

Trade and Industry Committee Inquiry - Royal Mail After Liberalisation

Written Evidence from 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 15,000 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.

2 Background

2.1 Currently, mailings of over 4,000 items, and all mail over 100g in weight are already open to competition under the requirements of the European Postal Services Directive¹. The Directive requires that all mail over 50g should be open to competition as of 1 January 2006. The postal services regulator Postcomm announced in February 2005 its intention to bring forward the date of full market opening in the UK from 1 April 2007 to 1 January 2006, in advance of the requirements of the Directive.

2.2 NFSP fully supports the modernisation of the postal sector so that it can take full advantage of new technology and deliver an efficient high quality service to members of the public and businesses. However, NFSP is concerned as to whether opening up the postal sector to competition at a schedule earlier than that required by law will in fact produce benefits in efficiency and service quality, leading to reductions in price and increases in choice for all customers, as well as protecting the universal service.

2.3 NFSP is very concerned about the effects of speeding up the introduction of a fully competitive market on Royal Mail and its ability to provide the Universal Service; on Post Office Limited, the national post office network and on subpostmasters; and on the public, particularly on isolated, deprived or marginalised communities. As the Association of European Public Postal Operators (PostEurop) has pointed out, liberalisation tends to be an irreversible process and therefore should be dealt with gradually, ensuring that the impact of each stage is well understood².

3 Royal Mail

3.1 NFSP is concerned about the impact of these changes on the income of Royal Mail Group. Measures that seriously damage the ability of Royal Mail Group to make sufficient profits to maintain a viable business will inevitably have a negative effect on Post Office Limited and therefore on the national post office network. As a result we are concerned that the introduction of competition is sufficiently gradual and its impact is thoroughly reviewed at each stage.

Universal Service

3.2 Postcomm's primary statutory duty is to ensure the provision of a universal postal service. Royal Mail's universal service obligation includes the requirement of at least one delivery to each postal address in the UK and at least one collection of postal packets from collection points every working day. The obligation also requires the provision of affordable postal services at an affordable uniform public tariff. Subject to this duty, Postcomm is charged with furthering the interests of users of postal services wherever possible by promoting effective competition between postal operators. In particular Postcomm must consider the interests of disabled people, people who are chronically sick, older people and people on low incomes and rural residents.

3.3 NFSP fully supports the universal service. However, we are concerned that there is an inherent conflict between the protection of the universal service and the promotion of competition. As the National Audit Office has pointed out "the introduction of competition could result in a breakdown in the delivery of a universal service at a reasonable uniform price"³.

Cherry picking and cross-subsidy

3.4 The Universal service is currently underpinned by a geographical cross-subsidy. In order to maintain the universal service Royal Mail Group uses revenues from low cost areas of its operations to support the higher cost operations. Urban areas, which tend to have a high volume of mail in a relatively small geographical area and therefore postal service costs that are proportionately less, effectively subsidise postal services in the more expensive geographically dispersed rural areas.

3.5 A major concern is that under full competition, competitors will inevitably concentrate their activities on the markets with low operating costs and charge lower prices than the uniform tariff, thereby undermining Royal Mail's ability to use revenues from low cost areas to support high cost rural customers. Profits used currently to subsidise rural consumers would instead be taken by competitors.

3.6 Royal Mail states that "cherry picking" competition would eliminate their profitability "even at very low levels of market share loss unless there is a significant increase in the public uniform tariff."⁴ The National Audit Office states that the result could be that Royal Mail is "left with a rump of expensive routes whose full cost could not be covered without raising prices or reducing the quality of services, or both."⁵

Economies of Scale

3.7 The provision of an affordable universal service may also be jeopardised due to losses of economies of scale. Full competition in postal services is likely to cause Royal Mail Group's level of activity to fall and its unit costs to increase. In other words, it costs less per item to process large amounts of mail than it does to process small amounts of mail. This would further undermine Royal Mail's ability to meet its universal service obligations.

Price Control

3.8 NFSP very much welcomes the Committee's proposals to look not at postal liberalisation in isolation, but rather to take into account a wider view of other factors which will determine Royal Mail's profitability in a fully liberalised market, including Royal Mail price control.

3.9 While NFSP acknowledges the need for price control during the emergence of the fully competitive market, we fear that Postcomm's current proposals are too extensive and too restrictive to enable Royal Mail to compete commercially.

3.10 In addition to cherry picking and Royal Mail's universal service obligations as detailed above, the proposed price control will further impede Royal Mail's ability to generate revenue. This will in turn reduce Royal Mail's business volumes and therefore those of Post Office

Limited, income from which enables POL to invest in the post office network. We have grave concerns that this reduction in Royal Mail's profits will lead to further reduction in the network.

3.11 Instead, we have called on the regulator to revise its proposals to reflect more of a balance between enabling competition while also safeguarding the universal service.⁶

4 Post Office Network

4.1 The post office network reaches into every urban community and nearly every sizeable rural settlement, with 94% of people in the UK living within one mile of a post office. Twenty eight million customers make 45 million visits to post offices every week. Post offices offer a range of 170 different services and products. The post office network has more branches than the UK's major banks and building societies combined. As the National Audit Office observes, "there is no public or private service provider with a comparable physical infrastructure"⁷

4.2 However, the network has faced some very serious challenges in recent years. 2,500 urban post offices have been closed in recent years under the Government's Network Reinvention Programme. The rural network is currently losing £3million each week⁸ and is currently supported by an annual £150million payment by the Government until 2008.

4.3 The critical state of the post office network is illustrated by the fact that, while Royal Mail Group registered record profits of £537 million in 2004-05, losses incurred by Post Office Limited rose by 7% during the same period to £110 million⁹. Central to this has been the change to direct payment of Government pensions and benefits, which traditionally accounted for 40% of post office income. The change has led to significant loss of income for subpostmasters which the range of new products and services introduced by Post Office Limited has yet to offset.

4.4 NFSP wants to see proper investment in and support for our national post office network to enable our vision of providing the public access to bigger, better and brighter post offices, with a wide range of services, delivered by trained, qualified and rewarded subpostmasters. Royal Mail profitability is key to achieving this, with Royal Mail income crucial to the finances of Royal Mail Group - in 2004/05 Royal Mail services provided 76% of the Royal Mail Group's total revenue¹⁰. NFSP believes that the clear and strong synergy (both in practice and in public perception) between the different companies within Royal Mail Group is currently under-exploited, and that there exist opportunities for revenue increases for both Royal Mail and Post Office Limited if Royal Mail can develop further products and services through the post office network.

4.5 Conversely, if postal competition seriously damages Royal Mail income, this will inevitably have a negative impact on the post office network. Business transactions with Royal Mail are now the biggest income source for Post Office Limited, and post offices act as the public face of Royal Mail and as a key point at which the public access a range of postal products. We are therefore concerned about the impact of a fully liberalised market on Royal Mail Group revenues, as this will have a direct bearing upon the volumes within and transactions between the businesses within Royal Mail Group, and therefore on investment within and sustainability of the national post office network.

The social and economic role of post offices

4.6 The economic and social importance of post offices has been well documented. In rural areas, not only do rural post offices provide a wide range of services, but act as an anchor for other local businesses. Post offices are frequently the only local place to access cash. Countryside Agency research from 2000 revealed that the closure of a post office in a typical settlement of 500-1,000 people, for example, is likely to impose an economic resource cut of £52,000 per annum to the local community¹¹. This could lead to local shops and businesses also making substantial losses, resulting in the closure of many other local businesses.

4.7 Research by Postwatch and the London Assembly¹² demonstrated the inconvenience caused to many local businesses in both rural and urban areas where post offices had recently shut. Local businesses say post office closures result in extra costs for petrol and lost work time in travelling to the post office to post letters and parcels, pay bills and access other services.

4.8 Clearly, the closure of a local post office not only seriously impedes the ability of individuals and businesses to access the wide range of post office services, but also has a more extensive knock-on effect. Most affected are those who are already vulnerable to social and financial exclusion, such as older and disabled people and people on low incomes. These groups will often find it difficult to access a post office that is further away, due to increases in costs of transport and difficulties in physically reaching the service. Moreover, it tends to be older people and the less well off who use post offices most. The practical effects are likely to be far-reaching, culminating in increasing social isolation and all the problems that brings to individuals, communities and society in general.

4.9 Research demonstrates that subpostmasters and post offices play an invaluable role in many communities by providing support for vulnerable residents, including older and disabled people. For example, subpostmasters frequently interpret official letters and forms, take messages and offer emotional support, and enquire to ensure customers are not unwell if they do not make their normal visit to the post office¹³.

4.10 Post offices are crucial to sustaining the vitality and viability of communities. Closure of post offices and the consequent closure of other key local services results in greater isolation of villages and further ghettoisation of deprived urban areas.

Post offices and other postal services operators

4.11 Postcomm suggests that competitors may wish to have access to, or the share of part of the Post Office's collection, sorting, distribution and delivery facilities. If competitors were allowed to offer alternative posting facilities for customers this would undoubtedly have a negative effect on local post offices. Not only would it lead to a direct reduction in transaction volumes in post offices, but it would also erode "footfall". Most sub post offices have an associated retail business, with both parts of the business being mutually dependent on the returns from the other part of the business. Countryside Agency research from 2000¹⁴ found that domestic post office users spend an average over £8.50 per person per month in shops attached to post offices. Proposals that reduce the number of customers to one side of the business thus frequently pose a threat to both a post office and a key local retail service.

4.12 Currently subpostmasters may only provide postal services on behalf of Royal Mail and ParcelForce. They cannot accept parcels from other carriers for post or for collection by customers.

4.13 Royal Mail's postal services licence from Postcomm encourages Royal Mail to negotiate actively with other operators about access to its postal facilities at various stages in the pipeline from collection to delivery. If market opening results in other postal operators needing local outlets from which to provide collection and delivery services, post offices would be in an excellent position to provide them.

4.14 Under these circumstances NFSP would like to see post office counter services available for Royal Mail competitors providing these

services as a bona fide post office transaction (rather than a separate business within the post office building). We hold that it would be better if the public could deal with a range of postal carriers at one venue than a range of outlets each dealing with a separate postal carrier. This would be simpler for the public to negotiate and would provide a more publicly accountable service. In addition it would help preserve our national post office network.

4.15 Any such arrangement would have to be made as part of a UK - and network-wide arrangement between Post Office Limited and other operators; piecemeal arrangements between individual post offices and other operators could swiftly lead to the disintegration of network.

Mailwork sub post offices

4.16 NFSP is particularly concerned about the effect of competition on the approximately 1,000 mailwork sub post offices. Subpostmasters in these offices provide facilities for Royal Mail postmen to sort mail. Mailwork subpostmasters are paid by the number of postmen they house and supervise. A reduction in postal volumes through Royal Mail would lead to a reduction in the number of postmen using mailwork post offices and therefore a reduction of income for mailwork subpostmasters. Many subpostmasters exist on very marginal incomes, with research revealing that 56% of subpostmasters have personal drawings of less than £1,000 or less a month from the Post Office® side of their business, and one in five drawing less than £400¹⁵. Therefore the prospect of a loss in mailwork income is extremely worrying. In addition, loss in Royal Mail revenue would reduce the opportunities for badly needed investment within the network of mailwork sub post offices. Moreover, the vast majority of mailwork post offices are based in rural areas. Rural post offices are already particularly likely to be operating at very slim profits.

5 Conclusions

5.1 While NFSP fully endorses the modernisation of postal services, we are concerned about both the speed and nature of proposals to open up the postal sector to further competition.

5.2 As Post Office Limited income is increasingly dependent on Royal Mail products and services since the introduction of direct payment, NFSP is extremely concerned about the effect on the post office network of any loss of revenue for Royal Mail resulting from liberalisation. The provision of alternative posting facilities for customers could also seriously adversely affect local post offices. Further financial pressures on post offices will result in further closures within an already significantly reduced post office network.

5.3 In particular, we question the regulators assertion that the proposed pace and nature of liberalisation will result in preservation of the socially critical universal service; instead, we fear that full liberalisation in postal service will result in Royal Mail struggling to meet its universal service obligations.

5.4 NFSP believes that if liberalisation is to occur, it should be in a more gradual, controlled and measured manner, and that the preservation of the universal service and the national post office network should be paramount considerations within any regulatory framework.

References

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5 National Audit Office, January 2002, Opening the Post

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13 Postcomm, December 2001, Serving the Community II - evidence of the community value of post offices in urban deprived areas

14 See 11

15 MORI / NFSP, February 2004, Subpostmaster Income