

BACKGROUND REPORTS

- **new economics foundation** report – “Post Offices in Manchester: Current Impacts and Future Prospects” (attached)
- Report of Head of Regeneration to F&GPOSC Jan 2006
- Report of Director of Adult Social Care on Financial Inclusion to Social Strategy OSC 8th March

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1.0 Introduction

The purpose of this report is to present to Members the findings of the Inquiry led by the Finance and General Purposes Post Office Sub Group into the future development of postal services within the city. In particular to note the key issues for Manchester and to consider a range of recommendations put forward by officers in conjunction with new economics foundation (**nef**).

The MCC Social Strategy Overview and Scrutiny Committee of the 8th March will receive a report by the Director of Adult Social Care on financial inclusion, which outlines the approach being taken by the Financial Inclusion Strategy Group. There are a number of recommendations within this report that may feed in to the work of the Financial Inclusion Strategy Group.

2.0 The Postal Services Inquiry – the Approach

Members will recall that at its meeting in December 2004 it was agreed that a Postal Service Sub Group would be established to undertake a wide ranging review of postal services in Manchester. At the outset the Sub Group developed a number of key lines of investigation that it would wish to pursue through the inquiry. These were as follows:

2.1 The impact of opening up of the postal services market to competition

The 'Universal Service Obligation' upon Royal Mail to deliver and collect mail once a day will remain. However there may be changes in the standards of that service, and disparity and fragmentation as private companies start to compete with Royal Mail for elements of the service, particularly the more profitable city centre market. These changes may impact on domestic, public sector and commercial customers in different ways.

2.2 The impact of the Urban Network Reinvention Programme (UNRP) and the review of Crown Post Offices

The Sub Group wanted to explore the rationale, impact and alternatives to the Post Office's programme of Post Office Closures as follows:

The Economic And Social Impact Of Planned Closures

Work has been commissioned by Postcomm and Postwatch on a National basis to look at the impact of Post Office closures, both on the business and performance of remaining post offices and on the communities affected, including knock on effects on local shopping parades. The Sub Group wanted to translate this into more detailed examination of the impact in Manchester.

Of particular relevance is the introduction of Direct Payments of benefits and the role that Post Offices play in enabling people to

access a range of financial services, in particular the Post Office Card account, other banking and savings accounts, and payment of bills. This also impacts on a wide range of Manchester based organisations that are Post Office business customers.

Options for supporting unprofitable Urban Post Offices and alternative provision of services

Although there have already been planned closures as part of the Network Reinvention programme, the Sub Group were of the view that more may need to be done to protect the remaining Post Offices. As such the Sub Group want to look at the factors involved in decisions to close Post Offices, and options for support available for uneconomic Post Offices in deprived urban areas such as is available to rural areas.

2.3 Accountability and impact of Postcomm, Postwatch and Government in influencing Royal Mail Strategic planning.

Throughout the work that the City Council undertook to resist the closure of Post Offices within the city it has been demonstrated that the regulatory body, consumer interest body and Government have been unable to sufficiently influence Royal Mail group. The Sub Group in particular wanted to explore in more detail the processes adopted by the Post office for the strategic involvement of stakeholders in consultation processes.

In terms of exploring the issue of the future development of postal services within Manchester, the Sub Group took an early decision to seek expert external advice and support. The new economics foundation (**nef**), an independent think tank, supported by Triangle Consultants, a specialist consultancy who have advised on Postal Services to Governments and Mail Distributors on an international basis, were engaged in the Summer of 2005 to help the Sub Group examine the keys lines of investigation set out above and draft a report for the Sub Group to consider.

The new economics foundation have undertaken extensive work for the Sub Group to develop a variety of perspectives on the implications of the liberalisation of postal services and the social and economic role of post offices with specific reference to quantifying the impact of closures. **nef** have designed a methodology with the objective of providing the Sub Group (and ultimately the Committee) with an evidence base upon which to base its decisions. This has involved not only reviewing the evidence and submissions made by stakeholders but also has included an extensive desk based review of the market liberalisation and closure policies adopted along with an economic impact analysis of the effects of the closures of post offices within Manchester.

The Sub Group also took a decision to seek contributions from a range of stakeholders in order to gather an evidence base with which to continue to lobby Government, Postcomm, Postwatch and the Royal Mail Group for

improvements in the delivery of postal services within the city, and to identify measures that can be taken by the City Council and its partners to address concerns raised by the review. In addition to inviting key stakeholders to contribute to this review, the Sub Group also sought to use the City Council's newsletter, 'Manchester People' which is delivered to every household in the city, to invite residents to submit their own views on impact of changes.

In order to provide the opportunity for the Sub Group to examine in more detail the contributions submitted and to explore the key lines of investigation with key stakeholders the Sub Group held a formal hearing at the beginning of December 2005 which involved senior representatives from Royal Mail Group, Post Office Ltd, Postcomm, Postwatch, the National Federation of Sub Postmasters, the Communication Workers Union and the City Council. All those stakeholders who had made written representations to the Sub Group were also invited to attend.

3.0 The Postal Services Inquiry – Outcomes and Recommendations

The report identifies the substantial economic contribution that post offices make to economic activity, local money flows and to sustaining local businesses in disadvantaged communities. In addition it explores the unique social role Post offices play and their importance to financial and social inclusion, particularly in deprived neighbourhoods.

The following paragraphs in section 3 are intended to present **nef's** recommendations within the context of their key findings, to demonstrate the rationale behind those recommendations. Section 4, which follows, has been formulated by the F&GP Postal Services Inquiry sub group in response to these recommendations and proposes a set of recommendations for this Committee to make to Executive and to Chief Officers.

3.1 How the UNRP impacted Manchester, and the threat to Manchester's Crown offices

In September 2004, Manchester City Council contested 15 of the 20 post offices proposed for closure in the city under the UNRP. It argued that in many cases there would be insufficient provision for the deprived communities in which these closure cases were located, providing a detailed argument in relation to the impact of the closure in each community. Its protests were unsuccessful – as at July 2005 all 20 post offices in Manchester City have been closed.

Manchester City branch closures were discussed at a December 2005 hearing held by Manchester City Council that considered postal services in the light of the UNRP and other developments. Councillors expressed their concern that despite submitting extensive cases against specific proposed closures their protests were not effective and closures went ahead.

The UNRP process has been controversial. There had been a number of ad hoc closures across the city before the programme began, and it is generally accepted that a number of closures were inevitable across the national network and that a planned strategic approach was preferable to further ad hoc closures. However, the closure process has been seen as flawed. The Trade and Industry Select Committee noted that early retirement packages offered to sub postmasters as part of the UNRP had driven the closure programme. This is believed to have skewed the selection process away from considerations of the social and economic impacts of post office closures and placed individual sub-postmasters incentives at the centre.

The future of Manchester's Crown (or directly managed) offices also remains unclear. Crown offices (or 'directly managed post offices' as they are now known) are distinct from the wider network of post offices in that they are directly managed by Post Office Ltd rather than franchised to a sub postmaster. They are generally found in high street locations, with good transport links and access for disabled customers. There are seven crown offices in Manchester City. As at December 2005 neither Postwatch or Post Office Ltd could provide any details about the potential for Crown office closures or franchising in Manchester or any assurance of their continued existence.

The Trade and Industry Select Committee was particularly critical of the failure by the Royal Mail Group to integrate its review of urban post offices (during the UNRP) and the forthcoming review of Crown offices. Since the closure of a specific urban post office may have been justified because of customer access to a nearby Crown office, it was considered inappropriate for the company to commence a separate review of the Crown offices after the UNRP had been completed.

3.1.1 MCC to lead a citywide approach to supporting postal services

In undertaking this Inquiry MCC have been successful in drawing together, and gaining the confidence of, the agencies responsible for provision of postal services in considering a Manchester Focused approach. These organisations have verbalised their commitment to continuing to work with us to provide the most appropriate provision for the City.

- MCC to host a 6 monthly forum in June and December of each year, bringing together stakeholders present at the December 2005 Post Office hearing to develop a strategic approach to future changes.
- MCC to take the lead on engaging other key stakeholders in Manchester, for example, the Primary Care Trust, to examine how to sustain postal services for residents in disadvantaged communities.
- MCC to strive to gain more influence over the closure decisions taken by the Post Office Ltd. This report and recent hearings provide an evidence base from which to build a pro-active advocacy strategy and to achieve influence at all levels of government.

- MCC to examine its procurement procedures and their impact on sustainability of the City's post offices – e.g. payment of benefits, receipt of council tax, and bulk mailing contracts. MCC is a bulk buyer of services and should use this leverage in a more strategic manner to support the objective of sustaining postal services.

3.1.2 Informing future decision making re UNRP and Crown Post offices

In evaluating closures, no account seems to have been taken of increased demand as a result of imminent area regeneration and housing development. In addition, The Trade and Industry Select Committee has criticised the UNRP for inadequate methods of measuring deprivation which meant pockets of deprivation were missed and not considered in a closure decision.

- MCC to advocate that the DTI ensures that decisions on closure consider the future regeneration potential of neighbourhoods, by involving the MCC and its partners at the start of discussions. In the event of a need for further planned closures, MCC and DTI to work jointly to identify appropriate measures. MCC to be involved in the planning stages of a review of Manchester's Crown offices. MCC to be proactive in ensuring that their perspectives are put forward and heard.
- MCC to ensure that data and information on area regeneration impacts of post offices is incorporated into area regeneration plans.
- MCC should ensure that its knowledge of patterns of deprivation in Manchester is utilised and considered in any further assessment of post office closures.
- MCC should undertake LM3 and LIM exercises to quantify the real economic impact of its eight Crown offices helping them to illustrate their direct impacts and the impacts they have via the support they provide to other businesses. This research programme should also be ready to demand that sub post offices closed on the basis that a Crown office is a realistic and nearby alternative should be reopened if that Crown office is subsequently closed.
- Franchising may be adopted as the main approach to reviewing the Crown post office structure. Given this, it is important that MCC ensure that this is viable and that quality and access of service is maintained.
- The Royal Mail used a computer model called Netspec as the basis for taking decisions on which post offices should be identified for closure under the UNRP programme. The details of the model and how it was used remained confidential. MCC should demand that, in future, any models used to determine closure should be placed in the public domain, to enable key stakeholders to evaluate and test their suitability and accuracy. The reasons for closure should be communicated to the public for each individual post office closure. In the event of a decision

being taken to withdraw a closure, as happened in Trafford, there should also be a requirement on the Royal Mail to release the reasons for their decisions.

- MCC to advocate to the Department of Trade and Industry that future consultation on individual branch closures across the country should incorporate the six-month period prior to any final decision for closure.

3.2 Improvement programme accompanying UNRP

There is a general acknowledgement by all involved parties of a failure to implement improvement programmes that had been promised in the UNRP for remaining branches that would be receiving customers from those that had closed. Post Office Ltd had justified the closure of some branches by underlying a commitment to improve and expand the capacity of receiving branches: £30 million of the UNRP funding was promised as matched grants of up to £10,000 available to sub postmasters to allow them to adapt and improve their premises or to employ additional staff to meet customer service standards.

3.2.1 Lobbying for a joined-up approach to investment in urban post offices

Currently decisions on financial support for urban post offices are not coordinated or strategic between ODPM and Post Office Ltd.

- MCC should demand that the government and Royal Mail take a 'joined up' approach to investment and refurbishment of urban post offices. Decisions on future closures should take place with the context of strategic decisions on how investment from the funds available can most effectively sustain remaining post offices in disadvantaged areas.
- MCC to review and report on whether promised improvements have been made, and consider whether it can engage partners in supporting sub postmasters to carry out these improvements.

3.3 The potential for future closures in Manchester

There is ongoing concern about the sustainability of remaining post offices in the network. During the UNRP, Post Office Ltd said it was unlikely to close a post office in a deprived urban area unless there was an alternative within half a mile. Now that programme has ended, however, there is no commitment to protect these branches.

Financial pressures faced by the Royal Mail Group and its post office network subsidiary Post Office Ltd have posed a fundamental challenge to the viability of its business model and precipitated a strategic review of its network branches. These pressures have come in the form of changing consumer habits (i.e. reduced demand for postal services in favour of electronic communications via the internet), fixed government payments for post office

counter transactions that are set at unrealistically low levels and the dramatic impact caused by the transfer of benefits payments to the Direct Payment system.

The solutions set up to counteract these factors have evidently failed to completely eliminate these financial problems, which continue to be highlighted by the company's executives.

Government's decision, announced 20th January, not to renew the Post Office Card Account (POCA), means the loss of a £1bn contract. The impact on Post Offices is likely to be similar to that of the loss of direct payments, in that it will hit hardest Post offices in deprived communities where a significant proportion of their business is via the POCA.

3.3.1 Supporting the role of Post offices as anchors in Neighbourhood Centres:

Economic modelling techniques used by **nef** quantify the pre-existing understanding of the importance of Post offices to the local retail and services offer in our neighbourhoods. The consultation research and anecdotal information leads us to believe that there are continuing business opportunities for people wishing to provide post offices services in our growing communities.

- MCC to establish a register of potential entrepreneurs that may be interested in taking ownership of post offices in the event that sub postmasters plan to sell their business. To ensure that interested parties are able to intervene and to allow transfer of ownership of post offices, a 6-month consultation period is needed.
- Post offices play a key role in creating and retaining wealth in disadvantaged areas. In addition to supporting local businesses. MCC to ensure that the indirect impacts of post offices are captured in any evaluation of their impact. Advocacy role to play in ensuring this best practice.
- Post Offices act as anchors in neighbourhood centres. Following closure there is a substantial loss of footfall and revenue for nearby shops. Closure could be the 'tipping point' that threatens the viability of entire shopping parades. MCC should put a strategy that ensures the survival of remaining post offices at the core of its local retail regeneration strategies.
- MCC could evaluate the disproportionately high use of local post offices by small businesses and social enterprises compared with large businesses and the correspondingly high negative impacts of a closure.
- MCC to lobby for national measures to support sustainability of Post Offices e.g. provision of more basic bank accounts at Post Offices, 'social services' payments, and joined-up government approaches to considering Post Office when commissioning administrative services such as the recent passport checking contract.

3.4 The economic and social importance of Manchester's post offices

The report argues that the UNRP process failed, on a deeper level, to take into full account the economic and social costs of losing a post office branch.

A large proportion (60 per cent) of business respondents to **nef** and Manchester City Council surveys said that the closure of their local post office branch had caused significant impacts either to their business directly, to their clients and customers, or to the area in general. Examples of these impacts included the need to allocate additional staffing resources because of the longer journey time to the next alternative branch. Another negative impact came in the form of loss of banking services. As small businesses are more likely to use their local post office branches for banking, closure can cause problems. Retail outlets in shopping parades close to closed post offices were particularly affected with a reduction of revenue of up to 50% and declines in footfall.

Many businesses interviewed near a branch that is currently open with no plans for closure were clear that its loss would cause significant problems.

On the social side, surveys by **nef** and Manchester City Council provided strong support for the widely acknowledged assertion that post offices play a vital role in their community, particularly in supporting vulnerable groups such as the elderly or disabled. Difficulties experienced range from tackling longer travelling distances and bigger queues at the alternative branches to extreme hardship for the very sick and elderly who in many cases have quite simply been left without alternatives and suffered the loss of independence or an increase in the cost and distance of travel.

Sub post offices play a vital role as a hub in their local communities. They are particularly valuable in generating social capital in disadvantaged communities providing opportunities for meeting friends, networking and exchanging information about a wide range of government, financial products and local services. Sub post masters play a vital role the informal welfare state by looking out for a number of vulnerable clients who visit their branch.

nef's Local Impact Model examines the impacts of a post offices closure in a disadvantaged area of Manchester. The resulting estimate is of the loss £270,000 per annum for the local economy.

The Local Multiplier (LM3) was also applied to examine how much income an individual organisation generates for its local economy. Results indicate that a post office in Manchester generates between £300,000 and £340,000 of income for its local community.

As well as the direct economic impact of post office closures its important to remember this may mean the loss of other local shops and services which as well as being part of the local economy are in themselves vital services to the neighbourhood.

3.4.1 Recognise and support the social capital and services role of the post office

The report identifies the vital role post office play in generating social capital in disadvantaged local communities where it is most under pressure.

- MCC should recognise the value and importance of the 'social services' role and make reference to this in responding to proposals for any further closures.
- MCC to make the case to the DTI and Royal Mail that these factors should be taken into account in determining proposals for closure in the most disadvantaged communities.
- MCC to consider commissioning further research that quantifies the true personal, social and environmental costs of closures for businesses and residents (particularly for the most vulnerable i.e. the elderly, disabled, single parents and those dependent on public transport). Costs include increased travel costs and distances for the most disadvantaged residents and staff costs/overheads for small businesses.

3.4.2 Maintaining provision of Financial and other essential services in the event of further closures

Given the threats to postal services from liberalisation and possible future closure programmes, MCC should examine scenarios in which there is little to no provision of post office services within disadvantaged areas and plan the appropriate response in terms of alternatives. The decision to end the POCA referred to above will mean reduced access to financial services even where Post Offices remain. The following recommendations are of particular relevance to the Financial Inclusion Strategy referred to earlier in this report.

- MCC to investigate how to provide services in disadvantaged communities that currently or may have no post office. This should involve examination of alternative business models, for example, social enterprises, to provide services, as well as an examination of how MCC can encourage mainstream financial service provision in deprived neighbourhoods.
- MCC to explore how post offices' roles in tackling financial exclusion can be supported. Where there is no post office, it is worth exploring community finance alternatives with Credit Unions and Citizens' Advice Bureaux. One solution that may warrant further investigation is that of a Community Banking Partnership that combines affordable credit with advice.

3.5 Implications of postal market liberalisation for Manchester

The impact of liberalisation, which comes into effect in January 2006, was discussed in depth at the Manchester City Council's Postal Service Inquiry Hearing in December 2005.

Councillors were particularly concerned about establishing whether or not Manchester postal service users would be negatively impacted – from a postal delivery point of view – following liberalisation. The key message of the inquiry to date has been that liberalisation brings more competition and forces all operators to improve their performance. In particular Manchester, which as a dense, compact urban area will be very attractive to competitors because of the low delivery cost implications.

Systems will be set up to ensure quality and reliability of service will also improve and the 'final mile' delivery and therefore accountability back through the delivery chain will remain with Royal Mail.

Exposure to competition could lead to better performance and pricing offered by competing postal service operators. Real discounts in prices are already being enjoyed particularly by big businesses who use bulk mailing services which are most attractive to incoming postal service providers. However, it is unclear whether other users including small businesses and individuals will benefit to the same extent. Small businesses may be at a disadvantage because they do not use the discounted bulk mailing services but instead use conventional stamp-based postal services; these could have price rises imposed by the Royal Mail Group to offset the effects of competition and the costs of the Universal Service Obligation (USO).

New entrants to the market may be able to 'cherry pick' lucrative business contracts in Manchester from the Royal Mail Group thereby reducing the cross subsidisations that enables the company to meet the USO. If liberalisation leads to further financial pressure on the Royal Mail Group, and therefore its subsidiary Post Office Ltd, this could put the network of post offices in further jeopardy. Small businesses are also more likely to use their local post office branches than large businesses so closures arising from this will hit them hardest.

3.5.1 Reviewing the impact of liberalisation

- MCC to commission research to analyse the implications of price changes due to liberalisation, on the competitiveness of SMEs and social enterprises.

4.0 Recommendations of the Finance and General Purposes Overview and Scrutiny Committee (Postal Services Inquiry Sub Group)

The Sub Group have considered the recommendations set out in new economics foundation's report, and put forward the following actions as recommendations for the Executive Group and Chief Officers:

4.1 Manchester City Council's leadership role

- 4.1.1 Manchester City Council to host a 6 monthly forum involving the agencies that attended the Inquiry hearing in December. This forum will continue to develop a Manchester focused approach to the delivery of postal services across the city with the intention of developing a sustainable network of neighbourhood post office services.
- 4.1.2 Engage other key stakeholders, in particular public services in the City, in means of sustaining essential postal services.
- 4.1.3 Encourage partners, in particular Postcomm and Postwatch, to develop a national evidence base and deeper understanding of the importance of Pos and the impact of closures, in particular in urban deprived areas.
- 4.1.5 MCC to ask Forum members to undertake a review of improvements carried out in Manchester as against those planned under the UNRP.

4.2 Undertakings for MCC corporate activity

- 4.2.1 Investigate alternative means of providing essential services lost through post office closures. In particular consider alternative business models such as credit unions, community banking partnerships.
- 4.2.2 Build the role and sustainability of Post Offices and financial services into neighbourhood regeneration plans.
- 4.2.3 As part of Manchester Improvement Programme, consider the importance to the city of sustaining Royal Mail's post offices when making procurement decisions.
- 4.2.4 Take an active role, either directly or through partners, in identifying business interests in running post offices around the city for when franchises become available.

4.3 Dissemination Strategy

- 4.3.1 Manchester City Council to agree with **nef** a dissemination strategy for the attached report. The report will provide an evidence base and platform for raising awareness in support of other actions listed, in particular in the implementation of a lobbying strategy to inform and influence opinion and actions locally, regionally and nationally. Key audience to include Members of Parliament, AGMA, Core Cities

4.4 Lobbying Strategy

There are a number of actions MCC and its partners can proceed with, independently of any other changes. However the organisation with the most

potential influence to make changes is the DTI. We propose that MCC and its partners seek to lobby relevant Government departments on the following:

4.4.1 A number of points regarding methodology and decision making around future crown and sub post office closures:

- Involvement of MCC and its partners in future strategic reviews or planning of post office networks.
- Further more detailed evaluation of economic and social value of post offices in deprived communities
- Decisions on closure programmes to consider crown and sub post offices strategically together as one network of service provision
- Use of locally available data and information from MCC and its partners in informing future strategic reviews of the networks and/or individual closures
- Greater transparency of methodology and decision making procedures regarding strategic or individual closure decisions
- Full 6 month consultation period on all closures.

4.4.2 The need for Government cross departmentally to recognise more directly the valuable social and financial inclusion role fulfilled by post offices and respond as to future provision of that role in sustainable communities.

4.4.3 Government again cross departmentally to consider national measures to support the sustainability of these important neighbourhood resources. For example, the provision of basic bank accounts, and contractual arrangements with post office ltd to provide administrative services.