



18 September 2009

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The Last Post: Ideas for ensuring the survival of the Post Office network

INTRODUCTION

*James Morris, Chief Executive,
Localis*



In both urban and rural areas the closures of local Post Offices has provoked anguish in the local communities that rely on them. The government has argued that the shrinking of the post office network is inevitable as a result of lack of profitability. In this Policy Platform we explore three perspectives which focus on the role that local government might be able to

play in ensuring that the Post Office network is maintained and supported.

Lord Hanningfield, the Leader of Essex County Council, has been the most high profile exponent of the view that local government should increasingly become the custodians of the Post Office network. He argues that local authorities should become responsible for maintaining and sustaining the Post Office network in their areas. George Thomson, General Secretary of the National Federation of Sub Postmasters argues that local authorities should take a more active role in ensuring that they locate many of their services within the Post Office network. Peter Luff, MP for Mid Worcestershire and Chairman of the Business and Enterprise Committee, argues that Post Offices are vital 'community hubs' for many communities and demands innovative approaches are taken to ensure that many Post Offices can remain as viable businesses.

"Any options on the table for securing its long term viability must be seriously considered"

In our recent publication - [More for Your Money](#) - we also argued that it might be possible to use the Post Office as a vehicle for establishing a local investment fund. The purpose of this would be to encourage investment into social and environmental improvement schemes and help to strengthen the

existing social investment market place in different places around the country.

The Post Office remains a vital hub in providing services in both rural and urban areas. However, if we are to secure its survival, it needs to become a provider of a greater number of services and information streams. At this point in time, any options on the table for securing its long term viability must be seriously considered.

PETER LUFF MP

*Chairman, Business and Enterprise
Committee*



The key to ensuring the survival of the rural post office network is securing a consensus on why it is necessary. It is extremely unlikely that every post office everywhere will be profitable; there is no point in pretending that can happen - but many more could be if the government used the network better and if fuller banking services were available through Post Offices.

The task is to make the social and political case for ensuring the network is sustained at its current level (something that the Government has said it wants), and to ensure that if Post Office Ltd overall is profitable, those profits are used to maintain the network.

So why is the rural post office necessary? For a start, rural businesses need it. The web-enabled, business driven vision of the 21st century may come to depend on an old fashioned service which has been in place for centuries - the rural post office. One of the great advantages of new technology is that it enables people to take their business to where they are, and to work in their local community. But web links on their own are not enough - rural businesses need access to mail services, for the parcels and packets they need to send and to receive, and access to banking services, both of which are currently provided through the post office network, but small businesses can't access bank accounts through Post Offices.



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Our recent report "*Post Offices: securing their future*" demonstrated the importance of Post Offices to local businesses when it said:

"The Federation of Small Businesses conducted a survey of 5,500 of their members in February 2009 that showed that 88% of them use the post office to buy stamps and send letters, and 77% use it to send parcels. Almost half (47%) visit the post office a couple of times per week, and 19% visit it daily".

It continued:

"The reliance of small businesses on the post office network is especially marked in rural areas, where there is a high proportion of home-based small businesses that use postal services. According to the Commission for Rural Communities, in rural England 17% of the workforce are self-employed and 12% work from home, compared to 11% and 8%, respectively, for urban districts. Crucially, the growth of the internet provides increasing opportunities for smaller businesses to operate from more remote communities, but only if broadband speeds are adequate and if they have access to a reasonably local postal service to enable the despatch of parcels and packets."

Of course, rural Post Offices also sustain the businesses which enable rural communities to flourish. As our report noted

"Research done by the Commission for Rural Communities before the Network Change programme showed that almost 80% of subpostmasters run an associated business — one that would fail to provide an adequate living if the post office closed."

"The web-enabled, business driven vision of the 21st century may come to depend on an old fashioned service which has been in place for centuries - the rural post office"

Rural communities lose their local shop when they lose their local post office. Not only does this affect the community directly, it has wider social effects. Richer, fitter members of the community can drive to

alternative facilities (increasing carbon output on the way); poorer, or more infirm people are stuck.

I would be the last to pretend that this is news. As part of our inquiry we visited areas where local authorities or devolved governments were supporting their local post office networks — a great deal is being done. This can range from grants to support individual businesses, to training programmes to ensure that subpostmasters and mistresses have the skills they need, to support from the whole community. There is a lot of good work out there — I was particularly impressed by the way in which the National Assembly Government in Wales had practical schemes to help the business people running post office help themselves.

"Central and local government have a duty to provide services in ways which are convenient to their constituents"

But although these initiatives are welcome, there is a danger that support will be piecemeal, and may not last. Rural Post Offices can only be saved if we all realise just how important they are — that is the place to start. In principle, the Government recognises this; it provides £150m per year in a network subsidy payment. But the payment comes through what was the Department for Business, Enterprise and Regulatory Reform: other parts of government appear to consider the network as "not their problem" — and "not their opportunity" either.

A thriving post office network would help the Government achieve many of its wider policies — it would reduce the need to travel, cutting congestion and the carbon footprint, and it would increase social cohesion — there is ample evidence that Post Offices provide valuable community hubs.

A more wholehearted consensus about the importance of the network need not mean greater subsidy — although it might do. One of the themes of our report is that central and local government have a duty to provide services in ways which are convenient to their constituents — it is not good enough to expect everyone to go online, or present themselves at a central office. If they take up the challenge of using the Post Office properly, then they might pay for



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services which are actually needed, rather than providing a central subsidy to POL.

And there is a challenge for POL to think about the way it pays subpostmasters. The collaboration between Post Office Ltd and individual businesses has meant the country has a wide ranging network, provided relatively cheaply. Postmasters pay depends on individual contracts, but is a mix between payment for particular services and base pay.

There are all kinds of innovative approaches being trialled to provide postal services cheaply, such as outreach and Post Office Essentials. They may ensure essential services are provided at lower costs. However, the post office network depends on a contract which benefits both POL and the postmaster - POL (and the Government, its shareholder) will have to ensure that there are reasonable incentives for those who run Post Offices in remote areas.

None of these proposals is innovative but taken together they make an ambitious package. And anyhow, sometimes the key to making good policy is recognising what was right about the way things were done in the past.

mail and other services in a trusted, accessible, face-to-face environment. We have developed a six step plan, Six Steps to a Sustainable Post Office Network, to highlight actions required to get the network back on track. These include:

Local, central and devolved government must all think 'Post Office first' when developing new and renewing existing contracts. Local authorities have a vital role to play – not by seeking to run Post Offices themselves – but by ensuring all council payments, information and services are accessible through every local post office. Local authorities should also offer support through grants, training and rates relief to Post Offices and their retail businesses.

“We believe our Post Offices offer a massively underused capacity for the provision of government, banking, mail and other services in a trusted, accessible, face-to-face environment”

GEORGE THOMSON

General Secretary, National Federation of SubPostmasters (NFSP)



The UK's post office network is a national asset. Bigger than the major bank and building society networks combined, our Post Offices are a key part of the social and economic glue which binds local communities together.

Following a decade of significant numbers of post office closures, there are now 12,000 Post Office outlets. It is essential that this total does not reduce further, but many Post Offices are still operating on the very edge of viability.

The National Federation of SubPostmasters (NFSP) believes our Post Offices offer a massively underused capacity for the provision of government, banking,

Many council payments and services can be – and in some places are already – provided through local Post Offices. These include council tax, rents and mortgages, social service bills, leisure centre passes, school meals and activities, parking fines and permits, disabled badges, local travel tickets and passes, court fines. Equally, information on tourism, planning applications or public consultations can reach its target audience through local Post Offices.

This allows residents to pay for and access council information in a trusted local environment, frees up administration for local authorities, and provides vital income and custom for Post Offices.

Ministers should maintain and increase the number of central government services available at the Post Office – ranging from accessing government forms and 'check and send' services for applications to payment for services such as TV licences.

The government should introduce a formal face-to-face service for direct access to government information and services. This one-stop shop for government information, offering a face-to-face service complementing the DirectGov website would



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provide convenient access to government services right in the heart of local communities.

The Post Office Card Account (POCA) through which many claimants receive their state pensions and benefits at Post Offices, is a popular account. The POCA is vital, but the NFSP holds that its functionality should be increased to provide additional services for those who would benefit from a more sophisticated account.

The NFSP believes the government should create a new government-backed British Postbank at the Post Office, to bring banking back to its local roots for citizens and for small businesses. We now have the ideal opportunity to provide accessible, trusted, local access to banking in rural and urban communities. A further element of Post Office banking, must be post office access for all major high street bank accounts – allowing withdrawals, paying in money and making balance enquiries. Access to cash and banking is particularly important in rural areas where bank branches are in retreat – only 13% of bank branches are located in rural areas, yet 44% of Post Offices are.

Our six step plan also highlights the importance of mail services to Post Offices. The post office network is the natural home for all mail needs, and should remain so in a rapidly changing postal sector. This may include Post Offices acting as dropping off and collection hubs for all mail companies.

Post Offices are significant providers of local retail offering a range from groceries and fresh food to newspapers and stationery. Recent NFSP research confirms that 80% of Post Offices are run alongside another business, usually a shop. A quarter of Post Offices are the only retail outlet in the area. But worryingly for local communities, 66% of subpostmasters surveyed said that attached business would be unlikely to remain open if the post office closed.

“Many council payments and services can be – and in some places are already – provided through local Post Offices”

As well as providing local retail, Post Offices support other neighbourhood services. 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. Post Offices are also sources of cash, £86bn of cash passes through the Post Office every year, and over a quarter of the rural population uses Post Offices to access cash. Studies show 50-67% of cash is spent in shops near to where it is withdrawn and each post office can contribute around £310,000 annually to the local economy.

Action by local and central government to support local retail facilities will help to sustain Post Offices – this includes improvements in planning policy to take greater account of the needs of small independent retailers, restricting the growth of out of town shopping centres, improving local high street infrastructure and efforts to prioritise the reduction of crime against businesses.

“The government should create a new government-backed British Postbank at the Post Office, to bring banking back to its local roots for citizens and for small businesses”

Whilst both local and central government voice strong support for Post Offices, what matters is that they do something about it. In the House of Commons Business and Enterprise Committee's report on Post Offices, published this summer, MPs pick out the particularly vital role local authorities need to play in order to keep our Post Offices open. The committee concludes “Even though local authorities have been vociferous in opposing post office closures, many local authorities provide no services at all through Post Offices... Many are quick to say they support Post Offices, but then are slow to offer their services through them – the support that really matters. They should try harder to provide their services through Post Offices – those who have piloted such services have been enthusiastic about the results.”

Every week Post Offices across the UK are used by 24 million customers and the majority of small businesses. For many, particularly in rural areas, the post office is a “key lifeline” (Cornwall County Council), a “provider of essential services” (South Hams District Council) and “extremely significant in aiding social and financial inclusion” (Torbay Council). But unless both local and central



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government put more work through our Post Offices, mass unplanned closures are inevitable.

We know that central government subsidies have not stopped wave upon wave of branch closures.

LORD HANNINGFIELD

Leader, Essex County Council



Post office closures can have a devastating effect on both rural and urban communities. The local post office branch is as much a community asset as it is a commercial operation. It provides a service infrastructure that allows older and vulnerable residents to access services in their own communities, remaining active and retaining their independence. It provides a valuable resource for

local businesses; an access point for public information and increased footfall for small retailers. In many rural communities, the local post office is the only route through which residents can access banking and financial services.

This is why Essex County Council is working to reopen local Post Offices. In September 2008, we became the first local authority to use local funding to reopen a post office branch closed by central government. By the end of 2009 we will have opened 10 branches across the county.

Our work has had an immeasurable impact on Essex communities. It has also brought local authorities to the forefront of debate about the future of postal services. This could be vital in securing the future of the branch network.

“The local post office branch is as much a community asset as it is a commercial operation”

We know that today's network cannot be made commercially sustainable - Post Office Ltd presides over around 12,000 branches, but a fully commercial network could consist of only 4,000.

We know that otherwise profitable local branches have been closed to support Post Office Ltd's loss-making national bureaucracy.

If we are serious about sustaining local post office services, a new vision is needed. It is time to think about bringing the post office into the family of local government services.

Local authority leadership would help improve the long term sustainability of the post office network. It would recognise post office branches as key community service providers and give Post Office Ltd the opportunity to succeed as a commercial enterprise.

“It is time to think about bringing the post office into the family of local government services”

To make this work, we propose that Post Office Ltd's commercial assets – its products (e.g. broadband, ISAs etc) and its national contracts – be separated from the branch network. We propose that Post Office Ltd should be given greater freedom to pursue their commercial interests and that local authorities become custodians of the branch.

Under this vision, local authorities would take responsibility for maintaining and sustaining the branch network in their area. Upper-tier and unitary authorities would take the lead in commissioning post office services and managing contracts with incumbent sub-postmasters. The commissioning of local services would follow the same rules that apply in commissioning any other local public service. Local authorities would be responsible for the sustainability of their own local networks, commissioning new products and services and varying the mix of provision according to local needs and circumstances.

Councils have the depth of knowledge required to understand the local benefits of Post Offices. They can link decisions on the local network with decisions on care provision, public transport and the local economy. Through their existing partnership arrangements they could expedite the conversion of expensive 'Crown Offices' to cheaper franchises with private partners and third sector bodies. They may also co-locate Post Office services with other council services to reduce costs. Perhaps most importantly, by bringing the post office network under the auspices of elected councillors, we will bring legitimacy to the



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management of the network. Decisions on the future of this community service will be taken by democratically elected and publicly accountable local leaders, not analysts in Post Office headquarters.

For their part, Post Office Ltd will be free to focus on the profitability of their commercial operations – governed by their success in marketing products and winning commercial contracts. Post Office Ltd would also be expected, in consultation with councils, to prepare competitive bids for national contracts tendered by central government.

“Over the long term, the separation of commercial products and branch network should improve financial sustainability”

The transfer of the branch network to local authorities need not affect Post Office Ltd's retail opportunities. The locally managed post office network should remain an outlet for Post Office Ltd's products and (at least at first) a customer for Post Office Ltd's infrastructure services (e.g. cash-transit, ICT support). These agreements would be defined in contracts specifying Post Office Ltd's commission structure and the service standard required of branches.

In the short to medium term, we would expect to see government subsidies redirected to councils as part of their formula grant package. But over the long term, the separation of commercial products and branch network should improve financial sustainability and reduce (to some degree) the need for these subsidies. Local authorities have an impressive track record in delivering efficiencies. Savings will be made as councils seize the opportunity to experiment with co-location, franchising and commissioning arrangements.

The separation will help improve the viability of individual branches too. Sub-postmasters currently pay a series of opaque charges to Post Office Ltd as a contribution to national overheads. In some cases charges exceed the costs associated with service provision (i.e. post-master salary and commission) and, worse still, as little as one-third of overhead charges can relate to support costs for each branch. While these charges help support the national

bureaucracy, they can undermine the viability of local branches and hasten closure. By agreeing contracts for this support, we can ensure that branches pay a fair price for the support they receive. Much needed local services will no longer be unfairly squeezed out by inefficiencies in the national post office infrastructure.

In setting out this vision we aim to stimulate debate on the future of the postal services and the local authorities can play. Without a new vision, local branches will face an uncertain future – closures could continue and communities could continue to suffer. One thing is certain however; if we are to secure the future of the local post office, we need a new approach.

FOR MORE INFORMATION

Localis is an independent think-tank dedicated to issues related to local government and localism more generally. We carry out innovative research, hold a calendar of events and facilitate an ever growing network of members to stimulate and challenge the current orthodoxy of the governance of the UK .

For more information, please visit www.localis.org.uk or call 0207 340 2660.

To find out more about the work of the Business and Enterprise Committee, please visit www.parliament.uk. To read more about NFSP please visit www.nfsp.org.uk. To find out more about Essex County Council, please visit www.essex.gov.uk.