

What Future for the Crown Office?

Crown post offices transact a fifth of the post office network's total business. But these post offices, often viewed as flagship offices, are currently being reviewed by Post Office Ltd. News of the review has raised speculation that Post Office Ltd intends to close or sell off its Crown post offices.

But what is POL actually planning? And what should the Government be doing to assist the network?

Crown post offices, or directly managed branches, are run by people employed by Post Office Ltd. Historically, most post offices in the high street or city centres were Crown offices. Back in 1988 there were 1,500 Crown post offices. But since that date, the Post Office® has been "converting" post offices from directly managed to agency or franchise status. By the end of September 2004, only 555 directly managed offices remained.

For each pound of income generated, a Crown post office is estimated to cost more to run than a typical sub post office in a similar location. For a start, Crown office employees tend to be paid more than staff in sub post offices. Crown offices, unlike many sub post offices, do not share shop space and overheads with another type of retail enterprise. This also means that Crown offices do not receive the extra custom from people coming in to use the retail side of the business ("footfall"). Crown offices often have higher property costs because they are in more expensive areas in cities and large towns.

Post Office Ltd is concerned about their directly managed branch network because it losing considerable amounts of money - £71 million in 2003/04. Crown offices are also expected to be particularly severely hit by the Government's decision to deliver pensions and benefits by direct payment, since these offices have historically transacted a large share of the pensions business.

Review

Late last year the influential Trade and Industry Select Committee brought in POL's senior management for questioning about their plans for the future of the Crown office network. MPs also asked Postwatch the consumer body, the relevant trade unions and the Government for their views on Crown offices.

Post Office Ltd told the select committee that it intends to bring the directly managed network into profitability, although it concedes that in practice some branches may subsidise others. POL said that it has not yet decided how it will reform the Crown office network as a whole, but estimates 320-390 branches may eventually remain in the Crown network.

Allan Leighton, Royal Mail Group chairman, and the management team of POL stressed to MPs that the review of the directly managed network was not focused on closures. Mr Leighton gave assurances that at the end of the process there would still be 1500 post offices offering the full range of post office services; and that the directly managed offices would continue to act as "flagships for Post Office Ltd."

To reduce the network of directly managed branches to the 320-390 foreseen by Post Office Ltd would require the removal of 165-235 post offices from that network. POL told the committee that the company expects to close only 30 or so over the next five years. In order to reduce the directly managed network to what POL regards as a sustainable size and yet avoid large scale branch closures, POL will need to rely heavily on the conversion of directly managed branches to franchises. The Trade and Industry Select Committee says that whereas POL has converted 283 post offices over the last ten years, the company will need to establish up to 230 new franchisees in the next five.

NFSP understands many of these franchises will be commercial franchises, where post offices are taken on by large retail chains. However, some franchises may go to large sub post offices, under contracts similar to the current Modified Sub Post Office contract.

Franchises

Many people are concerned at the prospect of converting so many Crown offices into franchises.

Postwatch has expressed fears that franchised post offices are less stable than Crown offices, and companies could simply choose not to renew their contract with POL. MPs also said that they were concerned that the unforeseen closure of a franchise could adversely affect the provision of Government and other postal services locally. David Miller, POL's Chief Operating Officer, assured the committee that in such circumstances POL would find someone to take over the franchise in that particular area. But MPs remain sceptical that this could be done in all cases.

There are also concerns that the service provided by franchises is not as good as that offered by Crown post offices. Recent research by MORI on behalf Postcomm and Postwatch found that, on the whole, directly managed branches were more customer-orientated than commercial franchises. Crown offices tended to perform better at providing facilities for disabled customers, information on products and services, handling customers and at providing accurate and complete advice. However, POL says their own surveys have not found differences between the performance of directly managed branches and franchises.

Cost Reduction

The conversion of Crown offices to franchises is not the only way in which POL plans to reduce the financial losses of the directly managed network.

A quarter of the directly managed branch network's running costs come from central and support costs - including transaction processing, security, cash-in-transit services, information technology and marketing. POL achieved savings of 5% in these areas in 2003/04, and expects to make further cuts in the future. In particular POL is changing the way in which cash is moved about the network to reflect changes in the flow of cash through post offices, reducing the number of cash deliveries and the level of cash held in each post office.

Over 8,500 people are employed by POL as front line counter staff, and staff costs account for over 50% of the running costs of the directly managed branch network. POL say they intend to make further savings by reducing staff costs, although not by holding salaries down.

POL also intends to generate more income from directly managed branches by increasing the space taken up by public areas and retail activities. It has already refurbished five branches in an open plan layout and is monitoring the impact on business performance and customer satisfaction. Sometimes buildings cannot be easily adapted, and in these cases POL may decide to relocate the post office to more suitable premises.

Closures

POL clearly told MPs that the review of directly managed branches "is not a closure programme". POL said that it would seek to maintain a branch wherever it was commercially viable to do so. However, up to 30 branches could be expected to close over the next five years due to lease expiry, compulsory purchase of the site etc. In such cases, POL says they would try to find an alternative site for the branch. If relocation was not feasible a franchise partner would be sought to replace the directly managed branch. If none could be found the branch would be closed altogether.

Whilst the committee was relieved to learn that POL did not plan large scale closure of directly managed branches, MPs did not agree that 30 closures over five years is an insignificant number. The committee stressed "Any branch closure is a very significant matter for the customers and other

stakeholders affected by it."

The committee was concerned about the impact of Crown office closures on subpostmasters. Such closures place a strain on the sub post offices in the area served by the directly managed branch by increasing the demands made upon it. But POL assured MPs that they have set aside funds to help subpostmasters make the improvements necessary to cope with the extra customers if a nearby Crown post office closes.

Consultation

POL is required to hold a minimum one-month public consultation for the closure of a directly managed branch. No formal consultation is required on converting branches to franchise operations.

Local authorities and consumer groups are critical of the consultation process. They say the consultation period is too short, too little information is provided by POL, and there is no evidence that POL changes or significantly modifies plans following consultation.

However, POL told MPs that it is reviewing its consultation procedures. The committee said that in future the company should justify its proposals more rigorously than it had done in the past - providing detailed rationales for each proposals and assessment of all the available information in each case. MPs said the consultation process should be transparent and involve all sections of the community. In fact, the select committee says that POL should go further than this and engage more proactively with local stakeholders on the future development of the Post Office® Network in their areas as whole, not just on individual closure proposals.

Government's Role

The Government is the sole shareholder in Royal Mail Group plc, of which POL is part. The Department of Trade and Industry has confirmed that the Government had deliberately established an arm's length relationship with POL. But MPs are concerned how the Government's hands-off approach to the business might affect the social role that post offices play for so many people.

POL seems to see no difficulty in balancing the need to achieve profitability with the role of the post office network as a social amenity. Allan Leighton said, "We are supposed to be a commercial organisation that provides a public service and funds that itself. I felt from day one there is no reason why that should not be the case". Gerry Sutcliffe, post office minister, also sees the delivery of the social function as the responsibility of the company.

However, other witnesses to the inquiry take a different view and see the maintenance of the social role of the Post Office® as the Government's responsibility. At the very least, many witnesses - including the unions Amicus CMA and CWU - feel that the Government should provide a few years support to give new services a chance to take off. The committee agrees and says that the Government should be prepared to provide support at least in the short term, if it proves to be necessary.

The Government has a further role in relation to the Post Office® Network, as POL's customer for the delivery of Government services including benefits collection, car tax, passport renewals, TV and fishing licences. Individual government departments negotiate the detail of contracts with POL, and the committee was surprised to learn that the company is losing money on at least some of those contracts. POL told MPs they intend to increase prices when the contracts were renewed. The postal services minister, Gerry Sutcliffe, told MPs that he agrees government departments should pay an economic price to POL for delivering their services, and he undertook to try to bring this about.

The select committee welcomed Mr Sutcliffe's commitment and concludes "The Government cannot continue to profess its commitment to a viable post office network for the future while at the same time paying the Post Office® less than the going rate for the job that the company does on its behalf".

Federation View

The spotlight on the Crown offices is the latest stage in the current fundamental overhaul of the whole post office network.

NFSP is interested to note that the review of this part of the network could result in an increase in the number of large sub post offices. We would be concerned if conversions to franchises led to a decline in quality of service, or closures in the network resulting in insufficient post office access for the public and excess pressures on sub post offices. However, the Federation welcomes the announcement that POL has set aside funds to help subpostmasters cope with extra customers resulting from any nearby Crown office closure.

NFSP is delighted to see Government commitments to improve the rates paid to the Post Office® Network for providing Government services and trusts that this will impact on subpostmasters' own remuneration.

We are also pleased that the inquiry threw up the matter of Government's provision of an ongoing payment for the social service supplied by the post office network. This is a key issue for the Federation in our campaign to ensure UK citizens can access the network of bigger, better and brighter post offices that they deserve.