

Ofcom – Review of Postal Users’ Needs

Response from the National Federation of SubPostmasters

December 2012

1 Executive Summary

1.1 Ofcom suggests a number of potential modifications to the universal postal service. These include the removal of the next day service; reduction in the quality of service for First Class; reduction in the number of collection and delivery days; earlier collection and later delivery times; and changes to delivery to the door requirements.

1.2 Such changes would seriously impact on the post office network which acts as Royal Mail’s ‘shop front’, providing access to mail services for the public and small businesses. Post offices also supply a range of other essential services including banking and government services; as well as playing a vital social and economic role in local communities.

1.3 The post office network is under considerable pressure due to trends in retailing, technological innovations and long-term lack of investment. Many post offices are on the edge of viability. The government is currently seeking to address this through a major reorganisation of the network and plans to expand Post Office services.

1.4 Post Office income is highly dependent on revenue from mails services. Over half of all post office visits result from the use of mails services.

1.5 The NFSP is concerned that these potential changes to the universal postal service constitute a major reduction in the mail service. The NFSP fears a reduced mail service would lead to a further decrease in usage of mail.

1.6 Further drops in mail volumes would result in a significant fall in Post Office income from postal transactions. This fall, on top of existing pressures, could result in considerable numbers of post offices becoming financially unviable and closing down.

1.7 Ofcom research shows many of the proposed modifications to the universal postal service would worst affect the most vulnerable people in society and small businesses. Although post office closures can affect all sections of society, they most badly damage these very same groups which include older people, disabled people, those on low incomes and rural residents as well as smaller firms.

1.8 The NFSP fears that proposals to reduce the mail service would be a double blow for our most vulnerable citizens – affecting them directly through

a diminished postal service and indirectly by the closure of no longer viable post offices.

1.9 Ofcom must work with the NFSP, Post Office Ltd and Royal Mail to urgently conduct a detailed analysis of the impact of changes to the universal postal service on Post Office revenues and the post office network.

2 The National Federation of SubPostmasters

2.1 The National Federation of SubPostmasters (NFSP) is the trade union and membership organisation which represents subpostmasters. Subpostmasters are independent business people who act as agents to Post Office Ltd (POL) and run sub post offices, which make up 97% of the national post office network. The NFSP is the only organisation recognised by POL to represent subpostmasters.

3 Background

3.1 Ofcom is consulting on the reasonable needs of users in relation to the market for the provision of postal services in the UK. Ofcom is asking for views on a range of issues including research into the general satisfaction and use of post. The regulator also suggests a number of potential modifications to the current standards set for the universal postal service, the six-day-a week delivery and collection of mail everywhere in the UK at affordable and uniform prices. These include the requirement for a next day service; reduction in the quality of service for First Class; reduction in the number of collection and delivery days; earlier collection and later delivery times; and changes to delivery to the door requirements.

3.2 In the NFSP's written response to the review we focus on the implications for post offices and their customers of the changes being considered for the UK's postal service.

4 The Post Office Network

4.1 Services

4.1.1 Post offices offer a uniquely wide range of products and services under one roof - from postal services, travel, telephony and bill payments to government services, banking and financial services. Eight in ten post offices are run alongside a shop, and post office shops play important roles in providing local retail including stationery, newspapers, food and household goods.

4.1.2 With 11,800 outlets, the post office network provides easy public access to these essential services throughout the UK, including remote rural communities and deprived urban areas.

4.1.3 Post offices are extensively used by all sections of society. Every week 20 million people conduct almost 60 million transactions. Research finds 98%

of households use a post office, and 49% of consumers use a post office every week.^{1,2}

4.2 Community role

4.2.1 There is overwhelming evidence of the exceptionally valuable role played by the post office network in supporting local communities above and beyond that of providing Post Office and retail services. This includes providing assistance for vulnerable residents – interpreting official letters, fielding lost property, taking messages and offering emotional support. Post offices also provide a focal point for communities by offering a place to come together and a venue for agencies like the police, local authorities and tourist attractions to offer information and services.

4.2.2 Although all sections of society use post offices, certain sections of the population are more reliant on the network. The heaviest users of post offices are older people and those in the lower (C2 and especially DE) socioeconomic grades – some visiting the post office three or four times a week.³ Studies show disabled people and rural residents are also particularly frequent users of post offices.^{4,5}

4.3 Local economic role

4.3.1 Post offices play significant roles in local economies as sources of cash. For every £1 transacted in the UK, 14p is handled through post offices, and over £80bn of cash a year passes through the network. The post office network is bigger than the UK's retail bank and building society branch networks combined, and its role in cash provision is likely to become increasingly critical as more and more banks close their branches.

4.3.2 Local access to banking services is not just a question of access for individuals. Access to banking is key to the survival of retail and other services in many communities. Cash is often spent near to where it is withdrawn - people who take out money from a bank or cashpoint spend 50-67% in nearby shops.⁶ A study of post offices in Manchester concluded each post office contributes around £310,000 to the local economy each year, of which £120,000 is direct spending on local goods and services.⁷

4.3.3 In addition, post offices provide a wide range of services directly to local businesses. There are 4.5 million small businesses in the UK, accounting for 49% of total private sector turnover. The Federation of Small Businesses reports 20% of small businesses use a post office every day and 47% use it more than once a week.⁸

5 Current Issues for the Post Office Network

5.1 Despite its obvious strengths our national post office network is under considerable pressure. This is in part due to trends in retailing and technological innovations. Long-term lack of investment has also taken its toll. A further blow to the network's fortunes came in 2003, when the government introduced the direct payment of state pensions and benefits straight into bank accounts. Two major government closure programmes resulted in the

closure of 7,000 post offices over the past decade, in an attempt to boost the viability of the remaining post offices. However, many subpostmasters continue to struggle to make a living and subpostmaster pay is falling dramatically.⁹

5.2 In November 2010 concerns about the future viability of the post office network led the Department for Business Innovation & Skills (BIS) to publish a range of proposals to modernise the post office network, to make it more financially viable and prevent further post office closures.¹⁰ The government stated that a network of around 11,500 branches should be maintained.

5.3 The government has allocated £1.34 billion funding for the post office network between 2011 and 2015. In part, the funding will pay for a major reorganisation of the post office network, the Network Transformation programme, designed to ensure a future that is financially sustainable. It will additionally fund POL to continue to support otherwise loss-making post offices due to their social value. However, the government is also clear that for the Post Office to regain a secure footing, it urgently needs to bring in additional income through new or expanded revenue streams.

5.4 Government services

5.4.1 The government has proposed that post offices should become the 'front office for government', providing face-to-face access at post offices for a full range of central and local government services. The government says the front office for government is one of two areas with the potential to boost significantly Post Office revenues.¹¹

5.4.2 This proposal builds on the many central and local government services already available at post offices. Services could include identity verification; notifying government of a change in circumstances; assisted applications; and payment services enabling the public to make and receive payments to and from public bodies. The NFSP supports these plans, which require significant government action translating into considerable amounts of additional work across post office counters and substantial new revenue for post offices.

5.5 Banking and financial services

5.5.1 The second major area with the potential to substantially increase Post Office revenues is financial services. The government proposes that the Post Office expands further into financial services. This should include developing new Post Office financial services products, and making all UK current accounts accessible through the post office network. The NFSP supports these proposals.

5.5.2 The Post Office provides the Post Office card account, which enables pension and benefits recipients to access their entitlements at post offices. The contract for this service runs out in 2015. The NFSP believes the Post Office should continue to provide this vital service, which is popular with the public and brings in income and customers for post offices. The Post Office also needs to develop a budgeting account suitable for receipt of the new

welfare benefit, Universal Credit, due to be introduced in 2013. We additionally support the idea of a state-backed Postbank.

5.6 Mutualisation

5.6.1 The government is hoping to convert POL to a mutual ownership structure. NFSP supports these plans, as we believe a mutualised Post Office, with subpostmasters owning a substantial stake would ensure subpostmasters' interests are better taken into account in the running of the company. A mutualised POL would also be able to take advantage of the many benefits realised by businesses that are owned by those who work in them.^{12,13}

6 Post Offices and Mails Services

6.1 Despite major changes in the mails sector and post office network over the last decade, the businesses of both Royal Mail and POL remain critically interdependent.

6.2 The Post Office plays a crucial role in the delivery of the universal service. Post offices are the 'shop front' for Royal Mail providing access to mail services and guidance to the public and small business on using the postal network. In total 90 different Royal Mail products, stamps and services are available at post offices.¹⁴

6.3 A high proportion of POL revenue derives from transactions carried out in post offices on behalf of Royal Mail. In 2011/12 POL reports 41.7% of revenue, is obtained from mails services (including retail and lottery).¹⁵

6.4 Sub post office income is highly dependent on revenue from mails services. NFSP research finds on average sub post offices receive £809 a month from mails transactions. This is a considerable proportion, 28%, of average net Post Office pay for sub post offices.¹⁶ For some post offices the proportion of income from mails services can be considerably higher. The total is variable and based directly on the number and type of mails transactions undertaken by customers at a post office.

6.5 In addition to the transaction-related income, a payment from Royal Mail allows POL to pay subpostmasters approximately £100m a year for providing the company with bricks and mortar access points. This pay is received by subpostmasters with traditional Post Office contracts via the fixed (or 'core tier') element of their pay.

6.6 Customers visiting a post office to use a mails service frequently undertake non-mails transactions or purchase other goods or services while they are on the premises. Royal Mail reports that the mails business generates substantially more than half of Post Office footfall.¹⁷

6.7 One in seven rural post offices also provides premises, facilities and supervision for Royal Mail delivery staff. Subpostmasters running the 800 'mailwork' post offices are particularly reliant on income from Royal Mail to

keep their businesses running. These subpostmasters receive payments related to the number of postmen and women they supervise. This pay is frequently around 25% of a mailwork office's total Post Office income.

7 Current Challenges in the Mails Sector

7.1 In April 2012 Royal Mail and POL split into two separate companies. However, a 10 year Inter-Business Agreement ensures that Royal Mail will continue to use the Post Office as its exclusive retail outlet for the next decade. Despite this arrangement, which is essential to the medium-term financial stability of the post office network, a number of uncertainties hang over future Post Office income from mails services.

7.2 Royal Mail volumes and finances will be affected by increasing amounts of e-substitution – the switch from physical mail to electronic mail is predicted to continue. Royal Mail also faces competition from rival operators. Currently competitors mainly offer services to large business customers – collecting their mail and sorting it before handing it over to Royal Mail to be delivered. However, end-to-end competition could cause more of a direct challenge for the post office network. This involves competitors carrying out the whole service, processing and delivering mail directly to the recipient, and is likely to be targeted more broadly than just big businesses. Additional uncertainties arise from doubts about the strength of the economy as economic downturns reduce business activity and further depress mail volumes.

8 Impact on Post Offices of Universal Service Changes

8.1 In the review Ofcom sets out a range of potential changes to the current universal postal service including removal of the First Class mail service and replacing First and Second Class with a two-day service; reducing the quality of service target for First Class mail; reducing the number of collection and delivery days from the existing six day service; bringing collection times forward and making later deliveries; modifying current requirements regarding delivery to the door.

8.2 The NFSP understands the nature of communications is changing and that Royal Mail must adapt its services to reflect the needs of its customers. However, it is important that the regulator recognises and takes into account all the implications of any proposed alterations to the universal postal service, including the impact on the post office network. The NFSP believes changes such as the removal of First Class mail, fewer collection and delivery days, earlier collection and later delivery times would constitute an overall reduction in the mail service. The NFSP fears any reduction in service in itself would lead to a further decrease in usage of mail.

8.3 As the shop front for Royal Mail, the post office network will inevitably be affected by sharp drops in mail volumes. Both POL revenues and individual sub post office income from postal transactions would fall. Royal Mail would be unlikely to pay for the provision of bricks and mortar access points at current levels. Customers purchasing fewer postal services and products

would result in fewer visits to post offices and their attached businesses. The mailwork function of many rural post offices may no longer be tenable.

8.4 A reduction in mail service, leading to a further reduction in mail usage and its concomitant decrease in revenue from mail combined with the existing pressures facing the post office network would have serious consequences. The NFSP fears under such a scenario many post offices would no longer be financially viable.

9 Impact on the Public and Small Businesses

9.1 Mails service

9.1.1 The NFSP believes Ofcom is right to highlight the substantial benefits of the universal service. Not only does it ensure minimum standards for the sending and receiving of mail to individuals and businesses; but also provides broader benefits to society as a whole, for example by promoting inclusion and equality.¹⁸ Ofcom acknowledges the broader benefits are difficult to quantify, and so considers issues such as the universal service's function in the protection of vulnerable users and assistance to small businesses.

9.1.2 Ofcom's research indicates many of the proposed modifications to the universal postal service would hit the most vulnerable people in society and small businesses worst. Ofcom finds people aged over 65, disabled people and rural residents send and receive most post and would feel more cut off from society if they could not send or receive post. People from socio-economic groups D and E feel less able than other groups to cope with changes to the current service.

9.1.3 Ofcom recognises there are benefits to having a next day delivery service. Whilst large mailers are concerned above all with retaining low prices and usually use Second Class or Third Class post or non-Royal Mail services, smaller companies use First Class more. The abolition of First Class would also cause more problems for those who are more reliant on post. Ofcom concedes that were First Class to be removed, users would be likely to continue to need to send important, urgent items at a price which should not exclude those on low incomes. However, as Ofcom acknowledges, Special Delivery Next Day may be too expensive for low income users.

9.1.4 Similarly, suggested significant reductions in the quality of service of First Class, i.e. the percentage of post delivered the next day, are least acceptable to the most vulnerable groups. Groups least "tolerant" of such changes include people aged 75+, people in socio-economic groups DE, those living in remote rural areas, disabled and housebound people and small businesses in rural areas.

9.1.5 The research suggests reductions in the number of collection and delivery days from the current six day a week service would have the most severe impact on the most vulnerable members of the public. These include those aged 75+, people living in remote areas, housebound and disabled people. Businesses based in rural areas would be particularly concerned

about losing a weekday service. Small businesses, often operating six or seven days a week, would be concerned about the impact on their business, including the ability to receive post on Saturday to process an item or use it over the weekend.

9.1.6 A further proposed alteration to the universal service is a change to collection times which brings collection times forward allowing Royal Mail to collect from some boxes at the same time as delivery. The earlier collection could apply to local and rural post boxes. This change would not affect large businesses as they tend not to use post boxes, but could impact on many small businesses.

9.1.7 Bringing collections forward would cause specific difficulties for the Special Delivery service as the Special Delivery collection time is linked to the final collection by the postman/woman. This would adversely affect local post offices, and would be of particular concern in rural areas. More people would have to travel to a more distant post office or town centre to obtain next day delivery for urgent items; which would be especially difficult for many rural residents and businesses people with mobility issues and those on low incomes. The consequent impact on the speed of mail would affect those most dependent on mail – including older people, disabled people and rural residents. Overall, it would increase the difference in provision between rural and urban areas.

9.1.8 Later delivery times would be most likely to adversely affect small businesses. Deliveries made as late as 5pm could result in an extra day needed to turn around documents. Larger businesses are more likely to purchase timed delivery and are less concerned about such a change.

9.1.9 Ofcom also suggests changes to current delivery to the door requirements. This could include mail delivered to a secure box at the edge of a property or a secure locker in a central location, such as a town centre. However, the majority of residential users are strongly against this suggestion, especially those aged 65+ and people in socio-economic group DE. Ofcom rightly points out that difficulties could be particularly acute for those living higher crime areas and people who are housebound or would have difficulty in accessing the delivery point. There are additional issues around the role of postal delivery in 'keeping an eye on' vulnerable people, need for regular human contact for people who are isolated, and personal safety and security in remote and rural areas.

9.1.10 The NFSP believes Ofcom's research clearly shows the majority of the suggested potential changes to the universal postal service would have the worst impact on the most vulnerable members of society and small businesses. The NFSP is very concerned that the impact of these changes would be compounded by their knock-on effect on the post office network.

9.2 Post offices

9.2.1 Post offices close down when subpostmasters resign and replacements cannot be found. The NFSP fears that a reduction in the mail service and mail

usage would result in many post offices becoming financially unsustainable and, ultimately, post office closures.

9.2.2 Although the post office network is used by all sections of society, the most vulnerable people in society and small businesses are particularly reliant on local post offices. It is these groups – the same groups that Ofcom research shows would be worst hit by a reduced mail service – that are also most badly affected by post office closures.

9.2.3 Recent research studies on the impact of post office closures provide strong evidence of their negative consequences on customers, local communities and local economies.^{19,20,21} The studies agree that those most affected by closures are the heaviest post office users, which include older people, those with a disability or chronic illness and those on low incomes.

9.2.4 Consumer Focus Wales research into post office closures in Wales found at one end of the scale, losing the post office in their immediate neighbourhood was an inconvenience to most people.²² It meant they had to travel further to access Post Office services, either taking the car when they used to go on foot, or, if they had no transport, needing to catch the bus, use a taxi or walk further. At the other end of the scale it could be a major obstacle for older people with disabilities and health problems, those who were on low incomes or for whom using public transport or taxis was an additional cost they struggled to afford. A study of post office closures in West Sussex found following a post office closure the number of people who were able to walk to the post office almost halved.²³

9.2.5 The research studies also found closure of a local post office led to some older and vulnerable people becoming much more dependent on their friends and neighbours to access post office services. The West Sussex study reported that the loss of independence had a knock-on effect for Social Services and the agencies they commission to support people in their own homes.

9.2.6 Post offices provide not only essential products and services but are often seen as the focal point of a community and a social hub. Research finds post office closures can leave many people, especially older residents, feeling much more isolated and detached from community life. A key parliamentary select committee concurs, describing the Post Office as “an instrument of social cohesion, or to put it differently, it preserves the fabric of our society.”²⁴

9.2.7 The vast majority of post offices are also run alongside a shop. In rural communities an estimated 57% of subpostmasters provide the only retail outlet in their village.²⁵ NFSP research finds 66% of subpostmasters said their attached businesses would “probably not” or “definitely not” remain open if the post office closed.²⁶ This is supported by research in Devon which found the majority of shops in village post offices closed down following the closure of the post office.²⁷

9.2.8 The local economic impact of post office closures can be severe. Around 45% of post offices are located in a row of shops or village with a small number of other shops.²⁸ At a local level small shops clustered together rely on each other for survival – providing a reason for people to come to the location and do a shop. In addition, post offices themselves are sources of cash. The West Sussex study found residents spent between 17%-49% less in shops in the vicinity of a closed post office, following the closure.²⁹ In Essex, closure of a post office resulted in nearby businesses experiencing a 25% decrease in turnover.³⁰

9.2.9 Post office closures can also have a more direct impact on small businesses. Research in Devon found the closure of the local post office resulted in businesses having difficulties withdrawing cash, and making cash deposits; and posting parcels.³¹ These businesses had to make additional journeys, with added time needed to travel to an alternative post office on a daily or weekly basis. The West Sussex study shows a large number of small businesses in areas where post offices closed have had to change their business processes and 23% describe the changes they have made as a “significant impact”.³² These include closing the shop or business to visit the post office or changing opening hours; or needing additional staff to cover absence. Over a third of businesses reported that they now needed the use of a vehicle to do their post office business. Clearly such changes can result in additional costs for small businesses.

10 Conclusion

10.1 Whilst a more limited universal postal service may save Royal Mail costs, and not particularly inconvenience the biggest businesses, the impact on the public and small businesses is likely to be far-reaching. Ofcom recognises that older people, disabled people, those on low incomes and rural residents would be worst affected by the change.

10.2 A reduction in the universal postal service would also inevitably affect Royal Mail’s ‘shop front’, the post office network. The NFSP believes since post offices are ‘instruments of social cohesion’ this is a concern for everyone. Although, again, it is the most vulnerable members of society and small businesses who will be most seriously hit. Proposals to reduce the mail service would be a double blow for our most vulnerable citizens – affecting them directly through a diminished postal service and indirectly by the closure of no longer viable post offices.

10.3 POL and the post office network are responsible for the delivery of a significant part of the universal postal service. Both POL and Royal Mail have been legally separated but remain as sister companies under Royal Mail Holdings. Prior to separation, when POL and Royal Mail were both part of Royal Mail Group, an analysis of the impact on POL of these major changes to Royal Mail’s services would have been undertaken automatically. However to date, there has been no exercise to ascertain the effect of the proposed modifications on POL’s revenue from its sister company. Ofcom must work with the NFSP, POL and Royal Mail to urgently conduct a detailed analysis of

the impact of these suggested changes to the universal postal service on both POL revenues and the post office network.

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