



## **National Federation of SubPostmasters Parliamentary Briefing - Postal Services Bill House of Lords Second Reading 11 February 2011**

The National Federation of SubPostmasters (NFSP) represents the interests of subpostmasters, private business people who act as agents to Post Office Ltd (POL) and run 97% of the national post office network.

### **Background**

The government has published the Postal Services Bill which proposes significant changes to Royal Mail Group, of which Post Office Ltd (POL) and Royal Mail are both currently part. This follows recommendations made within Richard Hooper's updated report for the government on the future of the postal service, published in September 2010. In addition, the government published its strategy paper '*Securing the post office network in the digital age*' on 9 November 2010.

The Postal Services Bill completed its passage through the House of Commons on 12 January 2011, and had its first reading in the House of Lords the following day. The second reading of the Bill is due to take place on 16 February 2011.

### **Government proposals**

Proposals within the Postal Services Bill include:

- POL and Royal Mail to be separated.
- POL to remain in public ownership and government to explore options for POL to become a mutual company.
- Royal Mail to be privatised, with 10% of shares going to its workforce.
- Postal regulation to be overhauled, with the current regulator Postcomm abolished and regulation transferred to Ofcom.
- The government will assume Royal Mail's pension deficit.

Additional proposals within the post office strategy paper include:

- £1.34bn in funding for the network between 2011-15.
- Post offices to become a "front office for government".
- An expanded range of financial services to be made available at post offices.
- No further programmes of post office closures.

### **Post office network**

- Post offices provide individuals and small businesses with an unrivalled range of mail, government, banking and retail services, as well as informal advice and support, in a trusted local environment.

- Research for Postcomm in 2009 calculated post offices' "social value" at up to £10bn and concluded that the network "provides a major social net benefit to the UK population".
- However, the post office network has reached a critical point in its history. Two major government closure programmes, the withdrawal of many key government services and other social and economic changes have resulted in 7,000 post office closures over the past decade.
- The strength of the post office network lies in its depth and reach. With 11,500 post offices and 500 outreach services, the network remains bigger than all the bank and building society branches together. It is essential the post office network stabilises now, as an ever reducing network would inevitably undermine its future viability.
- Sub post office income remains worryingly low. Existing contracts must be retained and new work urgently needs to be brought into the post office network, safeguarding and increasing income for the remaining post offices to ensure they can continue to serve local communities.
- Changes to Royal Mail that adversely impact on the post office network risk further widespread post office closures. Many sub post offices already urgently need new sources of income to remain viable, and would not survive further reductions.

#### **Post offices and Royal Mail**

- Under the Inter-Business Agreement (IBA) between the two companies, income from transactions carried out in post offices on behalf of Royal Mail accounts for one third of POL income (£343m in 2009/10) and one third of subpostmasters' pay (which the NFSP estimates at £240m in 2009/10).
- Of this, around 60% is variable income based on the levels of transactions undertaken; while 40% is fixed income, based on post offices providing bricks and mortar access points for the public to use postal services.
- Mails business generates more than half of all visits to post offices.

#### **Mailwork sub post offices**

- One in seven rural post offices also provides premises, facilities and supervision for Royal Mail delivery staff. Subpostmasters running the 900 "mailwork" post offices are paid according to the number of postmen and women they supervise. This pay is frequently around 25% of a mailwork office's total Post Office income.

#### **Postal Services Bill**

At a meeting of the All Party Parliamentary Group for post offices on 24 November 2010, the NFSP announced its support for the Postal Services Bill and the government's plans for the future of the post office network and Royal Mail. The NFSP believes that change is required and the government's proposals show that ministers are moving in the right direction on safeguarding the national network of post offices. However, the NFSP has warned that further action is still needed from government to secure the network's future – in particular on government and Royal Mail work at post offices.

## **Separation of POL and Royal Mail Group**

- There is no known international precedent in separating a national mail operator from its retail arm (post offices).
- The separation of POL and Royal Mail means that current business arrangements between the two companies may well change. As a separate company, Royal Mail may seek to renegotiate existing contracts, or may reconsider whether POL should remain as its preferred retail outlet.
- Subpostmasters have an unrivalled specialisation in mails, and post offices should continue to serve the public and business as one-stop-shops for all mail needs.
- The NFSP believes that in order to avoid further post office closures and to allow the public to continue to access Royal Mail services at post offices, existing levels of Royal Mail work at post offices must be maintained with a minimum 10 year IBA following separation.

## **Government work**

- The government has proposed that post offices should become the “front office” for government, providing a face-to-face complement to existing web-based government information and services. A series of trials for new government services at post offices have been announced.
- The NFSP endorses this approach – even if existing levels of Royal Mail work were maintained, guaranteed major new sources of income are still required for there to be any possibility that POL could be financially viable outside of Royal Mail Group.
- In addition, we have long asserted that post offices are the natural home for all forms of central, devolved and local government payments, verification and information, providing a local and trusted environment for citizens to interact with the state. This also offers potential cost-savings by enabling government to cut back-office functions.
- However, the government’s plans must develop beyond trial status into a permanent offer, with funding streams identified to enable them. Proposals have been raised and trials carried out for new government work many times before, but failed to translate into permanent additional services for the public to access across post office counters, often through lack of funding to back them up.
- The government’s failure to confirm existing contracts held by the Post Office is causing growing concern. A decision on the renewal of the contract for benefit cheques (also known as the Exceptions Service or Green Giros, used by nearly 350,000 of the most vulnerable citizens to claim state pensions and benefits by cheque at the Post Office, as they are unable to operate any other payment method) had been due in the autumn. A decision is still awaited. Hopes for a viable, stand-alone mutualised POL and a secure future for the post office network will come to nothing if the government’s plans fall at the first hurdle and ministers fail to award this contract exclusively to the Post Office.

- If adequate levels of new government work at post offices are not secured, the NFSP believes that the separation of POL and Royal Mail, and the sale of Royal Mail must be indefinitely delayed until POL has sufficient income to operate outside of Royal Mail Group as an independent company.

### **Funding**

- The previous government paid POL a subsidy of £150m each year from 2003, in recognition of the vital social and economic role which post offices play in their communities.
- The coalition government announced a £1.34bn funding package for the Post Office from 2011-15. The money will be spent on modernising the network, improving its offer and winning new revenue streams.
- The NFSP has strongly welcomed this funding, particularly during a period of severe cuts to public expenditure; but warned that funding can only succeed in safeguarding the network's future if action is also taken on securing a robust and lengthy agreement with Royal Mail, and contracts for new government work.

### **Mutualisation**

- The NFSP has welcomed the government's plans to consider options for POL to become a mutual company.
- Increasingly, the interests of POL and of subpostmasters are not aligned. Subpostmasters have £2 billion of their own money invested in the network, and should have a far greater say in how it is run.
- However, we strongly believe that talk of mutualisation is worthless if POL remains a heavily loss-making company. This can only be remedied with a lengthy and binding IBA with Royal Mail; and contracts to allow post offices to become the front office for government. If this is not achieved, any mutualisation of POL is doomed to failure.

### **Regulation**

- The proposed transfer of powers from Postcomm to Ofcom could herald the start of a more proportionate and cost-effective regulatory regime.
- However, the NFSP believes that Royal Mail remains heavily over-regulated, which prevents it from competing equally against private mail operators. Unless the regulation is significantly and quickly reduced, it may prove impossible for the government to find a buyer for Royal Mail.

### **Pensions deficit**

- The NFSP supports government proposals to assume the Royal Mail pensions deficit.

### **Privatisation**

- The NFSP believes that if Royal Mail is to be privatised, we believe that it is essential that it should remain in UK ownership, with its headquarters in the UK. This is due to its status as a strategic British company, vital to the UK's economy and society.

The post office network is a critical piece of the nation's infrastructure, and makes a major contribution to the social and economic glue that holds communities together.

The NFSP wants to see a world-class, British-run Royal Mail, and a vibrant national network of post offices which can continue to deliver vital services to the public and business throughout the UK. We are backing the Postal Services Bill because we believe it can help achieve these goals. However, ministers must recognise that their plans will only succeed if they deliver on access to government and Royal Mail work at post offices. If they fail on this, not only will plans to mutualise the Post Office be doomed to failure; there will be no way back for the network and our post offices will face even greater jeopardy.