

AMICUS SUBMISSION TO THE HOUSE OF COMMONS
TRADE AND INDUSTRY SELECT COMMITTEE

THE CROWN POST OFFICE NETWORK

Introduction

- 1) The Communication Managers section of Amicus represents the interests of over 15000 managers and senior managers working within the Royal Mail, of whom nearly 2000 are managers in, Post Office Limited. In addition Amicus represents members in other postal operators such as Deutsche Post and over 1 million members of Amicus are themselves users of postal services in the UK.

- 2) Post Office Ltd is part of Royal Mail Group, which is a public limited company wholly owned by the Government. The company operates 560 Directly Managed Branches, formerly known as Crown Offices, with costs that currently run at an estimated deficit of £70 million. Royal Mail is currently undertaking a review of its Directly Managed Branches but it is rumoured that the company is planning to close or sell at least half of its offices in order to save on operational costs. It is this review has prompted the Select Committee Inquiry.

Amicus position

- 3) It is our view that any review of the Post Office network, or any of its segments, must be undertaken within the following context
 - a) The Post Office is a publicly owned organisation providing a public and community service.
 - b) Post Office Ltd is strengthened as an integral part of Royal Mail Group and its ability to survive and thrive in the future is intrinsic and inseparable from the future of the UK letters market.
 - c) The review of Directly Managed Branches should not be undertaken in isolation to the urban network reinvention programme, due for completion in April 2005.

- 4) It is a fact universally acknowledged that the Post Office network fulfils a vital social function, particularly within rural communities, where retail and financial amenities are not widely available. Furthermore, the post office is significantly more important to more vulnerable groups within the community such as the elderly, unemployed, disabled and carers who are reliant on local services. The social role is widely recognised and valued by all parties. However, the main contributor towards maintaining the social provision is Post Office Ltd itself, or indirectly Royal Mail.

- 5) While Royal Mail until recently had a monopoly in the letters business, the Post Office network has not been a monopoly. All of the latter's services can be found elsewhere. Post Office Ltd is an integral part of the Royal Mail Group. As such, the company and its sole share holder, the Government, has previously allowed reserves that have been built as a result of the letters monopoly to be used to finance essential investment and modernisation processes within POL that could not be funded elsewhere, such as the Horizon Platform. However, if funding for the Horizon platform was required today, it could not be met from central Royal Mail reserves, as Royal Mail priority need for investment is to position itself to face competition and liberalisation in the letters market.

- 6) We share Postcomm's concern about the review of the Directly Managed network being undertaken separately and at a different pace from the urban network reinvention programme ("Building a viable network: Postcomm's fourth annual report on the network of post offices 2003-4.) We concur that the absence of certainty over the future of a Directly Managed Branch in any one area must, to some extent, undermine the credibility of decisions taken over the neighbouring network of sub-post office branches as such decisions will necessarily have been taken on the assumption that the Directly Managed Branch was available to act as a receiving branch. The review of the Directly Managed Branch network must take account of any assumptions made about specific Directly Managed Branches during the implementation of the urban reinvention programme.

External Pressures on the Post Office network.

- 7) The Post Office's foundations are now being undermined by a number of external forces.
 - a) Effects of Competition,
 - b) Government Policy.

Effects of competition

- 8) The 2000 Postal Services Act provided legislation to allow competition into the UK postal market and to end Royal Mail's monopoly. It also

established Postcomm as the industry regulator and Postwatch as the industry's watchdog.

- 9) Postcomm's remit concerning the Post Office network is purely advisory. It has no direct regulatory role by comparison with the letters market and as such less leverage. In our view, Postcomm's proposals concerning Market Opening and competition have failed to take into account the potential effects on the Post Office network. As stated previously, Royal Mail's reserves are now concentrated on preparing for competition with the possibility of full market opening as early as Jan 2006. There is much less potential for the more profitable parts of the business to subsidise the less profitable, even if the ultimate aim is to improve the general infrastructure and level of service to the public.
- 10) Furthermore, the current status of Royal Mail as a public limited company with the Government as its only shareholder adds to confusion about the fundamental role of the Post Office network. On one hand, post offices are regarded as providing an important social function, particularly in rural areas. On the other hand, Royal Mail is expected to operate along the same lines as a private company in terms of financial performance and delivering a profit. To this end, Royal Mail has embarked on an ambitious three- year renewal plan that has focussed on returning a £400m operating profit at the expense of service delivery and quality. It has also resulted in job losses of around 30,000, including 3000 managers with a wealth of experience and expertise leaving the business.
- 11) This dual role cannot be sustained and needs to be fundamentally addressed by the Government. If Post Office Ltd is expected to maintain its social and community function, which is never going to be commercial unless vast swathes of the urban and rural networks were closed down, the government and the public need to accept and continue to pay for it. It also needs to take a long-term decision about the future funding of Post Office Ltd. If it is decided that the Royal Mail monopoly should no longer support the Post Office network, a strategy that has worked for the last 200 years, alternative funding must be provided.
- 12) This confusion about the role of the Post Office is reflected by Postwatch's recent attention on queuing times, and the use of these as a performance target. Directly Managed Branches (DMBs) in particular are a victim of this scrutiny, especially in some urban geographical areas where there are staff shortages or where sub post offices have been closed. In our view queuing times are not always a negative issue for customers, some of who will perceive the post office queue as a point of social contact. For others queuing times are no worse than in other comparable organisations. . DMBs are in a better position to sell the Post Office's range of new products than sub post offices that will also be pushing their sidelines – or those of other businesses - that they find more lucrative.
- 13) In reality DMBs can more effectively generate revenue by increasing their sales through direct communication with their customers than by quickly rushing them through the door. However there is a danger that Post Office

Ltd will invest more time, money and energy in reducing queuing times than in selling its products and establishing itself even more firmly as a community resource. There is also the potential damage to customer perception of the Post Office if it is constantly portrayed in a negative light which will lead to a decrease in footfall.

Government Policy

- 14) The Benefits Agency decision to move to direct payment has had a severe impact on the Post Office network. An estimated 40% of income has been lost as a result of direct payment with the consequential drop in footfall leading to a reduction in retail sales. The loss has been greatly aggravated by the convoluted and over complicated method for customers to obtain Post Office Card Accounts. The effects of direct payment have been well documented and the subject of a previous Select Committee Inquiry last year. It was therefore disappointing, to say the least, that the Government chose to largely ignore the recommendations made in the Select Committee's report following the inquiry. ("People, Pensions and Post Offices: The impact of "Direct Payment" on post offices and their customers")
- 15) The loss of income generated by direct payment must be replaced by alternative revenue if the Post Office network is to be sustained.

Reductions of Directly Managed Branches (DMBs)

- 16) Over the past decade, a considerable number of directly managed branches have ceased to come under Royal Mail's direct control, either through closure or conversion (franchising). In 2003/2004, there were 8 closures and 8 franchises of DMBs. Some 560 DMBs remain and the possible outcome of Royal Mail's current review of its directly managed network could result in the loss of over half of that total. The closure of a DMB should only be made following a thorough assessment of the impact on the public and community it serves and the availability of alternative provision. Closures of DMB's tend to be controversial due to their prominent geographical position and disproportionate effect on vulnerable groups. Once a post office is closed, the service is lost and there currently exists no means for it to be reinstated. There is clearly no way that the network can afford to lose half of its DMBs, responsible for over 15% of volume, and alternative ways of addressing the current losses sustained should be sought, as we set out below.
- 17) Previously conversion has been the preferred option of the Post Office/Royal Mail. Conversion puts the number, management and most crucially the reward structure of staff in the hands of a franchisee. Post Office Ltd receives a payment from the franchisee and transfers to the franchisee all the costs associated with direct management. As a consequence, franchisees recruit staff at lower pay and conditions than

exist in the Directly Managed network and then go on to take higher rewards than are available to existing management.

- 18) In the past, DMB employees, to assist a conversion, have been provided with other work across Royal Mail or have taken severance at terms they found acceptable. This is no longer the case as a result of changes brought about by the Royal Mail renewal plan. Finding alternative employment elsewhere in Royal Mail is far more difficult than before and Royal Mail has already signalled its intent to reduce severance terms, particularly for employees over 50.
- 19) As a result of this, managers in Directly Managed Branches now wish to exercise a choice between remaining with the Royal Mail, severance and working for the new franchisee. As a union, we believe that long serving and committed managers should be offered that choice.
- 20) The new franchisee will have to offer those who wish to remain in the Branch the terms and conditions protected by legislation, in particular the Transfer of Undertakings (Protection of Employment) Regulations (TUPE) and the European wide Acquired Rights Directive, pay and severance included. Moreover, the Post Office is bound by the Cabinet Office Code of Practice to offer broadly equivalent pensions. The failure to attract franchisees has been blamed on perceived high wages of Post Office employees. In fact, DMB managers are not excessively remunerated. Managers have a remuneration package judged at just above the median of outside counterparts (Hay Benchmarking). In respect of pensions, most managers and staff are members of the Royal Mail Pension Plan. This scheme is judged to be below the upper quartile of defined benefit schemes.
- 21) Furthermore, franchising also could lead to longer waiting times for customers because of a reduction in the number of counters, a point highlighted in the Postcomm Fourth Annual Report on the Network of Post Offices published in October 2004.
- 22) It is our view that for the above reasons, conversions would not be a viable solution to resolving the financial position in the directly managed segment.

Reducing the Deficit

- 23) We believe the DMB deficit can be reduced by a number of measures.

These include:

a) Increasing product range

We support and commend the efforts of David Mills, Chief Executive of Post Office Ltd, to increase the range of products available. We believe that these offers offer the opportunity to generate new business and improve financial revenue. In overall terms, sales revenue in Post Office Ltd increased by £78m or 9% in 2003/2004. A significant element of this improvement is through new products such as E-top

ups (where Post Office Ltd is now second to Tesco), growth in the Bureau de Change business (where Post Office Ltd is now number one in the provision of foreign currency), other financial products and an enhanced marketing strategy.

We are disappointed however that some of the major Banks - HSBC, HBOS, and RBS - continue to refuse to allow their customers to draw cash from Post Office counters and play a full part in helping to preserve the future of the Post Office network. We would wish to see this highlighted and these banks positively encouraged to enter into arrangements with Post Office Ltd as have many other banks.

b) *Increasing Sales*

As a retail provider the Post Office must contribute to its costs by increasing its sales. Issues such as queuing times should not sidetrack it from this primary function which provides essential revenue.

c) *Training*

All staff must be provided with adequate training to sell Post Office products and adequate training time should be afforded to all managers to fully equip their staff.

d) *Improved Operational Efficiency*

Opportunities for greater operational efficiency need to be identified. Amicus has long contended that DMBs lack managerial resource. Royal Mail remains a highly industrialised environment in which to work and greater managerial presence is needed to ensure effectiveness. However, last year Royal Mail axed 3,000 manager jobs with the resultant loss of experienced managers leaving the business. Furthermore, our own research reveals the high level of stress related illness among Post Office managers as a result of working excessive hours. POL needs to invest in its staff to achieve greater operational efficiency and not strip itself of a most important asset.

e) *Resiting Branches*

Part of the cost of the DMB segment relates to accommodation. Many of the sites now charge greater rent than previously and lease renewals constantly increase costs. The location of DMBs is critical to the service provided yet at the same time can add to the burden of costs. Many offices occupy large spaces that are now unwarranted, for example from the days when the sorting office was also on the premises. Opportunities for resiting or relocation of DMBs should be vigorously and actively pursued.

f) *Refurbishment*

As stated above, DMBs are a neglected area. The accommodation in very many instances could be made more inviting and more comfortable for the customer. The "Next Generation" offices such as

the pilot office at North Finchley have proved successful in increasing customer footfall and resultant sales. Refurbishment of these post offices would require substantial investment. However, the urban reinvention programme earmarked £30 million for the refurbishment of sub post offices and in our view similar investment should be provided for the Directly Managed Branches.

g) *Incentive Scheme*

The correct focus on a new product range and increased sales requires Post Office Ltd to re-examine how it can best provide incentives to staff to sell more of its offers. A fresh approach to incentive arrangements will improve sales possibly by quite a significant amount.

h) *Implants*

There is spare space in a number of DMBs, perhaps about 50. This space should be exploited from a commercial point of view, for example to sub-let to other businesses or to develop as internet cafes, Government and local community information kiosks and so on.

i) *Community Input*

The post office provides an important social role within the community. There is value in exploring whether contributions should be sought from other avenues to maintain this role, e.g. local authorities and whether a greater obligation should be placed on banks and other financial providers to extend their services to Post Office Ltd.

j) *Network Fund*

The Government has committed £450 million to maintain the rural post office network and established a fund to maintain deprived urban post offices. Post Office Ltd does not receive funds to support its Directly Managed Network, a segment that has suffered much under funding in almost all aspects in the past decade. We would wish to see direct support by the Government, on similar lines to the rural network, to maintain the Directly Managed Branches where appropriate and necessary to maintain the community and social service.

Conclusion

- 24) The Post Office is the nation's most loved and most trusted network. All parties tend to agree that it is a welcome part of the social fabric of the nation.
- 25) Its positioning within Royal Mail has helped it achieve such status and provided the necessary finance for its public service to continue. Its work on behalf of the Benefits Agency provided it with a very substantial part of its income. However external changes as the result of competition and government policy in other departments have led to a loss of income for the Post Office and alternative revenue needs to be sought.
- 26) The Government now has to subsidise the rural network and substantial amounts of money are required to regenerate the urban network. No Government monies have been made available to the directly managed sector. This sector has, in any event, been neglected over the years. Major refurbishment is required to accommodation, and a fresh and clear focus on sales is required with the necessary back-up resources.
- 27) Conversions are no longer a sustainable method of transferring post offices away from the direct management of Royal Mail. Greater incentives would need to be offered to franchisees in order to protect the employment rights of Post Office Ltd employees who transfer through conversion.

Recommendations

- 28) Amicus invites the Select Committee to consider the following recommendations:
 - a) A complete review of strategy should take place in respect of the future for Royal Mail as a whole to embrace the hitherto neglected issue of the impact of Postcomm regulation of the Royal Mail Letters business on the Post Office network..
 - b) The review of Directly Managed Branches by Post Office Ltd should not be separated from the network reinvention programme. The future of such post offices should be assessed by local need for postal services as part of a strategy for the whole of the Post Office network. It should not be solely financially driven nor by the ease of property sale, conversion to franchised operation or closure.
 - c) The social role of the Post Office network needs to be defined and a commitment made to fund it. Contributions from organisations who benefit from the Post Office, such as other retailers, banks, local authorities could be sought.
 - d) Post Office Ltd and the unions (Amicus/CMA and CWU) should be urged to conduct a thorough review with the aim of improving efficiency and productivity in the directly managed sector.

- e) The Government should consider whether an Urban Network Payment would be appropriate to meet the costs of the directly managed sector as a whole and/or for specific offices, as an interim or ongoing measure.

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