed voluntarily with agreed compensation with the Federation.

Local authorities

Over the course of recent years many local authorities, although recognising the importance of a post office in the local high street, could have been more supportive. However that situation appears to be changing.

With the advent of Network Change, local authorities now recognise the key role that post offices play in local retailing, free access to cash, and sustainable communities. That is why we believe that whenever a local authority or devolved administration has a contract or tender to award, it should think *'Post Office first'*.

We believe that the Business and Enterprise Committee review should call upon local authorities to put much more work through our network. In addition to council tax, rents, and some local payments, the NFSP believes that local authorities should put as much work as possible through existing post offices, rather than resurrecting closed post offices with no long-term future.

Essex County Council's attempt to re-open closed branches is misguided. They have publicly stated that they want the whole £150 million per year Social Network Payment paid to local authorities and not to POL. They believe the local authorities should control and run the post office network.

Subpostmasters are hard working, self-employed business people, who work long hours and are a unique example of a public/private partnership – if they can't make a post office



outlet run viably, there is little chance that a local authority could. Essex's model would be poor value for taxpayers, both national and local.

Crown office network

As we start in earnest the campaign to become a Postbank, a strong, economically viable Crown office network in highly visible high street locations will play a central part in our campaign. However, large sums of money are being spent on the modernisation of these branches, and it is essential that a fund of money is also created to upgrade sub post offices. This will be key if we are to guard against the creation of a two tier network; and even more essential if we are to develop a Postbank at the Post Office.

The programme of moving a large number of Crown offices into WH Smith franchises is now complete, and has been relatively successful with the public now accepting the situation. Indeed in the majority of relocations, the local sub post offices have benefited with a migration of work from many of the WH Smith branches.

Working with Post Office Ltd

The plan to bring Post Office Ltd back into profit must also ensure a viable business proposition for subpostmasters.

There is clearly a synergy between our members' individual businesses and Post Office Ltd (POL). The agency network is crucial to the business overall and therefore must have a strong voice in its partnership with POL, to identify and deliver opportunities, combat threats and rise to competition.

The NFSP gives that voice but we need to explore further ways in which a robust business-to-business partnership can be developed that recognises the dual role of subpostmasters – both in contributing to commercial success and in serving their local communities – and rewards them appropriately.

While we always endeavour to build on a good working relationship with POL, the challenges faced in relation to changing markets and consumer behaviour, coupled with the current turbulent economic climate, inevitably means that we have to confront difficult and complex issues in our ongoing negotiations.

Pay

In our Annual Review last year we called for a simple pay deal for 2008, to allow a period of 'bedding down' following the previous year's quite complex pay changes. We were therefore pleased to announce, at the beginning of April, that we had reached agreement with POL on pay for 2008. Agreed at an earlier stage than ever before, the new arrangements gave a headline increase of 2.1% with effect from 1 April, allowing subpostmasters to benefit from the increases straight away, without the need for arrears payments. The straight-forward proposals continued the focus on transactional pay for those products generating the most income for the business.

The headline increase of 2.1% equated to an overall increase in subpostmaster pay of £9.3 million and POL additionally predicted that a further £20 million of business would migrate from offices closed under Network Change to those remaining.

The areas of transactional pay which saw increases were:

■ Mails remuneration

With mails transactions on behalf of Royal Mail forming an increasingly large proportion of POL's overall income and subpostmasters' overall pay, and with competition in the mails market continuing to grow, payments for mails transactions were at the centre of this pay review.

Key changes included:

- A flow through of increases in postage rates – passed on to subpostmasters for the first time.
- Remuneration rates were increased for sales of Royal Mail 1st class and 2nd class labels, Special Delivery, Inland Recorded Delivery, International Airmail labels, Royal Mail Airture labels and Inland Parcels labels.

Mails acceptance rates negotiated in October 2007 were paid additionally, as appropriate under the previous agreement, and all qualifying offices received a share of £642,000 for achieving mails segregation compliance.

■ Other products

- There was no change to remuneration rates for Post Office Financial Service products, which remained at £25 for most products. POL believed that this would continue to incentivise sales.
- Rates were also unchanged for the sale of HomePhone and Broadband, at £10 per sale with a £5 bonus for sale of both.
- POCA and Bureau transactions, as value transactions, benefited from inflationary increases.

■ Transition payments

Transition payments that were a feature of the 2007 pay settlement were repeated for qualifying offices in October 2007 and again in December 2008.



■ 2009

As we move into 2009 we have begun discussions with POL on a full review of the pay structure. POL has been unequivocal in stating its wish to see a much greater emphasis on sales-related pay at the cost of fixed and semi-variable elements; i.e., Assigned Office Payments and Core Tier Payments. We face unprecedented economic conditions and have already witnessed the impact of the recession on long-established retailers. The NFSP believes that at a time of such financial uncertainty and economic turmoil, it does not make sense to undertake a radical overhaul of the current system in what seems likely to continue to be a declining market.

Mailwork

Some 900 offices additionally provide local sorting office facilities on behalf of Royal Mail through the national post office network and are contracted by POL to do so.

Mailwork offices are crucial to Royal Mail fulfilling its Universal Service Obligation and are an integral part of the network. Many of these offices would not be viable as stand-alone sub-offices without their mailwork function. We are aware that from time to time our mailwork subpostmasters are confronted by rumour and speculation about the possibility of their function being absorbed within a Royal Mail sorting office. Royal Mail managers, however, cannot take such a decision to close a mailwork outlet but must go through a detailed and agreed process with POL and the subpostmaster. If the outcome of that process is concurrence

that the service will no longer be provided by the office in question then compensation will become due.

We believe that the recently published Hooper Review, referred to earlier, will have implications for mailwork offices suggesting, as it does, the rationalisation of Royal Mail delivery centres. In other European countries similar rationalisation has seen delivery centres reduced by some 50%.

As debate on the report progresses we will work to ensure that the role of sub post office delivery offices is fully understood and to get the best outcome for our mailwork subpostmasters.

Products

2008 took POL's five year plan to achieve profitability by 2011 into 'Forward:three2eleven' and the business stated it was 'moving up a gear' to 'win customers hearts and minds', again focussing on four product and service pillars.

■ **Mails**

The Mails market is by far the biggest income driver for subpostmasters contributing one third of subpostmasters' pay. We believe that the specialist expertise that subpostmasters have already built up and will continue to develop in relation to new services targeted at bulk mailers such as eBayers, adds unique value to Royal Mail and customers. The NFSP continues to press the business to ensure that these services can be undertaken efficiently and speedily.



■ Government services

The retention of the POCA contract beyond 2010 is undoubtedly good news and has already been covered at some length. POL is now in the process of negotiating the detail of the new contract which we understand will be brought forward to run from 2009. The fact that the terms of that agreement will undoubtedly flow from the tender document will present challenges for the NFSP in safeguarding our members' interests. The Government needs a long-term strategy to make full use of the national asset it has in the network and we are encouraged by comments from the new Secretary of State for Business and Enterprise, Peter Mandelson, that the Business and Enterprise Select Committee will identify additional government work. That 'task force' is now established and is taking written and oral submissions in early 2009.

We believe that POL is well placed with regard to DVLA photographic licence renewal and to ID checking services generally and hope that this will become a major strand of work.

The NFSP continues to push POL and local authorities to explore business possibilities. In addition to identifying area-specific needs, we support POL's development of broad-based propositions that could be offered to local authorities on a national basis. Last year we reported on a couple of trials being undertaken, which although successful in their own right have not resulted in a business case for roll-

out. At present a number of local authorities are involved in the trial of a service – 'Validate' – whereby post offices can be used as an alternative site for customers to bring various information in relation to housing benefit claims.

■ Financial services

Over the course of the year POL has added to its portfolio of financial services introducing a further Growth Bond offer and an Individual Savings Account (ISA). We understand from POL that these products have been particularly successful but that there is room for growth in sales of financial services generally. Last year we emphasised that this was a highly competitive market and that subpostmasters rightly analysed the profitability of these products in terms of the resource costs incurred. It is also clear that some subpostmasters need constructive, positive support from the business to enable them to develop the different skills needed to embrace a sales ethos. The difficulties of the current economic climate will add to the challenges of improving sales in this area.

The NFSP continues to believe that having successfully fought for the retention of the POCA, it is essential that the post office should develop its financial offering by becoming a bank with a full suite of banking services and products. The Government must recognise the national asset that it has in such a trusted brand and use it as a vehicle for delivering financial inclusion.

■ Telephony

Together with financial services, telecoms are seen by POL as a key growth area, but the NFSP has considerable doubts, given that telephony is a highly competitive market with established players. While opportunities might exist around the e-top up market, the general financial downturn may well impact on the realisation of such opportunities.

Support and supply systems

The challenges POL's Operations Directorate have faced over the year are largely unchanged – reducing operating costs and introducing efficiencies while striving to ensure that the network can deliver at optimum capacity by having 'the right things in the right place at the right time'. The NFSP has continued to stress that two-way communication is key, so that subpostmasters properly understand the imperatives on the business and how they impact on these.

■ Horizon

NFSP representatives have continued to participate on the Horizon Online forum and members of POL's team have travelled up and down the country to demonstrate the new system at national and local events run by the NFSP. It is intended that a pilot will be run at the end of March 2009, with full rollout beginning at the end of July and running through to the end of September.

■ Supply chain

Now that POL has taken over ownership of the Swindon warehouse it will look to achieve both efficiency and service improvements throughout the year. Currently, both value-stock and transactional-stock deliveries are exceeding their performance level targets.

As far as the cash supply chain is concerned, POL is tasked with ensuring that overnight cash holdings and foreign exchange are kept to an operational minimum to reduce the cost of interest charges on that cash. At the time of writing, targets for 2009 are yet to be finalised but our assumption has to be that they will be equally as challenging as 2008. The NFSP will continue to work with the business to focus on ensuring that there are the right levels of cash throughout the network. Changing circumstances, such as the rollout of the ATM programme, inevitably place additional demands on the supply pipeline.

■ Network Business Support Centre

Last year we reported on recently introduced changes to the Network Business Support Centre (NBSC) call centre which were believed would contribute to cost reductions and target resources to those calls that were time critical. The voice mailbox facility for non time-critical calls has not been popular amongst subpostmasters but the business has worked with a team of NFSP representatives who have helped to identify opportunities for improvement. Additionally the team are looking at the Contact Centre industry for ideas on how the service might be improved.

■ Transaction conformance

The complexity of some transaction processing through Horizon, coupled with issues around quality of training and clear instruction inevitably means that conformance, transaction corrections and losses have to be addressed. In recognition of the importance of this, a joint working group from Product and Branch Accounting and NFSP representatives meets to discuss processes, problems and potential improvements. The current transaction correction and debt-recovery process is under review, and will cover how subpostmasters might be better supported in understanding how conformance issues have arisen.

Security

The NFSP has continued to meet with the security team responsible for managing ongoing and emerging threats. As always the focus is on crime prevention and the team will maintain and build on successful disruption activities around robberies and burglaries, especially ATM offices, internal fraud, theft and product fraud. It is hoped that by increasing the teams' expertise in the Financial Services Sector product fraud can be minimised at the design stage. We fully understand the impact and trauma of burglary and robbery incidents for all who experience them and constantly stress that protecting people must remain the primary objective of the work of the security team.

In our last Annual Review we reported on the launch of 'Grapevine', an intelligence gathering initiative co-ordinating reports of suspicious activity. The recent expansion of the service covering Fraud and Product reporting, will be further developed in the coming year with the aim to increase sign-up from the network and the level of quality fraud intelligence back out to offices. This free service is invaluable to subpostmasters and we urge all to register and participate, by contacting Grapevine on 0845 603 4004.

Stakeholders

Our relationships with key opinion formers have proved more vital than ever this year.

The NFSP's relationship with Post Office Ltd (POL) is undoubtedly central to our ability to effectively represent our members' interests. But there are also many key relationships with other stakeholders which are critical to the NFSP's role in defending and promoting the post office network and the vital work which subpostmasters deliver. Throughout 2008, these relationships have been more important than ever, and we have continued to build on our existing alliances and to develop new ones.

The NFSP's successful campaign to win the contract for the successor to the Post Office card account (POCA) was undoubtedly at the forefront of this work throughout 2008. An immense campaigning effort from subpostmasters and their customers, led by the NFSP working together with supportive Members of Parliament (MPs) and many other groups, directly resulted in the Government cancelling its own tender process and awarding the contract directly to POL.

Following the campaign launch at the NFSP Conference in May, subpostmasters encouraged their customers to sign campaign postcards to their MP, urging them to call on the Government to award the contract to POL. By the autumn, well over three million postcards had been sent to MPs. NFSP members also wrote to and met with their local MP, and sent letters and press releases to local papers. As a result Early Day Motion 1506, tabled by Michael Clapham MP and which the NFSP supported, secured the signatures of 266 MPs and became one of the best supported motions of the year, further increasing the pressure on the Government.

We will continue to build on the momentum generated by this result throughout 2009. Over the next year, the NFSP will push for more services to come through our network. We will continue to lobby for a Postbank to be established at the UK Post Office and we will work with parliamentarians, interest groups and think tanks such as the New Economics Foundation (NEF) to achieve this vital goal, as well as maintaining our dialogue with successful existing overseas Postbanks so that we can benefit from their experience.

To achieve this, the NFSP will maintain and build our vital relationships with MPs and peers of all parties. Our written and face-to-face briefings, in parliament and in constituencies, have created high awareness levels among MPs of the NFSP, and a strong understanding of the value of post offices as a national asset.

The NFSP also continues to provide support to the All Party Parliamentary Group on Post Offices, the valued cross-party group of backbench MPs with a strong interest in issues affecting the post office network, which meets regularly to debate current topics, question Ministers and other stakeholders and take action to support the post office network.

While we have continued to increase our profile and our relationships in the UK parliament, our work with the UK's devolved administrations has continued to be an equally strong priority for subpostmasters in Northern Ireland, Scotland and Wales.

In Northern Ireland the NFSP made strong representations to the devolved Assembly on a range of issues affecting subpostmasters in the province. Foremost among these has been meetings with Ministers and written representations on the need for a small business rates relief scheme for subpostmasters and other local retailers within the province, which at the time of writing looks set to result in new legislation being drawn up.

In Scotland, NFSP officials held meetings and provided briefings throughout the year with Ministers within the Scottish Government and Members of the Scottish Parliament (MSPs) of all parties, including the Leader of the Opposition.

Meanwhile, NFSP officials in the Wales/Cymru Region have remained active throughout the year in their dialogue with the Welsh Assembly Government and Assembly Members. These relationships have yielded strong results – 2009 will see a further 12 month continuation of the 100% rate relief for post offices in Wales, and a second Post Office Diversification Fund. These come in addition to the discussions throughout 2008 on possibilities for further services to be channelled through post offices.



Relationships with other stakeholders were tested earlier in the year as the Network Change programme was rolled out across the country. Many MPs, interest groups and local authorities were outspoken in their opposition to the programme. This resulted in numerous local campaigns and petitions and debates in parliament and in the devolved administrations. Throughout the controversy, the NFSP maintained close dialogue with all parties, and made clear the need to complete the programme to help build sustainability for the remaining network.

Following the initiatives from local authorities during Network Change, the NFSP took our message on the need for councils to support all local post offices by putting more work over our counters directly to the local authorities. Major national conferences held by the Local Government Association (LGA) and Essex County Council, as well as through dialogue between individual local authorities and local NFSP branches, provided us with the opportunity to get this message across.

We have maintained regular dialogue with the postal services regulator Postcomm, in particular on its proposals to separate POL from Royal Mail Group, on which we have maintained a robust defence of the network's interests. We intend to maintain our dialogue with Postcomm and with Ofcom, its successor as industry regulator, on all areas of shared interest, including continuing to address the issue of Royal Mail Group's structure.

Another key relationship for the NFSP – at UK and regional level – has traditionally been with Postwatch, the consumer watchdog for postal services. Postwatch played a vital role during the Network Change programme throughout 2008, as well as continuing its usual business, including issuing valuable research on the post office network and co-ordinating the Counters Advisory Group (CAG) of organisations with an interest in the post office. Both through CAG and independently, we have maintained strong links and undertaken joint work where we can with a large number of campaign groups, including those representing the interests of older people, small businesses, rural residents and socially and financially excluded citizens.

Postwatch, together with Energywatch and the National Consumer Council, were merged into a new consumer body, Consumer Focus, on 1 October 2008. The NFSP has already begun to build dialogue with the new team at Consumer Focus on our many areas of mutual interest, and we look forward to taking this work forward in 2009.

We will also continue to work with all relevant groups on the importance of local retailing, and the need to ensure that small independent businesses are equipped to remain as anchors of local communities and local economies, with post offices at their heart.

Building the NFSP as a modern organisation

Membership lies at the heart of all that we do, and we will continue to develop our structures and communications to meet the changing needs of our members.

Membership

The NFSP has continued to place membership at the top of its priorities. The closure of almost 2,500 post offices under the Network Change programme has undoubtedly posed challenges to us as a membership organisation. However, the result secured by subpostmasters and their customers in winning the contract for the Post Office card account (POCA) demonstrated how effective we are when we work together to a common cause.

It is clear that in times of growing economic hardship, it is more important now than ever for subpostmasters to come together within membership of the NFSP to provide one another with support and to work to rebuild the network. Membership lies at the heart of our strength and as the only organisation recognised by Post Office Ltd (POL) to represent subpostmasters, the NFSP is in a unique position to work on our members' behalf.

Regional Membership Officers continued to lead recruitment work in their areas, while the Publicity and Development Committee introduced a new initiative in the autumn – a team of Super Recruiters to undertake targeted recruitment work across the country.

We will continue to set out the benefits of NFSP membership, highlighting the extensive selection of services, information, support and representation available to members. This ensures that members are aware of the full range of benefits available to them, while presenting to non-members the many advantages of signing up to join the NFSP.

The NFSP Branch Secretaries' Guide was completely overhauled and re-issued at the close of the year, providing Branch Secretaries with a valuable and up-to-date reference for all of the areas they cover within their hugely important work.

During the coming year we will also continue the process of updating our other membership materials, ensuring

that all documents are accessible, visually appealing and informative.

A new category of NFSP Associate Membership was created in 2008 following a vote at Conference. Subpostmasters' partners – whether business, or life partners – who are registered Post Office clerks are now able to become Associate Members of the NFSP. This is alongside retired subpostmasters who continue to be eligible to apply for Associate Membership.

Conference also decided to create a new subscription rate for subpostmasters who own multiple post offices, with those owning three or more eligible to receive reduced membership fees.

Benevolent Fund

The Benevolent Fund is an independent charity funded by investment income and donations from members. Although it is not a subscribed benefit of membership, it provides a vital role in assisting those eligible in times of personal need.

Communications

Our communications with members took significant leaps forward during 2008, with a new-look *Subpostmaster* and a new web forum.

The Subpostmaster moved to a glossy, A4-sized magazine format in January 2008, and the transition has proved popular with readers. The new look magazine introduced several regular new features including a dedicated Practical Advice page on operational issues; prominent figures with an interest in the post office network responding to members' questions; and an expanded retail section, providing advice on best retailing practice and new offers and services from NFSP Business Partners. These run alongside the latest news both from within the NFSP and from across the industry; profiles of subpostmasters; analysis of major issues facing the network; and the ever-popular letters pages.



A comprehensive survey of the new magazine was issued with the July edition and feedback from members has been strong. The hundreds of respondents overwhelmingly felt that the new format was accessible and easier to read, and that the information featured was useful and pitched at the right level.

Sent to key opinion formers across Government, Parliament and the wider industry, as well as to all members, *The Subpostmaster* remains our primary communication channel, and we will continue to seek feedback from members to help us provide the best magazine possible to meet their needs.

Launched in June, the NFSP's web forum was created as a direct result of a decision by members at Conference and by the end of the year had over 360 members registered. The forum allows NFSP members to directly communicate with one another from all over the country. Subpostmasters can share views, advice and experience with other subpostmasters, as well as finding out what's happening in their branch or region and contribute to debates. We will continue to promote the forum and expect the proportion of members registered to increase further in the year ahead.

The NFSP website has also witnessed changes, with a refreshed, more interactive homepage available on both the public site and members-only section; and a clearer, more accessible menu with greater highlighting of those areas available to members only. Use of the website continued to

grow during 2008, and we will strive to develop and update the site further during 2009 to help provide optimum information to members and to the public.

Branch Secretaries' Circulars continue to provide practical, urgent or confidential information to NFSP members, issued as both regular monthly bulletins and whenever required. These continue to be distributed in hard copy and placed within the members-only section of the NFSP website, but are now also emailed to many members – a trend likely to continue through 2009.

NFSP structures

The initiatives undertaken within our communication strategy go hand in hand with ongoing internal dialogue as to how the NFSP might adapt its current structure. We aim to better reflect the changing nature of the business and the network to ensure our ongoing relevance to all subpostmasters and other agents.

In addition to this high level strategy development, a number of trials are being undertaken within the NFSP's geographical regions to see how resources can be most effectively used within a streamlined structure. In one region this involves endeavoring to establish a single, first tier of organisation by combining branches within the region; in another the approach has been to merge adjacent branches to give a smaller number of super-branches within the region. We are aware that different solutions may suit different areas and believe that flexibility is needed.

Retailing

2008 was a difficult year for local retailing and, as we slide deeper into recession, subpostmasters will have to work even harder just to make their business stand still.

Well over 80% of all subpostmasters have a retail offering – ranging from a full convenience store or newsagent provision to cards and stationery. This retail income, whether comprising the majority of overall earnings or a small addition to post office remuneration, is absolutely vital to the viability and profitability of a small business.

As self-employed small business people, subpostmasters are acutely aware of the rising tide of business failures. As the year drew to an end, a number of high street retailers and, in our own sector, one of our previous trading partners, Magson, all ceased trading. These difficult trading conditions, coupled with the continual encroachment of the large supermarkets into local retailing areas, means that subpostmasters will have to continue to work extremely hard to hold sales at their present level.

Against this background, the NFSP Commercial Department continues to work hard to introduce new opportunities for members, covering a wide range of trading areas. There are now numerous commercial opportunities available with new products to try, services to offer customers, a range of products and services to help run post offices more efficiently, financial services and deals to save on subpostmasters' costs.

It is pleasing to know that members continue to contact the Commercial Department with ideas, and we will naturally continue to encourage any members with a good business trading idea to contact us.

The Subpostmaster 2008 Exhibition was once again held in conjunction with CTN World (National Federation of Retail Newsagents) at Olympia in London. In terms of numbers of exhibitors and visitors, the Exhibition held up reasonably well. However, it could not escape some of the cold wind of economic reality as some exhibitors and visitors were noticeable by their absence.



We will continue to encourage subpostmasters to work hard at their retail offering, and to try new products and services. Post offices are at the heart of local retailing, and the Commercial Department will continue to help ensure that they remain there.

Message from Alan Cook

Managing Director, Post Office Ltd

2008 ended with a succession of positive news from the Government.



The Government's announcement that Post Office will retain the card account until 2015 was extremely well received. This was followed by news that a select committee is looking at other Government services the Post Office should offer, and confirmation of their support for the non-commercial network beyond 2011.

We are nearing the end of the Network Change Programme, which has been a challenging time for everyone, but mostly you and your teams. Change on this scale is never going to be easy and I would like to thank you for your patience and understanding as we made the closures necessary to help secure the future of our network.

I am particularly pleased that our research shows around 86% of customers from closed branches are continuing to use nearby post offices. This is a key part of the Programme's aims, and I'm sure you are doing all you can to make new customers feel welcome. Our intention is to maintain a network of around 12,000 outlets, and if we are all focussed on developing our business, I am sure this is achievable.

Last year we significantly expanded our personal banking business by signing up Halifax and Bank of Scotland as partner banks, allowing over 60% of their customers to withdraw cash at our counters. We are working hard to persuade the remaining major banks to give their customers access to our network. This is a challenge, given the additional costs this represents for them, but we will continue to vigorously pursue this.

We also made considerable progress in developing our paystation business, with pre-pay energy volumes more than doubling throughout the year. This can be attributed to increasing our estate by 4,500 new terminals and gaining new business from Scottish Power and nPower. We are determined to grow and protect this valuable business as an important footfall generator. For your part, you can increase the hours your paystation is available by siting your terminal on your retail counter. As an example of how effective this can be, on New Year's Day – a day when post office branches are traditionally closed – we processed 15,000 paystation transactions.

The current economic climate has been clearly felt across our network, leading to a fall in both our mails and travel business. However, we have seen a significant rise in our savings business as customers look to place their money with a brand they can trust. This is a reputation that you have played a key part in developing, and we must capitalise on if we are to make a success of our current and future product portfolios. Many of you are already taking every opportunity to introduce our products to customers. If you are not doing so, I strongly urge you to reconsider, as our futures increasingly depend on us becoming a leading player in these new markets – particularly financial services.

So, we still have a fair way to go as we approach year four of our five year plan. Next year will continue to challenge as we look to build on our progress and significantly increase our sales. I am sure we will continue to work effectively with the NFSP to achieve what we all want, a sustainable network that supports you to run your businesses successfully.

I would like to thank you, as always, for the work you do on behalf of the Post Office.

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