

Submission to the Trade and Industry Committee Following Oral Evidence Session on the Post Office Network (24 January 2007)

1 The National Federation of SubPostmasters

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

2 Background

2.1 The Trade and Industry Committee took oral evidence on the post office network on 24 January 2007. The witnesses were the Secretary of State for Trade and Industry; the Under Secretary of State with responsibility for postal services; and Department of Trade and Industry officials. The National Federation of SubPostmasters has been asked to provide the committee with a brief written submission following the evidence session. In our submission we address the main issues raised that are most directly relevant to the sub post office network.

3 Government Investment

3.1 In December's press statement announcing proposals to preserve the national post office network, the Department of Trade and Industry declares plans for "an investment package worth up to £1.7 billion for the Post Office designed to preserve the national network, and set it on a firm footing."¹ However, in response to question 3 of the evidence session, Alistair Darling, the Secretary of State for Trade and Industry, seems to indicate that the £1.7 billion sum may also be used to help Royal Mail Group in relation to their pension deficit.

3.2 Mr Darling's response to Q7, suggests that some of the £1.7 billion announced includes money that has already been paid or allocated prior to December 2006. NFSP is very unclear about the nature of the Government's investment.

3.3 NFSP would like to know whether any of the £1.7bn is to pay for Royal Mail Group's pension deficit; whether any of the £1.7bn has already been paid or previously allocated; what precisely the £1.7bn is intended to pay for and how the sum is to be broken down.

4 Social Network Payment

4.1 In December the Government announced that there will be a need for an ongoing social network payment of up to the current level of £150m a year. In the oral evidence session, Alistair Darling confirmed that the payment will continue at this level until 2011. This payment is made to Post Office Ltd, and up to 2008 it had been ear-marked for the rural network. Between 2003 and 2006 it was reserved to cover the assigned office payments to subpostmasters; rural network infrastructure including IT and cash delivery; and pilot work to test new ways of delivering services.

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

4.3 The social network payment is a payment which is made to Post Office Ltd. This sum is clearly essential to support the infrastructure necessary to maintain the non-commercial parts of the post office network. However, NFSP is concerned that there is no sum available to provide direct support to the sub post offices. When subpostmasters' businesses are not viable, post offices close.

4.4 Last year's independent research study by Ipsos MORI draws worrying conclusions about the viability of sub post office businesses.² The research shows that in January 2006, 40% of subpostmasters were unable to cover their post office staff costs, overheads and personal drawings from their net post office pay – i.e. they made a loss. An extremely worrying 39% of subpostmasters, 54% in urban deprived areas, said they saw no future whatsoever for their business. NFSP believes the Government needs to provide ongoing payment directly to the non-commercial parts of the network for the social and economic service these post offices provide. The social network payment to Post Office Ltd is a necessary but not sufficient payment to support these important functions.

5 Number of Post Offices

5.1 Alistair Darling confirms that following the Government's proposed closures there would be around 11,600 post offices and 500 remote services (answers to Qs15, 30, 59 and 63). Mr Darling agrees that this is a stable figure for the medium term and states that "if you do not have about 12,000 odd post offices you will not get the national network that we need". NFSP welcomes these comments. It is essential for subpostmasters to know their offices have futures, both individually and as part of a wider thriving network. Without this, subpostmasters will find it very difficult to invest in their businesses. Nor will it be easy to sell post offices on to new owners when existing incumbents need to retire or move on. Such outcomes would result in a stagnating network.

5.2 It is also necessary for Post Office Ltd clients to know the number of post offices is fairly stable. Fears of an ever diminishing network are not likely to bring in new business or renewed contracts if there are alternative networks or methods of service delivery. Additionally, NFSP is pleased to see recognition of the need for a minimum number of post offices. The strength of the network lies in its depth and reach, and we fear an ever reducing network will inevitably undermine its force.

5.3 However, NFSP is deeply concerned about how we can be sure that the number of UK post offices will stabilise at around 12,000. Closures do not only happen through closure programmes, such as that currently proposed by the Government. Post office closures also occur when subpostmasters resign and a replacement cannot be found. As

we have seen, subpostmasters are currently very pessimistic about the future. The Ipsos MORI research into subpostmaster income suggests they have reason to be so. For instance, between 2004 and 2006 average overheads rose by 19% and staff costs by 12%. Over the same period, subpostmasters' personal drawings from their post office business reduced by 6% in real terms. Ipsos MORI found a quarter of subpostmasters were using personal savings and a quarter supplementing their income with pensions.³ A study carried on behalf of the regulator, Postcomm, supports many of these depressing implications. Last year Postcomm found that in urban areas affected by the previous closure programme, 43% of subpostmasters were considering selling their post offices.⁴

5.4 Central Government work for post offices is reducing. In 2000 two-thirds of the state benefits paid in the UK were paid over the post office counter. These transactions brought in around 40% of the post office network's income. By 2006 the Post Office card account, now the main vehicle for benefits payment at post offices, was bringing in 10% of a sub post office's net pay. Last June the BBC decided to discontinue the provision of TV licensing services through post offices; the DVLA has encouraged internet renewal of vehicle excise duty; and Post Office Ltd did not obtain the contract for conducting new passport interviews. In January this year the Department for Work and Pensions announced that it will transfer its bulk mail business from Royal Mail (like Post Office Ltd, part of Royal Mail Group) to UK Mail.

5.5 Meanwhile the new much-trumpeted banking and financial services are bringing in minimal income for subpostmasters. Following encouragement from the Government, over the past three years Post Office Ltd has introduced a range of financial products designed to bring in considerable new business into the network. These include personal loans, credit cards, savings accounts, guaranteed equity bonds and insurance. In January 2006 we found these services were bringing subpostmasters a negligible £7 a month on average.⁵

5.6 We have noted that the Government's announcement in December reveals no plans to provide direct payment to subpostmasters for the social and economic services they offer. The announcement does make a few suggestions about new sources of income for the network, including looking at the role of local authorities, up to 4,000 cash machines, and market and business opportunities from internet companies and other mail operators. But NFSP believes these proposals for new or expanded lines of work are grossly insufficient. Without considerable financial backing and/or significant new (and successful) services for the network, we are deeply concerned that many subpostmasters will not be able to go on and considerable numbers of unplanned post office closures will be inevitable.

6 Retaining the 'Right' Sub Post Offices

6.1 In his answers to Qs 14 and 30, the Secretary of State for Trade and Industry addresses the issue of getting the right subpostmaster, in the right post office, in the right place. Under the proposed closure programme it is highly likely that some subpostmasters will want to leave and some will want to stay in the network. However, there will not always be a direct match between those that want to leave and those whose offices are no longer needed. Similarly those that want to stay may not have offices that are well-located or otherwise viable.

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

7 Post Office Card Account

7.1 NFSP is delighted that there is to be a successor to the Post Office card account after 2010 and that the Department of Trade and Industry hopes Post Office Ltd will be able to provide it (Qs 104-115). However, little detail about the proposed successor has been released. NFSP is extremely concerned that there should be a seamless migration between the card account and its successor and that account holders – many of whom are amongst the most vulnerable and least literate in our society – will not have to fill out further forms or overcome other hurdles in order to use the new account. It is essential that Post Office card account customers can continue with their chosen account and are not cajoled into opening bank accounts.

7.2 We also note the comments about increasing the existing functionality of the card account for the successor product. NFSP supports this vital proposal and we are well aware of criticisms directed at the account’s failure to address issues around financial inclusion. We believe that this offers an excellent opportunity to develop an account which genuinely meets the needs of people on low incomes. We recommend that note should be made of existing research around banking for people on low income, and this should be used to inform the design of the card account’s successor. For instance the Treasury Committee and the National Consumer Council have highlighted shortcomings of the high street banks’ basic bank accounts – including issues around account opening, direct debits, penalty charges, counter access, cheque clearing times, day-to-day account monitoring and face-to-face support.^{6,7} NFSP is keen to work with the Department for Work and Pensions and Post Office Ltd to ensure that a new re-vamped Post Office card account makes important inroads in the promotion of financial inclusion, as well as retaining and developing a critical source of income for the post office network.

8 Exempt Postcode Districts

8.1 Under the Government’s proposals for access criteria to post offices in remote rural areas, 95% of the population should live within 6 miles of a post office service. However, 38 of the 2,795 postcode districts throughout the UK do not currently meet this criterion, and they would continue to be exempt from doing so. In answer to Q74, Mr Darling stated that the Government “are not going to close any post offices in those 38 districts under the [proposed closure] scheme.”

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

closure of offices, which could well lead to the worst outcome for local residents, as well as subpostmasters themselves.

References

1 Department of Trade and Industry, press release 14/12/06

2 Ipsos MORI, March 2006, *Subpostmaster Income Wave 3 – research study conducted for the National Federation of SubPostmasters*

3 See 2

4 Postcomm, October 2006, *Post Office Urban Reinvention – One Year On*

5 See 2

6 Treasury Committee, November 2006, *“Banking the Unbanked”: Banking Services, the Post Office Card Account and Financial Inclusion*

7 National Consumer Council, November 2006, *Three Steps to Inclusive Banking: Compliance, Standardisation and Innovation*

National Federation of SubPostmasters

9 February 2007