



# Annual Review 2011

The National Federation of SubPostmasters

# About us

The National Federation of SubPostmasters supports subpostmasters and all Post Office operators 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 and operators.

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.



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# Foreword from the National President

The NFSP has had the foresight to instigate change to help subpostmasters before an inevitable change is thrust upon us



**Kym Ledger** National President

By working closely with the government and Post Office Ltd (POL), we have given our network a chance of a sustainable future, rather than our post offices being left to wither on the vine.

The past decade has been a difficult one for many subpostmasters. We have seen our investments in our Post Office businesses decrease to the point where some subpostmasters have been forced to hand in the keys along with any hope of their investment realising a return.

Although we can't stop changing consumer behaviour, cutting edge technology or indeed a global financial crisis, we can try to adapt to secure the best possible outcome from this situation.

As a result of the NFSP's work, we have won a £1.34bn funding package for the network. For the third time in a decade this includes compensation for subpostmasters leaving the network.

Change is always difficult, but the NFSP will be there throughout the forthcoming network transformation programme to provide support and advice to all members.

Mails is now our key product and securing a 10-year agreement with Royal Mail Group to help safeguard our future is another of the NFSP's major achievements during the year.

For too many years POL has protected the centre and chosen to make cuts to other parts of the business, particularly to subpostmasters' incomes. POL must now streamline the Crown office network, Cash in Transit and other central costs.

The NFSP is working with government at national, regional and local level to help secure as much future government work as possible. As government seeks to cut its costs, who better to serve the community than us?

For the past four years the NFSP has had a vision of working towards a mutualised post office network, allowing us to have our destiny in our own hands and to finally reap the harvest of our hard work.

As we look ahead to a better decade for our network, all subpostmasters can be proud of the highly valued service we continue to provide to our customers and our communities.

# Foreword from the General Secretary

Government, POL and the NFSP must work together to ensure that the funding package and new government work are the catalysts for a better future



**George Thomson** General Secretary

There can be little doubt that the economic conditions facing subpostmasters and other self-employed small business people in the UK are the most difficult they have been for decades, with many businesses and families facing reduced income and rising costs.

Uniquely for a company operating on the UK's high streets, we have persuaded the government to invest £1.34bn over four years to start the process of modernising and changing our network. £600m of this money is set by as a Social Network Payment over four years to ensure that traditional post offices

continue to receive both fixed and variable pay in return for providing a service to their community.

Additionally, the government's commitment to make us their 'front office for government' clearly shows that, although we have to tender for contracts at competitive rates, the government is fully aware of the unique role that post offices perform in their communities, and their importance as part of the glue holding local village and high street shops in place.

The NFSP can also be rightly proud of the decisive role it played in changing both government and Royal Mail Group (RMG) policy on the Inter-Business Agreement (IBA). Originally the settled position of the government and RMG was that a five year agreement was sufficient. The NFSP's intervention changed the policy to a 10-year IBA, which has now been agreed. The extra five years is worth an additional £1.7bn of income to Post Office Ltd (POL) and subpostmasters.

It is very gratifying that the government is committed to mutualise POL in the future, offering both subpostmasters and staff a far greater say in the running of the company, indeed owning the company.

These four key policy areas of restructuring/funding; new government work; a 10-year IBA; and ownership of the company by agents and staff, give us a fighting chance for a new future.

Let's work tirelessly together to achieve it.

# Focus on network transformation

Let us be crystal clear that our network must restructure and change, or large sections of it will seriously struggle to remain in business

Network restructuring will start in the spring of 2012 and is not an optional extra to our main policies of a 10-year Inter-Business Agreement (IBA), more government work, and mutualisation. It is an intrinsic component of turning around the fortunes of both Post Office Ltd (POL) and our network.

The transformation/restructuring programme is being embarked upon not from a position of strength, but from a position of weakness. POL is suffering from falling revenues, high central costs, and loss of market share. Thousands of subpostmasters are likewise struggling to continue in their businesses and are suffering from declining income, rising costs and, for many, a business they are finding very hard to sell on.

**“...Our network will be restructured. It will either happen in a planned, compensated, agreed manner, or it will happen in a roughshod, uncompensated and unplanned manner.”**

## Choices

The NFSP could have decided to continue with the previous Labour government's policy of no funding package to restructure but a continuation of the Social Network Payment (SNP). Although this is advocated by some, including the Communication Workers Union (CWU), it would in fact be a nonsense. Tough trading conditions would lead to thousands of uncompensated closures with no potential exit package in place.

We decided to work with government to get a package that would allow the SNP to continue for another five years, and also provide funds to modernise and restructure our network.

The NFSP was pivotal in persuading the Conservative and Liberal Democrat coalition government to invest £1.34bn of taxpayers' money into POL over four years. To secure this substantial investment at a time of deep government cutbacks of £81bn a year was a significant achievement.

The funding will allow the following key issues to be addressed or resolved:

- 2-3,000 existing subpostmasters given the opportunity to leave the network with 18 months' compensation and be replaced by another Post Office outlet in their community.
- The biggest investment in the network's history to modernise initially 6,000 branches.
- Ensure POL management stop the Crown offices losing over £60m each year.
- Continuation of the SNP, in turn protecting thousands of traditional post offices and their fixed income.
- Savings from the 2,000 Post Office Local offices will allow POL to bid more competitively to win new contracts, with that income in turn helping POL to retain a significant segment of the network as traditional post offices.

Our network will be restructured. It will either happen in a planned, compensated, agreed manner, or it will happen in a roughshod, uncompensated and unplanned manner. Be assured, doing nothing or staying as we are is not an option.



“...The NFSP recognises the value of the traditional model of post office and the need to create as much stability as possible for this part of the network within current difficult trading conditions.”

### Planning for change

As we progress through the trials stage on to roll-out of the new network models, the NFSP will represent all three network categories:

- The traditionally contracted office which will comprise the bulk of the network.
- Post Office Mains, numbering around 4,000 offices and anticipated to comprise a majority of on-site conversions.
- Post Office Locals, numbering around 2,000 offices and anticipated to comprise a majority of off-site conversions bringing in new operators.

The NFSP recognises the value of the traditional model and the need to create as much stability as possible for this part of the network within current

difficult trading conditions. With this in mind, the pay negotiations concluded in 2011 focused on protecting the Core Tier Payment (CTP) against the consequences of a declining market and delivering some lump sum payments as an immediate buffer against the real hardship that many subpostmasters face.

The significant elements of our agreement with POL for 2011 included a total lump sum payment of £1,000, comprising a £600 Colleague Share dividend payment to all qualifying subpostmasters plus an additional one-off lump sum payment of £400 for every post office (excluding outreach and satellite sites). In addition, a one-off payment of £200 was made to all mailwork offices.

Furthermore, POL suspended the automatic review of CTP against transaction volumes for all post offices. This meant that the cut in CTP which would have resulted for the vast majority of post offices did not take place. Those 250 post offices that bucked the general downward trend and were due to receive an increase in CTP if the review had gone ahead, still received the increase. The net effect of increases and the suspension of the CTP review for all other offices was a total of £2.365m added to subpostmasters' pay.



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In total, the pay deal represented £13.222m of additional income for subpostmasters. At the time the NFSP acknowledged that in current market conditions, with a continuing decline in volumes, the pay deal would at best help individual subpostmasters maintain their post offices in the short-term while work continued with POL and the government on longer-term solutions. We stressed that a sustainable network was dependent on additional government funding to allow some restructuring; new government work; the safeguarding of the relationship between POL and Royal Mail; and, if all of those criteria could be successfully achieved, by the possible mutualisation of POL.

### Supporting the whole network

Within the restructuring exercise the NFSP recognises the importance of maintaining a core-tier fixed payment for all those choosing to stay with the traditional model. Although the new Mains and Locals contracts will see the introduction of fully variable pay for those who have volunteered to make the change, all those who choose to stay as they are will retain their CTP/Assigned Office Payment (AOP). Any subpostmaster may choose to stay as they are – change of any sort is not compulsory – but must make their own assessment of how viable their

business might be in the future, given anticipated market and high street conditions. For those who do not see a viable future, they may elect to leave the business and allow an alternative service provision to be sought and secured. Those who see the possibility of an on-site conversion to a Mains or Local model providing the opportunity to realign their retail business, save on costs and secure some investment funding may state a preference to have further discussions about the possibilities of change.

Trials are underway or pending in approximately 30 Mains and 150 Locals. While the NFSP has been instrumental in achieving many contract changes there are a number of major issues that require ongoing discussion, negotiation and resolution prior to any roll-out later in the year. The experience of the trials will inform those discussions and the NFSP will be looking to maximise profitability and the return on investment for those operators. The final terms and conditions on offer must be sufficiently attractive to drive interest and take-up of the new models.

As the network transformation programme gets underway, we will focus on supporting all our members, whether they choose to remain as they are, embrace the new Local or Main models, or leave the industry.



# Focus on front office for government

The long term future of the network is dependent on the Post Office winning new government contracts over the next year

The NFSP was at the forefront of welcoming the government's pledge in late 2010 to use our post offices as 'the front office for government'. This concept would see the growing online provision of government services complemented by the increased provision of face-to face transactions in local post offices.

It's a promise which has been heard before from previous governments and has never been delivered. However, on this occasion, the combination of ministers' determination, the urgent need to cut public spending and the equally pressing need for new work within the network means we could be witnessing a genuine step-change in the government's use of our unrivalled national network of outlets.

## Progress

2011 saw much progress on this front. New contracts were awarded, including:

- For DVLA, 10-year photocard driving licence renewals; and drivers' photos captured at the post office as part of the transaction and sent to DVLA by a secure electronic link.
- A four-year UK Borders Agency contract, to take photographs and fingerprints of foreign nationals seeking biometric residence permits.
- Westminster City Council, which bought a package of local government services from POL, including the collection of council tax and parking fees.



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Furthermore, trials for new services were carried out in various parts of the country, including:

- Rural signing on, where people in rural areas claiming Jobseekers Allowance were required to sign on at a post office.
- A check and send service for customers who are applying for State Pension or Pension Credit.
- Applications for a National Insurance number.
- Further local authority services, with the NFSP working closely with POL and Sheffield City Council on a comprehensive pilot, for the city’s post offices to become the ‘front office’ for many council services.

POL now has a dedicated ‘front office for government’ team, focussed on identifying new opportunities and making sure the company puts in early and well-costed bids for potential government work. The NFSP’s close and ongoing work with this team gives us confidence that real progress can be achieved.

### Political will

In order to achieve the aim of creating a genuine ‘front office’ at the Post Office, POL’s strategic vision and its ability to bid for contracts in a competitive manner must be matched by political will.

While we acknowledge that POL is not going to win or retain every contract it bids for, a genuine understanding and willingness to think ‘Post Office first’ is nonetheless required across government, and we believe this is still lacking.

This is demonstrated by the fact that other work was lost during 2011. The contract for Green Giros was awarded to PayPoint in what we believe to have been a below-cost bid; while NS&I announced it was to remove all services from post offices except for Premium Bonds. For every item of work lost to the Post Office, the government is obliged to pay twice – once in maintaining POL’s Social Network Payment, and again to deliver the service through another provider.

Although ministers at the Department for Business, Innovation and Skills (BIS) are fully signed up to the ‘front office’ plan, there remains some way to go before all government departments and agencies are on the same page. Too many ministers and officials in too many departments are still following narrow short-term interests above long-term, cross-government ones.

### Campaigning

For this reason, the NFSP is launching a campaign at the start of 2012. Its aim is to encourage subpostmasters and their customers to make sure ministers, parliamentarians and the media are fully aware of the need for more government work at post offices, the demand for new work among subpostmasters and the public, and post offices’ ability to deliver the highest standards of service in a cost-effective way.

This campaign will help to generate the political will to finally ensure all of government thinks ‘Post Office first’; and that this, together with competitive bids from POL and exceptional standards of service offered by our post offices, can mean that the ‘front office for government’ concept finally becomes a reality.

# Focus on on working with Royal Mail

Regardless of the forthcoming separation of the two companies, Royal Mail remains our partner and our largest client and customer



“...The decision to separate RMG and POL ... is certainly a bold and unique policy by the government. Indeed, the UK is the only country in the world attempting this policy change. It is therefore essential the government ensures it is successful.”

Both the current and previous governments concluded that the problems facing Royal Mail Group (RMG) were so enormous that they had to be tackled as follows:

Firstly, that the government should take over the pension deficit (nearly £7bn). This is in the process of being implemented. Secondly, that regulation of the mail industry should be transferred from Postcomm to Ofcom. This has been done. Thirdly, that private capital was urgently required to modernise RMG's sorting and delivery operations. Fourthly, that POL should be separated from a new

RMG (Royal Mail Letters, Parcel Force, GLS) and be kept in government ownership.

To achieve these objectives, the coalition government proposed the Postal Services Bill, which was passed by parliament and became the Postal Services Act 2011.

This means that during 2012, there will be a monumental change in POL's relationship with the rest of the RMG. POL will initially move from within the existing RMG to become an equal sister company; and will be fully separated when the new RMG (without POL) is privatised.

## Unique and far reaching

The decision to separate RMG and POL (in effect separating mails collection and delivery from mails retail) is certainly a bold and unique policy by the government. Indeed, the UK is the only country in the world attempting this policy change. It is therefore essential the government ensures it is successful. Some argue that RMG should not be taken out of public ownership, and that small changes will resolve the major structural issues it faces. The fact of the matter is that letter volumes were 82m items per day five years ago; are now 59m per day; and will continue to fall over the next five or six years to around 50m items per day. New investment, firm and speedy management decisions, and a new 'can do' attitude will be required to stabilise and turn around RMG. The government believes this will be achieved more easily if the company is privatised.

It is further argued that if RMG is privatised, POL should be included in the sale. However, the reality is that RMG will have to undergo enormous change and modernisation resulting in a much slimmed down mails company with (over the next 10 years) about 60,000 less staff. If POL remained part of a privatised RMG, many thousands of post offices would be closed as part of the efficiency and modernisation efforts. Surely therefore it is much more sensible to remain in government ownership.

## Safeguarding local post offices

Over £344m is paid to POL from RMG each year as commission for the £1.6bn of business we transact on its behalf. The vast majority of that sum is paid to subpostmasters in variable commission and a contribution towards their fixed pay. This means that RMG is our biggest customer and client, accounting for over one third of both POL and subpostmaster income. The NFSP embarked on a series of protracted meetings, the outcome of which was that we persuaded both the government and RMG that the IBA on offer of between two to five years was insufficient to protect this crucial income stream.

We are proud that the NFSP played such a pivotal role in persuading both RMG and the government to increase the offer to a 10-year IBA. That decision safeguards in the region of £1.7bn in income over the extra five years, and the extension helps to protect the £2bn subpostmasters have invested in the business.



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## Mailwork

Currently there are over 800 mailwork offices (SPDOs) run by subpostmasters. Although RMG will be closing a proportion of its own 1,400 delivery offices and with the likelihood of a proportion of the 800 SPDOs being closed, our belief is that mailwork offices will continue to be provided by subpostmasters as part of a 10-year IBA agreement with POL. This is another significant achievement by the NFSP. Many RMG senior managers wanted to totally withdraw from mailwork offices. However now, even after separation from POL and privatisation, it will remain our largest customer and client. We will ensure we keep significant close ties with the senior management of RMG.

# Focus on mutualisation

Mutualisation of the Post Office moves several steps nearer following the publication of detailed proposals, and a major government consultation on the plans

This year saw plans to convert Post Office Ltd (POL) into a mutual structure progress considerably. We are delighted with these developments, which follow several years' work and lobbying for Post Office mutualisation by the NFSP's Executive Council.

## Subpostmaster stake

Fundamentally, the NFSP believes that POL's and subpostmasters' interests are currently mismatched; and that subpostmasters' personal investment of over £2bn in the national post office network should be better reflected in decisions about the company and its future. The NFSP believes that a Post Office mutual, with subpostmasters owning a significant stake in the company, would help resolve this issue.

Moreover, a mutualised Post Office would benefit from the many strengths displayed by organisations that are owned by those that work in them. These include long-term sustainability, higher productivity, high levels of innovation and more staff commitment - all features that should be harnessed and used to transform the post office network.

## Initial proposals

Following scores of meetings between NFSP representatives and parliamentarians, ministers, civil servants and our specialist advisers, the government confirmed it would look at converting POL into a mutual. At the end of 2010, the Department for Business, Innovation and Skills asked Co-operatives UK to explore options for the mutualisation of POL.

The NFSP worked with Co-operatives UK early in 2011 to give the subpostmaster perspective on the proposal. Other interested organisations also input their views. The resulting, comprehensive Co-operatives UK report, published in May, recommended POL should be owned by customers, as well as employees and subpostmasters. It also gave suggestions for how a Post Office mutual could be organised and how power could be shared.

Meanwhile, throughout the year NFSP officials continued to work closely with legal experts and other professionals in the field, on developing more detailed proposals for the mutualisation of the Post Office.

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### Government consultation

In the autumn, building on the work carried out by Co-operatives UK, the government published a consultation asking for further views on Post Office mutualisation. The NFSP was in a strong position to provide an authoritative and extensively researched written response to the consultation.

In our submission we make clear our support for mutualisation, but warn it is essential subpostmasters have a genuine say in how the mutualised company is run. We highlight the need for the government to ensure a full range of government services are available at post offices, and stress this is critical to the success of the Post Office mutual. We also emphasise the continued need for the government’s Social Network Payment which is used to support post offices not commercially viable in their own right.

The NFSP advocates the Post Office mutual’s board of directors should answer to a ‘representative body’, representing the owners, including POL employees as well as subpostmasters. The government and organisations such as Citizens Advice should also sit on the representative body, to represent the public interest.

We argue that a Post Office mutual in good financial shape, could allow for the payment of dividends to incentivise those who run the network. However, we warn that POL will never be profitable enough to offer dividends to the general public.

### Next steps

The government will respond to the consultation in spring 2012; and the NFSP will maintain dialogue with ministers throughout the year and continue to lobby for mutualisation.

However, both the NFSP and government are clear that the network will need to be put on a more secure financial footing before any changes can be made. In addition, Post Office mutualisation would be subject to a parliamentary vote; but the government says the Post Office could be in mutual ownership by 2015.

# Focus on membership matters

Making sure the NFSP, our structures and our services are delivering for our members remains at the forefront of our work



## Structure

2011 was not without its challenges for the NFSP internally as well as externally. The actions of a small and unrepresentative minority in two of the Federation's regions threatened the integrity of the organisation and as a consequence the Executive Council set in place a due process to manage and contain the situation. The outcome sees a newly constituted South East Region and the election of

new Executive Officers in the South East and South West Regions.

In the latter part of the year a Special Conference called by the Executive Council provided all regional delegates with an update on network transformation and allowed debate and decision on a number of rule changes.

2012 sees the statutory quinquennial election of the NFSP General Secretary.

## Membership

Our focus on membership recruitment and retention is paramount and the NFSP is rightly aware of scrutiny in these difficult financial times. The value of NFSP membership – both member benefits and representation with POL and government – continues to be recognised and our membership density remains high at 75%. However the NFSP is far from complacent and responded most robustly to the attempts by the Communication Workers Union (CWU), in the latter part of the year, to embark on a recruitment campaign amongst subpostmasters. Even more disingenuous was the CWU's organised effort to persuade and assist subpostmasters to resign their NFSP membership.

The NFSP remains the only organisation recognised by both government and POL as the representative body for subpostmasters and new agents and operators. As an organisation consisting solely of self-employed businessmen and women and run by subpostmasters for subpostmasters, the NFSP's member benefits, services and representation are specifically designed to be relevant to those who have collectively invested £2bn in the network. The CWU may see "a synergy" between the traditional Royal Mail Group employee workforce and self-employed subpostmasters; we see a conflict of interest.

The NFSP will continually assess its range of member services to ensure that they encompass the needs of the changing network as it develops and that we add value to the new operating models.

## Communications

*The Subpostmaster* continues to be the NFSP's primary communication channel, with our members and the wider world.

The most recent readers' survey indicates high and growing levels of satisfaction with the publication

among members. However, we are aware that there is always room for improvement and will continue to strive to ensure *The Subpostmaster* remains relevant to members, and continues to provide a window on our industry and our organisation to other stakeholders.

Fifty Branch Secretaries Circulars (BSCs) were issued throughout the year, averaging almost one a week. BSCs contain bespoke information for NFSP branch secretaries, but are also placed in the members-only section of the NFSP website [www.nfsp.org.uk](http://www.nfsp.org.uk) for all members to read.

Visits to the website continue to increase year-on-year. In addition to BSCs, the site contains a host of other useful and relevant information, such as all recent communications to subpostmasters on network transformation and all of the NFSP's submissions to government consultations and parliamentary inquiries. Members are urged to make sure they visit the site on a weekly basis to keep up-to-date with all the latest information and documents. Following the abandonment of the NFSP forum last year, work will progress in 2012 on redeveloping the website to make it an even more accessible and useful resource for members.

## Benevolent Fund

The NFSP's Benevolent Fund is an independent registered charity, funded through investment income and donations from members. The Fund is open to applications from all subpostmasters and fulfils a vital role in assisting both current and former subpostmasters and their families in times of need.

Promotion of the Benevolent Fund and its services was maintained throughout the year. As a result, a significant number of members continue to support the Fund through monthly payroll giving; while other events were organised throughout the year, particularly at and around Annual Conference, to generate additional revenue for the Benevolent Fund's vital work.

**“The NFSP remains the only organisation recognised by both government and POL as the representative body for subpostmasters and new agents and operators...The value of NFSP membership – both member benefits and representation with POL and government – continues to be recognised and our membership density remains high.”**



# Focus on Retail

## While high street trading conditions remain challenging for independent retailers, the NFSP continues to support members' retail businesses

Trading conditions throughout the UK remain difficult with high street retailers finding things particularly hard. Retail expert Mary Portas has published her government-commissioned review on the future of our high streets. While the NFSP supports many of the suggestions contained within her 28-point plan for transforming the fortunes of local retailing, we believe her proposals could and should have gone much further.

Post offices play an integral role in the retailing landscape of almost every neighbourhood throughout the nation and like other retailers, many subpostmasters have seen declines in both turnover and profits. However, there is evidence that retailers who operate under a franchise brand or symbol group are proving most successful.

In an attempt to grow market share, many of the large multiples have increased the presence of their 'express' or 'local' brands and have moved into direct competition with traditional family owned businesses. This is especially true within the convenience and

newsagent sectors. Having a post office in-store is one way an independent trader can compete.

As the network transformation programme begins and our network becomes more aligned to these sectors, it is important that the NFSP Trading Company can offer our members goods and services that are beneficial to subpostmasters and their customers alike. With this in mind we are in advanced discussions with symbol groups who are seeking to achieve 'preferred supplier' status to subpostmasters. This is a relatively new concept which will see certain business partners using the NFSP brand on their advertising material and embarking on direct marketing campaigns.

The primary function of the Trading Company is to offer goods and services that will be of benefit to our members. Despite the effects of the recent closure programmes, the buying power of the network remains a considerable force when negotiating with suppliers. We will continue to work with potential partners to achieve the best deals possible.

# Message from Paula Vennells

Post Office is on the verge of an exciting point in its history – and 2012 is just the start of our journey



**Paula Vennells** Post Office Ltd

The funding committed to the Post Office by government, which is expected to achieve State Aid approval early this year, is a tremendous endorsement of the social and economic value of our network.

It gives us the opportunity to modernise and meet the needs of today's customers, by introducing new operating models alongside developing innovative products and services.

The reaction from operators and customers at our existing pilot sites has been overwhelmingly positive – according to our most recent independent customer research 91% of customers at Local branches were satisfied with their overall experience.

The new models offer many subpostmasters an opportunity to grow both their Post Office and retail business whilst offering customers a modernised branch experience and, in the majority of cases, longer opening hours that are convenient for them.

Establishing the Post Office as a front office for both local and national government is another key part of our strategy. Our trusted reputation and unrivalled infrastructure means we are ideally placed to provide both a personal and expert digital interface between the public and government. And whilst we have no automatic right to this work, we are now winning contracts against strong competition.

There is also potential for us to grow in other areas too by building on our strengths, as the trusted alternative to high street banks, and the largest travel money supplier in the UK. And our long-term agreement with Royal Mail gives us the stability we need to ensure we continue as the UK's largest mails retailer.

The year ahead will see the Post Office established as an independent business as we take the first steps on a path that may eventually lead to mutualisation. We have the plans in place to create a vibrant and commercially successful business and I am pleased that we continue to work closely with the NFSP.

Thank you for your expert care and commitment to customers and communities throughout the UK. I look forward to working with you in 2012.



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