

Trade and Industry Committee Inquiry Royal Mail Group

Written Evidence from the National Federation of SubPostmasters

1 The National Federation of SubPostmasters

1.1 The National Federation of SubPostmasters (NFSP) is the only body representing the interests of 14,500 subpostmasters throughout the United Kingdom. Sub post offices make up 97% of the national network of post offices and are run by private business people, subpostmasters.

1.2 Of the three areas outlined as the focus of the Committee's Inquiry, the NFSP's written submission will largely look at "the future of the Post Office Card Account and the effects on the Post Office network", as this is the area of most direct relevance and concern to subpostmasters.

2 Post Office Network

2.1 With 14,500 branches, the Post Office is the largest retail and financial services chain in the UK. This means it is larger than all of UK's banks and building societies combined, with branches in locations where banks and building society branches long since ceased to exist. 94% of population lives within a mile of a Post Office branch and 28 million customers visit every week.

2.3 As well as its unparalleled infrastructure, the Post Office is a trusted brand. This is particularly the case among marginalised or vulnerable members of society, which form a disproportionately high percentage of the customer base¹. According to research among financially excluded consumers by the National Consumer Council, "the Post Office is well regarded as offering a good, accessible service", and is viewed as both better trusted and more accessible than banks².

3 Post Office Card Account

3.1 The Post Office card account (POCA) is a simple account which allows the receipt only of benefit, state pension and tax credit payments. Account holders can access their cash and make balance enquiries at any post office. The card account is the only option for benefit receipt through which claimants cannot get into debt. It is also the only option with no restrictions on who may be able to open an account as long as they are in receipt of a state pension or benefit.

3.2 It was introduced in April 2003 as the sole Post Office based option for the receipt of pensions and benefits within the Government's Direct Payment programme, wherein traditional order books cashed at the Post Office were replaced with payment of pensions and benefits directly into bank accounts.

3.3 Despite strong concern from our members about the impact on their livelihoods, NFSP fully co-operated with the Direct Payment programme, with subpostmasters across the country at the forefront of enabling customers to make the transition from order books to Direct Payment.

3.4 Post Office Ltd estimates that a £400million a year loss was incurred by the network through the introduction of Direct Payment of pensions and benefits, or around 40% of traditional income.

3.5 Around 4.3 million benefit and pensions customers regularly use their card accounts to access their benefit payments. NFSP has regarded the POCA as a key product for sustaining the post office network.

3.6 A further 750,000 customers use the cheque-based exemptions service, for pensioners and benefit claimants who cannot manage to use electronic payment. Cheques can be cashed at any post office or paid into bank accounts.

3.7 That the Government has discouraged Post Office card account use and encouraged bank account use has been well-documented. Throughout the programme of Direct Payment, the Government consistently presented the POCA as the third option, after bank accounts and basic bank accounts, and the process for opening a POCA was made extremely and unnecessarily complex.

3.8 Withdrawal of POCA

It emerged in January 2006 that the Department for Work and Pensions (DWP) does not intend to extend the Post Office card account contract beyond 2010. The DWP now claims that it was always clear that POCA would only run until 2010, as a transitional device following the introduction of Direct Payment.

3.9 In reality, while the current contract does indeed come up for renewal in 2010, NFSP had always understood that the contract would be renegotiated during its lifetime, and it was our intention to work with Post Office Ltd (POL) and with the DWP to develop any future Post Office based product. It has always been the understanding of NFSP that POCA or an equivalent Post Office based scheme would be continued beyond 2010.

The Government stated at the time of the introduction of POCA that the card account or an equivalent scheme allowing customers to access their pensions and benefits through the post office network would be guaranteed. A 2003 joint DWP/DTI statement described the POCA as “the cornerstone” of new banking products at the Post Office. POCA customers, the NFSP and Members of Parliament were never at any stage informed that the POCA was a short-term or temporary scheme.

3.10 Subpostmasters have invested around £2 billion of their own money into their businesses and therefore into the network on the understanding that the network would continue to have a role in, and thereby receive income from, the provision of Government pensions and benefits.

The NFSP is deeply concerned that there is currently no clear proposal for any Post Office based successor product(s) to POCA. We would ask for assurance from the Government that it is working closely as a matter of priority with POL to develop POCA successor product(s) to meet customer needs.

3.11 DWP Pilots

The DWP ran a series of pilot schemes – scheduled to operate between 13 February to 10 March 2006 - with over 40,000 current or potential POCA users refused access to the facility without their consent.

3,000 new benefit claimants were not given the option to open a POCA; 35,000 existing customers received a letter from the DWP telling them to use a bank or building society account and demanding their account details; while 2,500 existing customers, without choice or consultation, found their benefits are no longer paid into their card accounts, but paid instead into a bank account, totally ignoring the preferences made when their benefit books were stopped.

3.12 The pilot schemes were introduced with no consultation with account holders, Parliament or with other stakeholders; the NFSP learned of the DWP's intentions less than three weeks prior to the start date of the pilots. The nature of the pilots suggest that by the time of the 2010 POCA contract expiry, sufficient account holders will have been driven out of POCA that the Government will be able to terminate the contract without public resistance, while Post Office Ltd will not have had time to develop an alternative Post Office-based product.

3.13 The DWP states that one of the objectives for the pilots is to help them see how customers behave, including how many people continue to use the Post Office, and to inform future DWP policy on the payment of pensions and benefits. NFSP believes that it is not possible to assess this when no Post Office based product has been offered to customers within the pilots, and therefore to a significant extent any findings are rendered meaningless.

3.14 Furthermore, the DWP has yet to report on the outcome of the pilots. The NFSP would ask when the findings are to be made publicly available.

3.15 The NFSP has been concerned that the DWP has been acting in isolation from other Government Departments on the issue of the POCA and is failing to recognise the much wider social and economic implications of withdrawing the POCA without a Post Office based alternative in place. This lack of coherent thinking within Government could prove fatal for many post offices.

The ending of POCA - through the expiry of the contract in 2010 or by its destruction through pilot schemes such as those already run by the DWP - without an alternative Post Office based scheme in place will inevitably lead to a massive reduction in the network of several thousand offices. While this may represent a short-term saving to the DWP, we have urged the Government to instead take a more long-term and joined-up view and consider the wider social and economic costs that such a move would trigger.

The NFSP therefore welcomes the creation of the new Cabinet Committee MISC 33, to be chaired by the Deputy Prime Minister and to "consider issues relating to the future of the Post Office network." The NFSP looks forward to working with the Committee and trusts that its creation will lead to the Government taking a longer-term and more holistic view of the network and its purpose than has recently been demonstrated.

4 Impact on Subpostmasters and on Post Office Network

4.1 NFSP believes that the Government's decision to withdraw the card account from 2010, and to have already begun migrating current and potential future POCA customers into bank accounts, will inevitably lead to the closure of thousands of post offices across the country.

4.2 Subpostmasters are paid transaction payments which relate to the amount of money withdrawn from the Post Office card accounts by account holders. Subpostmasters are also paid a one-off payment for each card account opened.

Although the NFSP has always argued that POCA should offer a more flexible, fully functional service, including the ability for customers to make deposits as well as withdrawals, we nonetheless believe that the card account has provided an opportunity for the network to offset some of the losses incurred by Direct Payment. In addition, the card account brings people into the Post Office that may otherwise not have made that visit and thereby provides additional custom.

4.3 Post Office Ltd recorded an operating loss of £111 million for the year 2005-06. POL estimates that the loss of the card account will cost the network £200 million a year up to 2010³. NFSP believes that the network can ill afford a further loss of this nature and that for many subpostmasters, already living on low incomes, the loss of the card account will directly lead to the loss of their businesses.

4.4 Ipsos MORI 2006 Survey on Subpostmaster Pay

NFSP recently commissioned Ipsos MORI to carry out a survey⁴ looking at the major sources of sales-related income following the introduction of a range of new Post Office products and services by Post Office Ltd and the full implementation of Direct Payment. The survey also looked at the profitability of post offices and their attached businesses. This is the third phase of an NFSP-MORI research project looking at subpostmaster income.

The survey looked at subpostmaster's income in January 2006; payments from Post Office Ltd came from the January 2006 payslip which covers sales and transactions carried out between 27 October and 23 November 2005.

4.5 Ipsos-MORI found that Post Office card account transactions were responsible for a higher proportion of subpostmaster pay than any of the other products surveyed, at 10% of net pay (£249). Subpostmasters in urban deprived areas are most dependent on card accounts as a source of income, as card account transactions bring in £403 on average, or 12% of net pay. Subpostmasters with non-deprived urban post offices receive an average of £310 (9% of net pay) for card account transactions. Rural subpostmasters receive an average of £158 (8% of net pay) for card account transactions.

4.6 After POCA transactions, the next highest income source for subpostmasters was from bill payments. This covers dealing with post office customers' payments for bills ranging from electricity and gas bills to cable television, telecommunications services and council tax, as well as savings stamps and the charging of pre-payment cards for utility companies, local authorities and a range of bill issuers.

However, this income source is also under threat. Recently, alternative suppliers have developed bill payment services, which are available in local shops, e.g. PayPoint. These alternative suppliers have been awarded some of the contracts previously held by Post Office Ltd. Most recently, in April 2006 the TV Licensing contract was awarded to PayPoint.

On average, bill payments brought in £132 (5% of net pay). As with POCA, subpostmasters in deprived urban areas are more reliant on bill payments for their income at £309 (9% of net pay).

4.7 In contrast, income from banking transactions earned an average of £46 equivalent to 1% of net pay. Banking transactions include current account banking transactions made over the post office counter and payments for cash withdrawals and balance enquiry transactions for basic bank account customers using the post office. Subpostmasters are paid at fixed rates per transaction.

Scottish post offices brought in particularly low levels of income from banking transactions (£18 on average) – this reflects the fact that the major Scottish banks have not signed up to offer their services through the post office network.

4.8 Post Office financial services have been available since March 2004 when, following encouragement from the Government, Post Office Ltd introduced a range of financial products designed to bring considerable new business into the post office network, in part to offset some of the losses incurred by the network following the introduction of Direct Payment. Post Office financial services include personal loans, credit card, instant saver

account, guaranteed equity bonds, growth bonds, child trust fund, car insurance and home insurance.

Ipsos MORI's survey found that income brought in by sales of Post Office financial services was very low, with subpostmasters earning an average of £5 for counter sales of financial services. 58% of subpostmasters received no income at all from financial services counter sales. In rural areas, this figure was higher: 65% of subpostmasters received no income from Post Office financial services.

Post Office Ltd's Home Phone service, launched in January 2005, earned subpostmasters an average of £5. A total of 83% of subpostmasters received no income at all from Home Phone.

4.9 Ipsos MORI concludes: "This report paints a bleak picture of subpostmasters operating on tight margins, with decreasing personal drawings and increasing overheads. Subpostmasters are heavily reliant on income from the Post Office card account and bill payments, both of which are under threat; and the new flagship products, intended to offset loss in pay from traditional products, are bringing in low levels of income and in many cases nothing at all."

4.10 In view of this, it is not surprising that when asked about their single biggest fear for their post office over the next six months, the most common concern, mentioned spontaneously by over one third of subpostmasters (35%), relates to the withdrawal of the Post Office card account. After this, the highest figure was that of 23% of subpostmasters citing their biggest fear as losing custom due to changes in the benefits payment system. Other major concerns mentioned were loss or withdrawal of Government work and a general decline in income.

4.11 Average personal drawings for subpostmasters (that is, money taken as a salary) were £941 from the post office part of their business. This is a 6% real terms decrease since February 2004.

4.12 NFSP believes that these results demonstrate the urgent need for the Government to work with Post Office Ltd to develop products – and foremost among these a successor or successors to POCA – to ensure an opportunity of securing a viable post office network.

5 Impact on Customers

5.1 NFSP believes that the Government's withdrawal of the POCA will have grave consequences for the many vulnerable groups who are dependent upon their post office as the only place where they can gain free and local access to cash.

5.2 Basic Bank Accounts

The Government cites basic bank accounts as an alternative means for POCA users of receiving state pensions and benefits and managing their

money. However recent research by Citizens Advice (CAB)⁵ demonstrates the unsuitability of these accounts for many financially excluded citizens. The CAB research finds that banks are able to take money out of basic and current accounts to pay other debts to the bank without checking the customer's circumstances, and that charges levied by banks (for example, for failed direct debits) can cause considerable hardship to financially excluded groups. In addition, CAB found that few banks promote their basic account, while only a few will allow people in debt to open accounts. CAB also found that banks sometimes upgrade basic accounts to full current accounts where this is not in the individual's best interests.

5.3 Access to Banking Services

The Post Office is better trusted and viewed as more accessible than banks by financially excluded groups⁶. NFSP believes that post offices are ideally placed to provide the public with convenient free local access to cash and banking services.

5.4 This is particularly true in rural and in deprived urban communities; recent research from the University of Nottingham⁷ found that it is poorest areas which suffer disproportionately high rates of bank and building society branch closures.

5.5 Nearly 6,000 bank branches have closed since 1990, leaving 1,000 mainly rural communities bankless. Only 4% of villages have a bank branch, while 60% have a post office.⁸

5.6 Meanwhile, most banks continue to deny their current and basic bank account holders the opportunity to access their accounts at post offices. POL estimate that only 40% of current accounts are accessible at the Post Office, with Royal Bank of Scotland Group, HSBC and Halifax-Bank of Scotland among those whose customers are unable to access their accounts at post offices; while around seven in ten basic bank accounts are not accessible at the Post Office.

5.7 NFSP believes that the Government must take the lead in ensuring that all the major high street banks offer free access to their bank accounts at the Post Office. We also believe that POL should be permitted to gain membership of the LINK network.

5.8 DWP Migration Of POCA Customers

The NFSP has been alerted to several examples of POCA customers being given as little as three working days notice in writing or less than 24 hours notice by telephone that their benefit payments were to be switched from their POCA to a bank account during the DWP's pilot schemes; while another POCA customer received a letter inferring that she has increased chance of being mugged as a POCA user than if she had her pension paid into a bank account⁹. We believe that such communications are wholly unacceptable, particularly to often elderly and vulnerable individuals.

5.9 POCA customers have fought to exercise their choice in obtaining their POCA. NFSP believes that rather than force customers into banking scenarios which may cause them hardship or inconvenience, Government should respect the customers' choice and allow them to continue to use the POCA, at least until a Post Office based solution can be developed; and that if the POCA is not to be extended beyond 2010, then ultimately the Government should migrate POCA customers directly into Post Office based successor products.

6 Impact On Communities

6.1 NFSP believes that the withdrawal of the Post Office card account and the consequent impact on the viability of post offices will have further significant knock-on effects on the economic and social wellbeing of communities across the country, the full cost of which the Government must fully consider in its decision on the future of the card account.

6.2 Post offices act as major sources of cash within the UK's communities. Research strongly demonstrates that people frequently spend cash locally to the place they access it. In this regard post offices often act as the glue which binds local economies together, providing access to cash to safeguard or boost other local business, while the existence of other local businesses is threatened when a post office closes. Countryside Agency research found that in local shops and businesses with a nearby post office, 15% of customers' expenditure is directly due to the presence of the post office, amounting to £194,000 on average per year¹⁰. The postal services regulator, Postcomm, estimates that in settlements with a population of 1,000-3,000 people, £417,000 per year could be lost by nearby shops following the closure of a post office¹¹.

6.3 As well as boosting local economies, post offices provide a well-documented and critical social role in communities across the country, providing direct support and advice for vulnerable local residents, including elderly and disabled people, and acting as a focal point for communities.

6.4 NFSP believes that the post office closures which will result from the withdrawal of the POCA will further impoverish choice and access to goods and services in many communities in the UK through the knock-on closure of other local business, with socially and financially excluded groups the hardest hit.

7 Royal Mail Refinancing Package

7.1 On 18 May 2006 the new Secretary of State for Trade and Industry, Rt Hon Alistair Darling MP, announced a new financing framework for Royal Mail Group. The two main aspects of the new framework were the release of £850 million from Royal Mail Reserves to help offset the company's estimated £4 billion pension deficit; and the provision of £900 million for use by Royal Mail on commercial loan terms in order to help modernise the company's infrastructure.

7.2 NFSP is interested in the impact which the new funding arrangements will have on the financial wellbeing of Royal Mail Group. With Royal Mail products and services a major source of income for Post Office Limited, Royal Mail's profitability in turn significantly impacts on the future of the national post office network and of subpostmasters. NFSP therefore welcomes any arrangements which better enable Royal Mail to achieve its financial and other targets.

7.3 However, the only information within the Government's announcement specific to the post office network was that remaining Social Network Payments up to 2008 and any future Government funding after 2008 will be met by the Government rather than by Royal Mail reserves.

While this clarification is useful, it does not begin to address future funding arrangements for the network, a decision which we believe the Government must now prioritise as a matter of urgency.

8 Proposed "Shares" Scheme

Royal Mail Group's management proposes that up to 20% of the company should be offered to employees as shares.

For NFSP, ownership of Royal Mail Group is of secondary concern to ensuring a profitable post office network within Royal Mail Group.

We do however acknowledge that it is motivational for employees to have stake in their business. Therefore, NFSP supports the proposed scheme in principle, and we have advised our members to accept the option to take up any future share offer, as subpostmasters are key investors in the business both in terms of their time and their money.

9 Conclusions

9.1 Subpostmasters, particularly those in deprived urban areas, are heavily dependent upon income from the Post Office card account.

9.2 Without a full migration of POCA customers to a Post Office based successor product or products, the NFSP believes that the loss of the Post Office card account will result in the closure of thousands of post offices through loss of income to subpostmasters.

9.3 This post office closure programme will in turn have a severely detrimental impact on the wellbeing of individuals, communities and local economies.

9.4 The Government must therefore work with Post Office Ltd as a matter of urgency to develop a Post Office based successor product(s) to POCA and ensure that POCA customers are migrated onto Post Office based alternatives, rather than being forced to receive payments into bank accounts which may not be accessible at the post office.

9.5 The Government must start to look at the future of the post office network, including those products and services available through the network, in a long-term and joined up way, rather than permit individual Government Departments and Agencies to make narrow, self-interested and short-term decisions which have a profound effect on the network's viability.

References

- 1 Performance and Innovation Unit, June 2000, "Counter Revolution"; and Post Office Limited estimates
- 2 National Consumer Council, March 2003, "Everyday Essentials: Meeting Basic Financial Needs"
- 3 Letter from Alan Cook, Managing Director, Post Office Ltd, to MPs, 13 March 2006
- 4 Ipsos MORI-NFSP, July 2006, "Subpostmaster income Wave 3"
- 5 Citizens Advice, January 2006, "Banking Benefits – CAB Evidence on Payment of Benefits into Bank Accounts (Evidence Report)"
- 6 See 2
- 7 University of Nottingham, February 2006, "The Changing Geography of British Bank and Building Society Branch networks, 1995-2003"
- 8 See 5
- 9 Hansard, 23 Mar 2006, Column 405
- 10 Countryside Agency, July 2000, "The Economic Significance of Rural Post Offices"
- 11 Postcomm, December 2001, "Serving the Community I - evidence of the community value of post offices in rural areas"

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