

# **Post offices in Manchester: Current Impacts and Future Prospects**

A report from **nef** (the new economics foundation) for Manchester City Council January 2006

# Contents

Executive summary .....	3
1. Introduction .....	6
1.1 Report structure .....	6
2. Industry overview .....	8
2.1 Corporate structure and services .....	8
2.2 The post office business model and the changing postal sector .....	9
2.3 Fixed payments for services and its impact on the viability of post offices .....	10
2.4 Direct Payment (DP) .....	11
3. The Urban Network Reinvention Programme (UNRP).....	14
3.1 Nature and timing of the Urban Network Reinvention Programme .....	14
3.2 Problems with the Urban Network Reinvention Programme .....	14
3.3 Outcome of the programme .....	16
3.4 Financial support for post offices .....	17
4. Crown offices .....	19
4.1 The threat to Crown offices .....	19
4.2 Controversy over the review .....	19
5. Exploring the economic and social significance of Manchester's post offices .....	22
5.1 The economic significance of post offices .....	22
6. Quantifying the impact of Manchester's post office closures .....	33
6.1 The Local Impact Model (LIM) application to Manchester post office .....	33
6.2 Local Multiplier 3 (LM3) .....	34
7. Liberalisation and its implications.....	38
7.1 Liberalisation of the postal sector .....	38
7.2 Implications for the USO and service quality .....	39
7.3 Implications for business .....	40
7.4 Implications for sub postmasters, the urban post office network and their communities .....	41
7.5 Major developments in 2005 .....	42
7.7 Ownership of the Royal Mail Group and the question of privatisation.....	46
7.8 The impacts of competition in the UK so far .....	48
7.9 Most recent developments .....	49
8. Implications of Changes for Manchester .....	51
9. Recommendations .....	57
Appendix A: Research Methodology .....	61
Appendix B: Manchester post offices closed through the Urban Network Reinvention Programme .....	63
Appendix C: Impact Methodology .....	64
Appendix D: The post office network and access to finance.....	69

## Executive summary

Post Office Ltd, with 16,000 branches, is the largest retail network in the country, carrying out 2.7 billion transactions per year. It is also one of the country's most trusted and valued institutions. It is much more than just a retail outlet, providing unparalleled access to a unique set of postal, community, financial and government services. It also has important social and economic impacts, particularly in disadvantaged urban communities and a crucial role in building social capital. This report, commissioned by Manchester City Council, aims to explore all of these aspects within the context of the challenges to the current business model faced by the post office network in Manchester and the wider Royal Mail Group.

In 2003, Royal Mail launched a programme of managed branch closures called the Urban Network Reinvention Programme (UNRP). This has resulted in the closure of 2,420 post office branches (out of an approximate total of 8,000) in urban areas across the country. Much of the concern about postal closures, however, has focused on the implications for rural areas. The effects of closures on residents and businesses in urban areas, particularly the most disadvantaged, have tended to be overlooked. This report addresses this by analysing the social and economic impacts of the 20 post office closures in the Manchester area. It considers the implications for Manchester of the introduction of full liberalisation and competition into the postal sector in January 2006.

The introduction of direct payment of benefits to customers' bank accounts had a devastating effect on the viability of the urban post office network because it reduced post offices' turnover by £400 million per year. This has been compounded by low levels of transaction fees paid to sub post offices for processing payments, fees that do not adequately compensate for the lost income. This will be compounded by the phasing out of the Post Office Ltd's card account (POCA).

Post Office Ltd launched the UNRP to address the lack of economic sustainability of the network – put simply, in its view there were “too many urban post offices competing for too little business”. The objective was to carry out a strategic managed programme of closures leaving a sustainable post office network that would continue to ensure easy access to postal services for urban residents. However, influential observers, such as the House of Commons Trade and Industry Select Committee, believe that the process has been driven by the availability of £180 million compensation package for sub postmasters who accepted closure. Despite representations from Manchester City Council, businesses and residents, all 20 post offices in Manchester that were put forward for review have been closed. Royal Mail chose to close post offices serving disadvantaged areas despite offers in

some cases from other businesses willing to take them over. The consultation process has been criticised as flawed and lacking transparency. There are concerns that decisions regarding the viability of post offices in disadvantaged areas did not take account of decisions on the allocation of grants for investment in deprived urban post offices made by the Office of the Deputy Prime Minister. Furthermore, the City's regeneration plans, including plans for population growth in certain areas, have not been factored in to the network reinvention process in Manchester.

In many cases Royal Mail's decisions to close sub post offices in Manchester were predicated on the assumption that residents would have an acceptable level of access to Crown offices in Manchester. This has been undermined by the decision to carry out a separate and later review of the viability of Crown offices, which may lead to the closure of 30 post offices and the franchising of between 165 and 235 nationally. In response to direct questioning on this matter, Post Office Ltd have been unable to guarantee that there will not be further closures of Crown offices in Manchester.

Few previous studies have been able to quantify the economic impact of post offices on businesses and the local economy in urban areas. This report includes two in-depth analytical case studies and details the application of two specially designed **nef** economic models in order to establish the economic value of post offices to business and the wider community. The *Local Impact Model* (LIM) estimates the effect of closure on the turnover of small and medium businesses located within half a mile. The results suggest impacts of a post office closure of an estimated £270,000. A *Local Multiplier 3* (LM3) exercise undertaken with a Manchester post office examined the value of its spending to the local economy and estimated this to be around £310,000. By applying these two figures to the twenty closed post office in Manchester, the report estimates that there has been a loss of £11.6 million per annum to the local economy. This underlines the importance of sustaining the current network to ensure these positive economic impacts are realised for Manchester.

Local businesses and residents point to the profound social and economic consequences of post office closures. Businesses located adjacent to closed post offices report a drop of turnover and footfall, with one business losing half of its revenue and custom, while 60 per cent of businesses in the local area considered that post office closure would have negative impacts on their business, citing extra staff and travel costs and reduced access to banking services. Three-quarters of local residents said they would be affected by post office closures. Many residents from disadvantaged communities face long journeys; increased travel costs impacted particularly heavily on the most vulnerable sections of the community, such as the elderly, the sick and disabled, and single parents. Others highlighted the role of post offices as meeting places and invaluable sources of assistance in completing government forms. Post offices play an important and overlooked social services role with half of the sub postmasters in disadvantaged areas keeping an eye out for between 20 and 50 vulnerable customers.

The report does not draw any immediate conclusions about the impact of introduction of competition and the full liberalisation of post services as it is

not possible to anticipate all the impacts that will follow from January 2006. However, it does note that competition has been welcomed by business, though the Trade and Industry Select Committee and other observers have been critical of the decision to prepare for the 2009 European Union deadline for opening up postal markets to competition by moving the UK deadline to January 2006.

The main threat to the Royal Mail business model is that the 14 new operators that have entered the market in January 2006 will 'cherry pick' the most lucrative and profitable business users, thereby reducing the profitability of the overall service and the ability to cross subsidise unprofitable delivery routes to rural and peripheral areas which are a condition of the Universal Service Obligation (USO). Mail services are responsible for 76 per cent of Royal Mail's revenues and 25 per cent of sub postmasters' revenue is derived from Royal Mail product transactions. Any substantial reduction in this revenue stream may pose a significant threat to the viability of the remaining post office network unless they are permitted to do work for other suppliers. The USO has statutory protection.

The future of postal services in Manchester is uncertain and Manchester City Council and others stakeholders can take a lead in ensuring that the economic and social value generated by post offices is sustained. Alternatives to post offices may need to be explored as part of a strategy that places post offices at the heart of regeneration. This report is timely, underlining the concerns raised by the All Party Parliamentary Small Shops Group in their report *High Street Britain 2015*, that without concerted support from the Government and the Banks, Post Office branch network will continue to decline and will be heavily depleted within ten years<sup>1</sup>. The recommendations at the end of the report provide a strong leadership role for Manchester City Council that can generate real benefits locally and nationally.

---

<sup>1</sup> *High Street Britain: 2015*, House of Commons All-Party Parliamentary Small Shops Group, February 2006

# 1. Introduction

This report has been commissioned by Manchester City Council to analyse the economic and social impacts of post offices in Manchester in the context of recent changes in the UK postal sector.

The Post Office Ltd is at a crossroads, faced with changes in consumer habits and the Government's benefits payment system that reduces demand for post office counter services. Its parent company, the government-owned holding company Royal Mail Group, faces a pensions fund deficit and other financial constraints imposed by the postal service regulator Postcomm. Many directly managed (Crown offices) and independently franchised post office branches have struggled to survive. Closure rates reached an all-time high in 2005 through the implementation of a managed closure programme – the Urban Reinvention Network Programme (UNRP) – and with another review of Crown offices underway, the future of many of the remaining branches hangs in the balance. Twenty branches in Manchester have closed as a result of UNRP.

In January 2006 the UK postal market will be opened to competition allowing other companies to compete with the incumbent for postal service business; this could have major implications for the Royal Mail business model and the sustainability of the remaining post office network.

## 1.1 Report structure

The report sets out the policy context relating to Post Offices, with a particular emphasis on the potential impacts of liberalisation and provides an analysis of the economic and social role played by post offices in their communities in Manchester.

This report draws together a number of distinct elements including: a literature review; interviews and surveys with customers and businesses near open and closed post offices in Manchester; and economic modelling that measures and quantifies the direct economic impacts of post office closures on businesses and local communities in Manchester. It sets out a set of recommendations that address the key findings and conclusions from the report.

The structure of the report is as follows:

- An executive summary of the main findings and conclusions from the report
- Introduction

- Chapter One: an overview of the Postal Industry and a review of the Post Office business model and the implications for the viability of branch Post Offices
- Chapter Two: An explanation of the Post Offices Urban Reinvention Programme and the programme of managed Post Office closures in urban and rural areas
- Chapter Three: A brief explanation of Post Offices plans to review the network of Crown (directly managed Post Offices
- Chapter Four: A review of the economic and social value and impact of Post Offices in Manchester, featuring the results of surveys and in depth interviews carried out with Post Offices customers, business users and Sub-postmasters. This section includes a specific focus on the importance of Post Offices for vulnerable groups including the elderly, disabled, the unemployed and low-income families.
- Chapter Five: The results from the Post Office Impact model as applied to Post Offices in Manchester. It applies a Local Impact Model and Local Multiplier technique to identify and quantify local impacts in order to estimate the true value of local contributions made by a individual post offices and the overall lost to Manchester as a results of Post Office closures.
- Chapter Six: An outline of the potential implications of the liberalisation of letter delivery and its implications of competition for the Universal Service Obligation.
- Chapter Seven: A summary that draws together the main implications of changes to the Post Office network and postal delivery in Manchester. It cover the main social and economic impacts of Post Office closures and liberalisation in Manchester. It also highlights potential threats to Crown Post Offices.
- Chapter Eight: A set of recommendations that identify practical measures that Manchester City Council and the Government can take to sustain a viable post office network in Manchester.
- Appendices outlining Manchester Post Offices closed 2004/5, research and economic model methodologies and the post office network and access to finance.

## 2. Industry overview

This section explores the corporate structure of Post Offices Ltd and its network of post office branches. It also examines the post office business model and some of the key associated issues, including the fixed payment system and the migration of benefits from over-the-counter services to direct payments (DP).

### 2.1 Corporate structure and services

Post Office Ltd is one of three domestic arms owned by Royal Mail Group – the other two are Parcelforce Worldwide and Royal Mail. Post Office Ltd runs the post office network.

There are approximately 16,000 local post offices throughout the UK, making it the largest retail network in the country. Of these, around 8,000 make up the urban network.<sup>2</sup> There are three different types of post office: Crown offices, now known as directly managed post offices; sub post offices; and franchised post offices.

There are 555 Crown offices managed directly by Post Office Ltd.<sup>3</sup> The remaining branches are managed on an agency basis either by sub postmasters/mistresses or franchise partners. Some of these franchise partners include Tesco, SPAR and Londis.

Sub postmasters are not Post Office Ltd employees, but instead have a contract with the company to provide services using their own premises and staff. Most sub postmasters run their post office business under the same roof as another retail business. In urban areas this is often a newsagent or stationery business; in rural areas it is typically a village shop.

Through this network Post Office Ltd sells 170 products and services. These services include:

- Banking services
- Cash management for businesses
- Bill payment, bureau de change and postal orders
- Pensions and other benefit payments
- Insurance services
- Car tax

---

<sup>2</sup> Postwatch Urban Network overview, Postwatch website September 2005

<sup>3</sup> As at September 2004 according to Trade and Industry Select Committee report 'Crown Post Offices' December 2004



- Television and fishing licences
- Lottery tickets
- Mail and distribution
- Stamps
- Parcels
- Passport renewal applications.

Around 2.7 billion transactions are carried out each year, the majority for banking, leisure and postal services. According to Post Office Ltd, more than 500 million household bills are paid over the counters, over one million travel insurance policies are sold, and post offices are now the biggest provider of foreign currency in Britain. Post Office Ltd figures show more than 13 million people use their local post office to collect their state benefits or pensions.<sup>4</sup> Post offices are one of the largest providers of banking services in the country with 5.1 million customers holding a Post Office Card Account (POCA).<sup>5</sup>

According to Postwatch, the organisation responsible for accountability in the post office sector, 94 per cent of the population lives within one mile of a post office and over 99 per cent live within three miles.<sup>6</sup>

## 2.2 The post office business model and the changing postal sector

In June 2000 the Government's Performance and Innovation Unit (PIU) responded to concerns about the financial health of Post Office Ltd and its future viability in the changing postal sector. *Counter Revolution – Modernising the Post Office Network* outlined the Government's plans to help the organisation adjust to major changes in consumer habits and electronic communication. Its primary conclusions were that rural post offices should be subsidised, avoidable closures of rural post offices should be prevented, urban post offices should be made bigger and brighter, and funds should be made available to provide these improvements.

It also suggested that post offices boost their survival chances by diversifying into new services. These included universal banking services that could be created to provide a post-office-based solution to the new electronic system of paying benefits directly into recipients' bank accounts. It was also proposed that post offices should radically expand their role in the provision of information on government issues and help citizens to carry out routine transactions with government bodies.

A number of new financial services have been introduced including a Post Office credit card with the explicit intention that revenues from these products will shore up the profitability of the network. However, initial results of the strategy have proved disappointing as there is a highly competitive sector. Alan Cook is to become managing director of Post Office Limited in February 2006 who has his track record as director of National Savings and Investment

<sup>4</sup> *People, Pensions and Post Offices: The impact of 'Direct Payment' on post offices and their customers*, Trade and Industry Select Committee, July 2003

<sup>5</sup> *Basic Bank Account, getting the first step right*, National Consumer Council/Policies July 2005

<sup>6</sup> *The Urban Network Reinvention Programme*, Postwatch, October 2002

in growing the take up of their financial services and products by £10bn over the last three years. Cook identified improved marketing and promotion of the Post Office Ltd brand as a key priority.

According to Triangle Management Services, a consultancy specialising in the postal sector, the biggest factors that has and will continue to impact the post office business model is the internet. These impacts will far outweigh those from many of the other factors, it claims. It has analysed the vulnerability of post office counter services to alternatives provided via the internet. According to this analysis 18 of the 25 counter services currently offered were likely to be or had already been replaced by online alternatives. Clearly not all post office customers are likely to be using online services (i.e. elderly) but this trend is likely to increase as time goes by. The implications for the business model are therefore considerable.

The All Party Parliamentary Small Shops Group in their report High Street Britain 2015 analyse the economic outlook for the small/independent retail sector and highlights the pressures threats and challenges to their chances of surviving in 2015. The report considers that the future of Sub Post Offices is bleak without a change in attitudes to sustaining the network.

“Without support and assistance combined with innovation from banks and Government, Post Offices cannot survive despite their importance to local communities. It is believed the Post Office network will be heavily depleted by 2015.”

The report recommends that the Government should support and expand the range of services offered by the sub post office network.<sup>7</sup>

### **2.3 Fixed payments for services and its impact on the viability of post offices**

A key aspect of the post office business model is the fixed payments for the transactions associated with services they provide. There are real concerns, however, that the way the current model operates is having a negative impact on the post office network.

Triangle Management Services argues that fixed payments are set at an unrealistically low level which makes it very difficult for post offices to be viable (see Table 1). For a given transaction, columns 3 and 4 in Table 1 show the earnings of sub postmasters to be in the range of 2.25p to 19.00p. In the two final columns the number of transactions per hour and the time per transaction make it clear that the value of the transactions to sub postmasters is relatively modest. Even if these figures are applied to Crown offices (directly managed branches) and franchise offices which have formal queuing systems and hence a higher rate of staff utilisation, the time allowed per transaction appears commercially unrealistic. Of course, staff in these offices earn much more than the national minimum wage, so the cost of the transaction is far higher than earnings for sub postmasters for these transactions.

The critical importance of establishing fairer transaction payments to the future of post offices was recognised by the Trade and Industry Select Committee, which noted that “Government cannot continue to profess its

---

<sup>7</sup> Ibid

commitment to a viable post office network for the future while at the same time paying the Post Office (sic) less than the going rate for the job that the company does on its behalf.”<sup>8</sup>

**Table 1: Earnings by sub postmasters for common transactions in relation to the national minimum wage of £4.50 per hour**

Transaction	Transaction's face value £	By order book pennies	By PO card account, pennies	Transactions per hour to earn £4.50	Time per transaction, seconds
Pension payment	77.45	13.20	10.84	34 to 42	86 to 106
Child benefit payment	16.05 or 26.80	13.20	2.25 to 3.75	120 to 200	18 to 30
<b>Transactions for banks</b>		<b>By cheque</b>	<b>By debit card</b>		
Bank account deposit	Undefined	18.00	10.00	25 to 45	80 to 144
Bank account withdrawal	Undefined	19.00	12.50	24 to 36	100 to 150

Source: Postwatch submission to the Trade and Industry Select Committee, May 2003

It is clear from the figures in Table 1 and the Trade and Industry Select Committee's assessment of the situation that the fixed payments system does not help to make post offices sustainable. Now that the income stream provided by benefits processing has been reduced following the introduction of direct payments, which is covered in the next section, it can be seen that post offices face real challenges in generating enough income to cover the wages of their staff.

## 2.4 Direct Payment (DP)

One of the single most influential impacts on the commercial viability of post offices has been the conversion of government benefit distribution from manually operated over-the-counter payments to those made directly into bank accounts – a system known as Direct Payment (DP). Benefit payment transactions accounted for up to 40 per cent of an individual post office's income, although the percentage varied with some post offices more or less dependent on this source of income. However, concerns over the cost to the government of over-the-counter benefits payment led to a drive to move to DP.

In May 1999, the Government announced that benefit payments and state pensions would be delivered via the DP system. It was decided the system would be introduced gradually between April 2003 and March 2005. The Government set a target of at least 85 per cent of benefit and state pension recipients migrating to the bank-based system. Around that time (2000) 18 million people, or two-thirds of benefit claimants, used post offices to access their benefit payments.<sup>9</sup>

In 2003, Minister of State for Pensions Malcolm Wicks MP estimated that 85 per cent of claimants (including 90 per cent of pensioners) had a suitable account for direct payments but chose to receive their benefits through their

<sup>8</sup> *Crown Post Offices*, Trade and Industry Select Committee, January 2005

<sup>9</sup> *The Impact of the Introduction of Direct Payment for State Pension and Benefit Payments on Post Office Business*, National Federation of Sub Postmasters, May 2003

post office.<sup>10</sup> Research commissioned by Post Office Ltd found that 79 per cent of people who wanted to collect their benefits from a post office did so because they liked to keep their benefit separate from their other finances.<sup>11</sup> This suggests that there will always be a significant number of claimants who prefer to receive benefits from their local post office and whose access to the services it provides is reduced as a result of branch closures.

### *The impact of direct payments on post offices*

According to Postcomm's 2004 annual report, only 56 per cent of benefit recipients had supplied bank accounts in order to convert over to the DP system by 2004. As highlighted above, this suggests that many have preferred to retain their option to receive benefits through the existing system.

The reliance on benefit work for income has proved a continuing problem to Post Office Ltd following the movement to DP. It is estimated that Post Office Ltd will lose contractual income of £400 million per year as a result of DP.

The Post Office Card Account was introduced to help replace lost revenue from over-the-counter benefits payments. The introduction of such products has been slightly overshadowed by confusion over how complex variations of benefit delivery can be migrated from one system to another, and failures to communicate with benefit recipients adequately about the conversion.

Under the new system, a sub postmaster will receive 12.5p for every transaction from a basic or standard bank account compared with the 13.2p per pension payment and 11.6p per child benefit transaction received under the paper-based system. Postwatch notes, however, that not everyone who chooses to receive payment into a bank account would choose to withdraw their cash at a post office. Therefore, the overall number of transactions at post offices will decrease. Furthermore, with the paper-based system, many individuals have more than one order book or giro cheque, resulting in multiple transaction payments, which are no longer possible. This underlines the difficulty that post offices will have in generating sufficient income from transaction payments.

The Trade and Industry Select Committee has highlighted the implications of the conversion to DP, noting "while it is too early to say what the effect on individual businesses will be, we found general agreement that sub postmasters' incomes from benefit payments will decrease in the future. The only disagreement was over the scale of that decrease."<sup>12</sup>

The future of the benefits revenue stream came under further doubt in January 2006 when the government announced that it would not be renewing its contract for the Post Office Card Account in 2010. This was met with huge concern by the National Federation of Subpostmasters which according to media reports said "The decision to scrap the POCA [Post Office card account] will force thousands of post offices to close". The decision was also denounced by charities supporting the elderly.

---

<sup>10</sup> *Hansard Written Answers*, March 2003

<sup>11</sup> *BMRB International Report for Post Office Ltd*, March 2003

<sup>12</sup> *People, Pensions and Post Offices: The impact of 'Direct Payment' on post offices and their customers*, Trade and Industry Select Committee, July 2003

### *The impact of direct payments on consumers/benefits recipients*

The impact on consumers of the introduction of DP is of particular interest and has been considered by the National Association of Welfare Rights Advisors and the Communication Workers Union who identified a number of problems:

<sup>13</sup>

- There could be a reduction in choice for those who still wish to withdraw their benefits using the traditional book system. It is unlikely that every individual who previously withdrew their payments over the counter will comfortably move over to a bank account. The most obvious example is that of pensioners who may not be familiar or comfortable with electronic bank accounts.
- There has been confusion over the way to set up accounts. The Trade and Industry Select committee has criticised how the rolling out of the new bank accounts was handled and the confusion over how different types of benefits will be paid in the new system.
- There is some concern that there could be a delay in the distribution of benefits with some frozen until accounts are able to receive the direct payments that have been set up.
- Concern has been raised that the DP system could be vulnerable to computer crashes. Any large-scale malfunction could cause huge problems for benefits recipients who rely on weekly payments.

General concerns over the difficulty faced by individuals who struggle with the new direct payments and face wider difficulties in accessing cash as post offices cease to become an access point are covered in the 'The Post Office Network and Access to Finance' section in Appendix D.

---

<sup>13</sup> *Response to Trade & Industry Select Committee report on People Pensions and Post Offices, Communications Workers Union, October 2003*

## 3. The Urban Network Reinvention Programme (UNRP)

### 3.1 Nature and timing of the Urban Network Reinvention Programme

Post Office Ltd has attempted to restructure its network of urban post offices by closing, relocating and modernising selected branches. This follows a long-term decline in profitability in its core business. The main vehicle for this has been the UNRP. According to both Post Office Ltd and the Government it was the only way to create a viable commercial network of post offices. As Postwatch stated: "Post Office Ltd told us there were too many urban post offices competing for too little business."<sup>14</sup> According to its proponents, the UNRP will strengthen the urban post office network by concentrating resources and investment on the most viable branches.

The UNRP began in November 2002 and was scheduled to run for three years. One of the key objectives of the programme was to replace the existing pattern of piecemeal closures of sub post offices with a more strategic, managed process. The Government agreed to the programme on the basis that the remaining network would ensure that at least 95 per cent of the urban population lived within one mile of a post office branch. Post Office Ltd estimated that there was around 35 per cent over-supply of post offices in the urban network before the programme and calculated that up to 3000 closures might be necessary to bring the network back to a sustainable equilibrium.<sup>15</sup>

The programme ended in July 2005, though a number of cases are still under review. Although it is expected that closures will not stop completely now that the programme has ended, it is likely that the very rapid decline of recent years will slow.

### 3.2 Problems with the Urban Network Reinvention Programme

The UNRP and the resulting decline in the number of post offices have attracted a lot of attention in the media and caused alarm among the public. A number of organisations have monitored the programme's progress amid fears that consumer interests would not be given sufficient weight and that the criteria used to determine closures were flawed.

The Trade and Industry Select Committee took an active role in monitoring the process of the UNRP. In its second report reviewing the programme the Committee highlighted a number of areas that had caused problems:

---

<sup>14</sup> *Urban Reinvention Background Briefing*, Postwatch website, September 2005

<sup>15</sup> *The Post Office Urban Reinvention Programme*, Trade and Industry Select Committee, Seventh Report, July 2004

### *Failure to protect the post offices serving hidden deprived communities*

The Select Committee acknowledged that Post Office Ltd was making efforts to reconcile tensions between the needs of deprived areas that would suffer from the loss of their local post office and the need to ensure the viability of the network. Its concerns centred on the method of distributing funding used through the programme.

Funding was made available from the Office of the Deputy Prime Minister (ODPM) to ensure that the post offices in the most deprived communities were protected from the closure programme. However, there was concern that the method employed to identify deprivation was flawed leaving some pockets of deprivation overlooked. Unprofitable post offices serving these communities would not be protected by funding and could face closure to the detriment of the most disadvantaged.

The Trade and Industry Select Committee acknowledged the concerns:

*“While we welcomed support from the Office of the Deputy Prime Minister (ODPM) for post offices in the most deprived urban wards in England and from equivalent schemes in the rest of the UK, we were concerned that the resources available under such schemes would cover only the most deprived ten per cent of wards but not equally deserving communities within wards which also contained more affluent areas.”<sup>16</sup>*

### *The sub postmasters' compensation scheme*

£180 million of the UNRP funding was set aside to be paid directly to sub postmasters in compensation when they closed their business as part of the closure programme. The Trade and Industry Select Committee expressed concern these closure decisions had been driven by the compensation incentive, which, they said, were seen as early retirement packages for sub postmasters, at the expense of consideration of impacts of closure on disadvantaged communities.

Many sub postmasters were concerned about the dwindling strength of their businesses and saw compensation as the only way to gain back their initial investment. In these cases, the processes used to close the post offices were unlikely to have considered broader factors, such as the impact on the community of the post office closure. The perceived danger was that the consultation process was overridden because of the strong incentive provided by compensation packages.

The Committee noted that the process could have been handled more sensitively to take greater account of what was needed rather than reflecting sub postmasters' individual decisions to leave their businesses. Tony Lloyd M.P (Manchester Central) argued that, in practice, the compensation incentive prevented sub post offices remaining open in disadvantaged communities in Manchester when there were other local businesses willing and actively interested in taking over. Mr Lloyd highlighted the post office in West Gorton,

---

<sup>16</sup> *Post Office Urban Network Reinvention Revisited*, Trade and Industry Select Committee, November 2004.

where closure went ahead despite an expression of interest to Post Office Ltd to take it over and run as a business.<sup>17</sup>

Another example of the apparent failure to capitalise on third-party interest in taking over a post office is given in a case study featured in Section 5 of this report. The study concerns the owner of a retail outlet located near a post office that was closed recently. The owner makes a strong request that Post Office Ltd consider reopening the post office which he would be happy to run within his own retail outlet:

*“We’ve ample space in our double fronted shop. We can re open the post office on a sharing expenditure basis. This would mean the people in this area wouldn’t suffer and maybe our business can bounce back.”*

It is possible that this particular owner’s willingness to take over the post office was also overlooked, like the case highlighted by Mr Lloyd, during the closure programme.

Dissatisfaction with the compensation scheme’s influence over the closure programme was voiced by Postwatch recently at an inquiry held by Manchester City Council to explore the impacts of Manchester’s 20 closures on the city. Postwatch’s regional representative, Judith Dononvan CBE, said that her organisation had been given no powers to combat the closures which she implied happened in the wrong way and for the wrong reason. She said branches were closed simply because sub postmasters were given strong financial incentives (compensation packages) and no other considerations were properly taken into account.

Denise Bagge, Director of Network and Universal Service and Director of Communications at Postcomm said that the DTI was ultimately responsible for the outcome of closures and that parties concerned about them, including Manchester City Council and Postwatch, would need to put their concerns directly to them.

### **Overall consultation process was flawed**

The Trade and Industry Select Committee and other bodies criticised the consultation process carried out during the programme saying it was handled badly and insensitively and that it failed to take into account the views of key stakeholders. As well as the compensation issue highlighted above that skewed the consultation process, there were other criticisms over the consultation’s inadequate scope and insufficient time for residents and stakeholder to make representations about closures.

The consultation process was adjusted at the beginning of 2004 to reflect some of these concerns.

### **3.3 Outcome of the programme**

Following concern from consumers, the media, and the Trade and Industry Select Committee over the UNRP, pressure has been put on Post Office Ltd

---

<sup>17</sup> Hansard 11 Nov 2003: Column 63WH



to reduce the number of closures. Bodies including Postwatch and the Unions have also added their weight to the campaign. The final number of closures arising from the UNRP at July 2005 was 2,420<sup>18</sup> is considerably lower than the original 3,000 thought to be necessary to bring the network out of financial crisis.

Postwatch claims to have been instrumental in making sure the UNRP did not result in more closures than was necessary. Although it does not have the power to veto a Post Office Ltd decision, it claims that Post Office Ltd has taken its views into account and withdrawn a number of plans where it felt access to postal services would be severely restricted. Consultation is now closed and the final cases are being reviewed by Post Office Ltd.

It should be noted that Postwatch's effectiveness in properly influencing the UNRP has been called into question by the Trade and Industry Select committee.

*“Postwatch had no real power to insist on changes in the consumer interest. We are critical of the extent to which Postwatch had exercised even its limited power in the development of the reinvention procedures and of its failure to ensure the adequacy of consultation procedures before the start of the reinvention programme”.*<sup>19</sup>

Ironically, concern over closure is cited by Alan Cook, the newly appointed Managing Director of Post Office Ltd as an indicator of the public trust and support for the network. “ I think concern over the number of post offices and how far they are from people showed how much people want to be near a post office, how much they value it”<sup>20</sup>

### 3.4 Financial support for post offices

#### *Urban and rural post office subsidies*

The Trade and Industry Select Committee has noted that there is significantly more support available to rural post offices than those in urban areas. It is noted that now that the UNRP has been completed there is still a substantive threat to the long-term survival of many urban post offices. It called for the Government to “give very serious consideration to underpinning the urban network in a similar way to its programme of support for rural post offices”.

The Committee went further on this point in November 2004 when it called for the Government to stand by its commitment to support all post offices:

*“It is not clear to us why parallels cannot be drawn between un-commercial rural post offices and un-commercial post offices in deprived urban areas and why both could not be equally deserving of support from the Government.”*<sup>21</sup>

---

<sup>18</sup> Postwatch website, November 2005, <http://www.postwatch.co.uk/custinfo/CustInfo.asp?id=8>

<sup>19</sup> *Post Office Urban Network Reinvention Revisited* Trade and Industry Select Committee, November 2004.

<sup>20</sup> *New Post Office boss in battle to save £150m subsidy for rural branches*, The Guardian 5.1.2006.

<sup>21</sup> *The Post Office Urban Network Reinvention Programme* Trade and Industry Select Committee report July 2004

Through the UNRP, the Government has provided £210 million over three years for a compensation-and-investment package for urban branches. £180 million has been set aside to be paid directly to sub postmasters in compensation when they close their business with the agreement of the company. In addition £30 million was committed towards matched grants of up to £10,000 to sub postmasters to allow them to adapt and improve their premises or to employ additional staff to meet customer service standards.

#### *Deprived urban areas*

In addition, in December 2002, the ODPM made available £15 million over three years to support branches in deprived areas of England. Through the Deprived Urban Post Office Fund (DUPOF) funds of up to £50,000 were available, free of obligation, to provide match funding to sub postmasters in these areas. Concerns have been raised about the operation of the Fund. Consideration of grants from DUPOF has been kept entirely separate from decisions made about viability and closures under the UNRP. DUPOF is a Government scheme while Post Office Ltd is responsible for the UNRP. This has prevented a 'joined up' approach that may have maximised the sustainability of post offices in deprived areas and prevented closures.

Information about how the Fund has been spent is sparse. Details of the DUPOF funding to Manchester post offices are currently being sought. Funding has been provided to the devolved administrations to support post office branches in deprived areas of Northern Ireland, Scotland and Wales.

#### *The rural network*

The Department of Trade and Industry (DTI) has pledged £450 million over the three years spanning 2003 to 2005 to support the rural post office network, in recognition of the fact that branches in rural areas typically cost considerably more to operate than the income which is generated by the business they do. They currently represent a considerable draw on the resources of Post Office Ltd and the Royal Mail group.

## 4. Crown offices

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. There are currently 555 Crown offices of which the majority are based in densely populated urban areas and approximately 30 in rural areas. According to Post Office Ltd they are generally found in high street locations, with good transport links and access for disabled customers. Postwatch estimates that about seven million customers visit them each week.

### 4.1 The threat to Crown offices

In November 2004, Post Office Ltd confirmed media reports that it is undertaking a review of its Crown office network after it lost £71 million over the previous year. The review stated that 30 Crown offices will need to close over the next five years and a larger number of additional offices (between 165 and 235) would need to be franchised to make the network viable.<sup>22</sup> There is no clear information, however, on the timescale or exact whereabouts of the 30 closures.

Postcomm summarises the core reasons behind the struggling performance of Crown offices:<sup>23</sup>

- High property costs
- Property no longer fit for purpose
- Loss of benefits traffic
- High support and central costs
- Uneconomic use of cash distribution
- Dealing with loss-making Government products
- Ineffective reward schemes for staff who are therefore not motivated
- Higher staff costs than in comparable businesses, such as banking.

### 4.2 Controversy over the review

Eyebrows were raised when Post Office Ltd admitted plans to undertake a review of the Crown offices. Any plans for closures of these larger post offices were not included in the UNRP but arguably they should have been. In many cases decisions to close a sub post office may have been based on the

---

<sup>22</sup> *Crown Post Offices*, Trade and Industry Select Committee, January 2005

<sup>23</sup> *Building a Viable Network: Postcomm's fourth annual report on the network of post offices 2003/4*

proximity of a Crown office and the assumption that customers could move their custom to that site. If that Crown office is closed as a result of this later review, the rationale for UNRP closures is undermined, leaving customers without access to appropriate services.

### **Trade and Industry Select Committee's concerns**

The Trade and Industry Select Committee published its concerns about Post Office Ltd's plans to review its Crown offices because it appears to contradict commitments made during the UNRP:

*"We were concerned that the review called into question the credibility of the Urban Reinvention programme, given that in many instances the Area Plans drawn up by Post Office Ltd had identified sub post offices for closure on the assumption that their customers could instead use the local Crown Office."<sup>24</sup>*

Other conclusions of the Select Committee's report are as follows.

1. Within five years POL should convert a number of managed offices into franchised offices in order to be able to maintain a sustainable directly managed network.<sup>25</sup>
2. There should be no difference in the standard of service provided by a franchised post office and that provided by a directly managed branch.<sup>26</sup>
3. The Government should be prepared to provide support for the conversion of managed into franchised offices at least in the short term, if it proves to be necessary.<sup>27</sup>

### **Postwatch's position on Crown offices closure threats**

Postwatch also said it was disappointed that changes to Crown offices were not addressed alongside the UNRP. It said that Post Office Ltd has missed an opportunity to show customers, MPs and others that it is working to a plan that ensures continuing access for all to post office services.

Postwatch has asked that no further closures are proposed until the Trade and Industry Committee has concluded its inquiry, and has undertaken research into the level of service provided by both this network and franchised post offices.<sup>28</sup>

### **Communication Workers Union's concerns**

Concern over the validity of the franchising approach was raised recently by the Communication Workers Union (CWU)'s National Officer for Counters Andy Fury at an inquiry held by Manchester City Council into the impact of

---

<sup>24</sup> *Crown Post Offices*, Trade and Industry Select Committee, January 2005

<sup>25</sup> *Ibid*, Conclusions and recommendations paras 1 and 2

<sup>26</sup> *Ibid*, para 5

<sup>27</sup> *Ibid*, para 12

<sup>28</sup> *The Urban Network Reinvention Programme: A Postwatch brief on the issues surrounding Post Office Ltd's plan for changes to urban post office branches*, Postwatch, October 2002

post office closures on the city. He pointed out that the plan relied on the possibility of finding a franchisee but said this was by no means guaranteed. He predicted that it was likely that many Crown office franchise opportunities would not be taken up which means that their future wouldn't be guaranteed.

He added that the Royal Mail had proposed no 'plan B' if there were no takers for the franchise.

## 5. Exploring the economic and social significance of Manchester's post offices

This section examines the value and impact – both economic and social – of post offices. It begins by exploring the economic significance of post offices before examining their social significance.

### 5.1 The economic significance of post offices

There has been relatively little study of the local economic impact of post offices. This section sets out existing research before describing key findings from the quantitative and qualitative research conducted for this report.

The economic significance of post offices derives from a number of sources, including how they serve as an anchor for local wealth creation in terms of the jobs they create, the services they provide and the individuals and businesses they support. Due to the unique portfolio of services they provide and the breadth of support they offer to communities, post offices are more than just another retail outlet.

One key aspect of the economic impact of post offices is their provision of a location for cash withdrawal (often in the form of benefits) that can then be spent locally by the community.

In addition, post offices serve the business market through the services they offer; this can be particularly important for small businesses at the local level. Post offices provide support to a diverse range of businesses in all industry sectors. Small businesses are particularly likely to use and, in some cases rely heavily on, their local post office. The removal of such a service is likely to have a knock-on effect on the ease of running a local business with implications for business retention and the resilience of the local economy.

The following analysis examines the impacts of post office closure on local businesses and consumer spending patterns.

#### 5.1.2 Previous research

One of the few investigations of the economic importance of post offices to the local community they serve is that of the Countryside Agency.<sup>29</sup> Its study, published in 2000, attempts to quantify the contributions of post offices to their local economies. The report concludes that post offices have a significant economic impact with closure leading to a loss of 25 per cent of revenue in post offices with associated retail and a 15 per cent loss in other local shops.

---

<sup>29</sup> *The Economic Significance of Post Offices in Rural Areas*, The Countryside Agency, July 2000

However, while interesting, the study is five years old, focuses only rural post offices and does not account for the massive adjustments to direct payments in recent years. In addition, the study does not examine the wider economic impacts on the local economy. The Local Impact Model (LIM) and Local Multiplier (LM3) models featured in section 6 of this report provide an opportunity to investigate these factors in detail.

### 5.1.3 Impacts on businesses and organisations that have lost their local post office

**nef** and Manchester City Council surveyed a total of 45 businesses, of which just over 60 per cent said they had witnessed significant impacts, either to their business, to their clients and/or customers or to the area in general following the closure of the local post office.<sup>30</sup>

Of the six companies proximate to the recently closed Gladeside post office in Manchester, four said that they had noticed a significant drop in the number of people coming to the remaining shops in the parade in which it was based. Other impacts reported by the wider sample were difficulties in making cash deposits and other banking issues, the extra cost of staff taking more time to visit post offices further away, and the inconvenience of longer queues at alternative post offices that have become busier because of the customer displacement.

The significant impact of post office closures on the small businesses that rely on them was recorded in findings from a NERA report published in July 2005 which explored the nationwide impact of the Urban Network Reinvention Programme.<sup>31</sup> The study found that 24 per cent of business respondents described the closure of their nearest post office branch as an inconvenience, while 14 per cent said they were furious about it.

#### **Extra staff costs**

If a business loses a post office which it needs to use on a daily or weekly basis, it will need to allocate additional resources in the form of staff time to access those services in a post office further afield. Many companies in the sample reported such rising costs.

One respondent from the Housing Services department of the University of Manchester reported that things had become more difficult since losing their local post office, which had been based in the precinct centre nearby:

*“The nearest post office to the university is now on Hathersage Road. This means that both staff and students do not have a local and convenient service. There is also an additional cost to the university in staff time travelling between the university and the post office. Representations were made against the closure by the university registrar but we did not receive a favourable response. Royal Mail are constantly changing staff and in particular our Key Account Manager which does not help communication.”*

---

<sup>30</sup> See Appendix A for a more detailed breakdown of survey response figures.

<sup>31</sup> *Review of the Post Office Urban Reinvention Programme*, NERA (for Postcomm) July/October 2005

It is interesting to consider the cost of this post office closure across the university. It is reasonable to assume that if this department has been troubled by the closure, others will also have suffered. For an organisation as large as a university the cumulative effects could be substantial. Further research, such as a full impact study, would need to be carried out to verify this observation.

### ***Losing a local banking facility***

Many businesses depend on their local post office for banking and cash facilities.

The owner of a public house reported that travelling further afield to bank takings was costing her much more since safety issues meant she must take a taxi to the alternative post office.. Another respondent to the survey reiterated these concerns. A school lodged a specific concern about its difficulties with banking now that the post office has gone.

*“We now have to travel some distance to bank monies which isn’t safe.”*

Other businesses and the voluntary and community sector face additional barriers to their cash management and banking. Local residents association Whalley Range Forum used the post office a great deal to access to its Co-operative Bank account but now there is no local post office or a local bank branch.

### ***Customer base and revenue takes a hit***

Post offices operate as anchors, attracting users to local shopping areas. Losing the post office means losing another reason to visit the area in which it was once located. This can have a particular impact on the retail outlets that share the location. Anecdotal evidence and responses to the surveys indicate that the turnover of local businesses is affected by the loss of a post office. Of the six companies near the recently closed Gladeside post office, four said that they had definitely noticed a significant drop in the number of people coming to the remaining shops in the parade in which it was based. The café and the off licence reported a significant loss of custom.

A respondent representing a traders association on Beech Road reported concerns among its members:

*“Many traders have noticed fewer customers on the road. Revenue is down. By contrast, the shops near Hardy Lane [where the receiving branch is located] are doing really well now.”*

Just as retail outlets suffer from lower footfall if a post office closes, they will also miss out on the cash withdrawal services provided by a post office. Although surveys of individuals will be analysed in more detail in the next section covering the social significance of post offices, it is worth touching on one element of this analysis for the purpose of this point. Although the shop in Gladeside that used to house the post office still has an ATM, it is clear that residents visiting it specifically to withdraw their benefits have reduced in number. Therefore, spending on retail outlets nearby will have declined. This



is supported by the finding that just under half (16) of the 32 individuals surveyed near the Gladeside post office said that they now buy groceries at the Civic Centre instead of from the surrounding shops. This is partly because they are no longer withdrawing their benefits at that location, so they visit it less and when they do so they may not have the cash in hand that they once had. As the owner of the grocery shop on Gladeside Road reported:

*“There is a bungalow housing estate just opposite this parade which houses many elderly people. They used to collect their benefits from the post office and spend it in our shop.”*

This is reinforced by another comment from a resident:

*“They should never have shut it. I liked to go over the road for bits and pieces of shopping. I don't go there so much now. It's now an hours walk for me to the civic. I would genuinely consider moving now because we've lost the post office.”*

The point made above is highly significant because it touches on a wider point concerning the potential cycle of decline arising from the loss of community amenities. When amenities such as the post office, banking facilities or retail outlets disappear from a community it means that those people who are financially mobile are more likely to leave. This leaves a higher concentration of deprivation, which can then lead to the loss of more amenities. And so the cycle goes on.

It could be seen that a post office closure can provide a 'tipping point' which triggers this downward cycle. Although further research would be required to identify a precise set of triggers that lead to a tipping point, it could be suggested that the loss of the post office to Gladeside Road in Wythenshawe could have been the tipping point for a wider cycle of decline for that area.

#### **Case study: Inam Sehri, Bakr 101 Grocery and Off licence**

Inam Sehri runs a grocer's and off licence in Moston, north Manchester, which has suffered a great deal since the closure of the Chain Bar post office on Moston Lane. His response to Manchester City Council's survey was a substantial report on the effect that the closure has had on his area and the businesses that previously thrived.

*“Our business has suffered a lot due to the closure of Chain Bar post office based on Moston Lane. The main blow to the business came when we lost most of our customers and our revenue has been halved. The shop is based near a council estate and most the people that live there used to visit the post office to withdraw their benefits, use banking facilities and other postal services.*

*When the Moston Lane post office closed, they all started going to another one. They stopped using this shop because it was convenient to visit Asda, Iceland, Bmstore, Farmfood and the council community market which are next to this other post office. These stores form part of the North Manchester City Complex and are, no doubt, quite attractive. Our former customers started to buy all their goods from these stores and so we lost them. They think: “If I've*

*got to go to the complex to use the post office, I might as well buy my other groceries from the stores while I'm there.*

*We are one of seven shops in the parade and we've all lost a lot of custom.*

*There are a sizable number of elderly men and women that live near our shops that cannot go to the post office very often. So for our good customers, we are doing a free service where we take sealed envelopes from them and get them sent from the post office when we visit."*

Mr Sehri's experience shows that the withdrawal of a post office can have devastating effects on local businesses from a loss of custom point of view. In his case, his previously loyal customers have been drawn away against their own wishes to large chain stores in neighbouring shopping complex.

His submission concludes with a proposition for Post Office Ltd:

*"We've ample space in our double fronted shop. We can re open the post office on a sharing expenditure basis. This would mean the people in this area wouldn't suffer and maybe our business can bounce back."*

#### **5.1.4 How businesses would cope if their local branch closes in the future**

The comparative survey of business users also looked at an open post office in order to get a sense of how the closure could affect a local economy over time. Interviewing those that have not yet lost a local post office gives a current picture of exactly how these companies are using their post office and what they could lose.

We interviewed six companies near Hulme post office which is thriving and under no threat of closure. All but one of the respondents valued their post office and used it either every day or weekly. The companies were concerned about the types of issues that were reported by those who had lost their local branch: convenience, safe banking facility, higher staff costs through longer travelling times to the alternative post office, and concern about the resulting service levels at the overused post offices receiving displaced customers.

Several of the companies we interviewed had a very high reliance on the post office. One company said the implications of losing the post office are dire:

*"It would be awful. I withdraw money out of the post office all the time. I do all my business banking through the post office. We buy all our stationary there because we are going in there all the time. So if the post office closed we'd have to find a new source for all those items".*

Another company which specialised in book distribution said:

*"It would be disastrous. I use packet post services to send out books very frequently. I take batches down every day, sometimes twice a day. If I had to go to an alternative post office, that would cost me an extra half an hour per day. So that's 2 and a half hours per week – any business will tell you that's a big cost".*

An organisation that works with vulnerable adults in community arts projects explained that it would mean a significant problem for staffing levels. Currently the short trip to the Hulme post office is feasible. However, going further would take a staff member out of the office for much longer and, given that the

organisation's staffing protocols require a minimum of two staff on duty at any given time, this would cause human resource issues.

### **5.1.5 The before and after picture**

The key findings from the 'before and after' comparative survey highlight the following issues. Although Gladeside's remaining businesses are not necessarily going under, there is evidence that the post office closure has caused some level of difficulty for them, in loss of custom and facilities and additional costs. Meanwhile we can see that the majority of companies surrounding Hulme rely on their post office to varying extents.

While it is impossible to isolate the post office as a major factor in the economic health of these two areas, it is possible to draw out evidence that the post office is clearly playing a part in the vitality of its surrounding retail base. Further research would be necessary to really identify exactly how these factors are working.

## **5.2 The social significance of post offices**

Post offices play an important role in the social fabric of a community. Uniquely, their services straddle the commercial and social; from the retail of stationery to services that are more support-based, such as the distribution of benefits and support for individuals attempting to communicate with government departments. Examples of this social role are the processing of driving licence applications and monitoring vulnerable members of the community. It is the sheer diversity and breadth of services that make post offices distinctive from other retail outlets. It is highly valued and trusted compared with other service providers in disadvantaged communities

### **5.2.1 Post offices and the whole community**

Of the 88 people surveyed by **nef** and Manchester City Council, 76 per cent said they had been or would be affected by the closure of their local post office.

#### ***Bigger queues and further to travel***

The 32 people surveyed at the now-closed Gladeside post office in Wythenshawe were particularly vociferous about the problems they have encountered since the loss of the post office there. The biggest reported problem was the difficulty in travelling to the nearest alternative post office which is located in a shopping centre called the Civic Centre in the middle of Wythenshawe. Fifty three per cent said this need to travel further had been problematic because of the logistical and financial implications associated with it.

This finding is supported by the findings of a MORI survey commissioned by Postwatch in February 2004 which found that while the majority of customers who had lost their local branch had found an alternative, this was not without

cost.<sup>32</sup> The study showed that customers registered a higher inconvenience with longer journeys that, because few chose to walk, resulted in higher public transport or car running costs – 42 per cent of respondents said the cost of visiting the post office had become more expensive. Overall the survey showed the result of this higher cost was that people visited post offices less by finding alternative service providers.

The next most pressing issue was the problem of bigger queues – 50 per cent of the people surveyed near to the now-closed Wythenshawe post office said they had to queue for much longer at the Civic Centre post office. One resident said:

*“Sometimes it's so busy at the Civic [centre post office] I have to turn around and come back another day. That's extra costs for us in terms of bus fares.”*

People surveyed by **nef** at the open post office in Hulme were concerned about the same issues. We asked them what they would miss most about the post office if it closed: 54 per cent were concerned about the distance they would need to travel to an alternative post office and 45 per cent were concerned about the bigger queues at alternative post offices.

These two core issues were also key features among findings from a NERA report commissioned by Postcomm in July 2005 to assess the impact of the UNRP.<sup>33</sup> It found that the programme closures had led to a sizeable group of consumers having to travel further and longer, changing their mode of transport to get to alternatives and spending longer queuing at them. This, in turn, had led to them using their branches less frequently and seeking alternatives including convenience stores and supermarkets.

### *Losing a community meeting place*

People living near the closed post office in Gladeside were also concerned about the loss of a community facility. One said:

*“I have lost a meeting place to see friends”*

Another said it was a shame it had been closed:

*“Post offices have always been a part of their local communities”*

Postcomm has published a series of reports that help to corroborate these findings.<sup>34</sup> They explore the relationship between a post office and its community. The second in this series provided comprehensive figures showing how people depend on their post offices for every day needs.<sup>35</sup> These include the extent to which they are used, how they act as a social and community focal point, how they provide access to cash, how they support the vulnerable, and how a closure would affect its users.

---

<sup>32</sup> *Assessment of the Urban Network Reinvention Programme: Research Among Post Office Customers*, MORI (for Postwatch), February 2004

<sup>33</sup> *Review of the Post Office Urban Reinvention Programme – a Final Report for Postcomm*, NERA, July 2005

<sup>34</sup> *Serving the Community Reports I – V1*, December 2001 – April 2002

<sup>35</sup> *Serving the Community II – the evidence of the community value of post offices in urban deprived areas*, MORI for Postcomm, December 2001

The report concludes that the data explored provides the following evidence:

- Post offices are important to the elderly, sick and disabled, carers, single-parent families, those without cars, those without easy access to public transport and the unemployed.
- Post offices are the main source of cash for deprived urban residents.
- People think of post offices as important and make use of free services and facilities.
- Post offices in areas with no other shops and services are vital to the community.

Post offices are recognised by the public as playing a vital anchor role in their communities; particularly in areas of high disadvantage. This appreciation of post offices is highest where there are no other local services or shops: 89 per cent of customers and 91 per cent of residents agree that post offices have an important community role.<sup>36</sup>

The extent to which people value their post office for social/community reasons was echoed by the survey respondents using the still-open post office in Stretford Road, Hulme: 30 per cent said they were concerned that a community resource would be lost if that branch closed

### *Losing free services*

As the above research suggests people make use of the free services that are not available elsewhere. This underlines the role the post office has in building social capital, offering advice and services and providing a meeting place in disadvantaged communities: 61 per cent of those surveyed for the PostComm study said they used their local post office to access free community services. They also used it to seek informal advice from sub postmasters, read community notices, meet friends and get government information.

This finding is reflected in **nef's** survey work which found that seven per cent used the post office staff to help them fill in complicated government forms. A National Audit Office (NAO) study on citizens filling in government forms also illustrates the vital role post offices play in supporting individuals in obtaining and completing difficult forms (for example housing benefit forms).<sup>37</sup> It states that post offices are the main non-governmental agency dealing with government forms.

The NAO study notes that people who receive assistance have far fewer errors on the forms. It points out that difficult forms deter people from applying, result in higher dependence on help lines and increase the cost related to administrative errors. This is particularly important given a recent report about the high percentage of government helpline calls that go unanswered. Clearly the removal of support from post office staff in the filling out of forms is going to result in the displacement of costs in the form of administrative costs like these. It could be argued that these services will be

---

<sup>36</sup> *ibid*

<sup>37</sup> National Audit Office, October 2003, *Difficult Forms – How government agencies interact with citizens*

provided by alternative post offices (for example at the Civic Centre branch in the case of the Gladeside Road residents). However, given the widely reported problem of bigger queues at this branch mentioned at the beginning of this section it is appropriate to assume that such services may not be forthcoming from overworked staff under pressure to service higher numbers of customers.

The costs of losing these services do not seem to be taken into account in decisions made to close post offices. This service is particularly significant given the high levels of functional illiteracy and innumeracy in England, especially among deprived communities.

Recent media headlines over the complexity of the Government's benefits and pension systems suggest that the difficulties for individuals trying to fill in forms are unlikely to ease in the future. Losing sub-postmaster support will leave customers further isolated and less likely to find a way through to the benefits they are due.

### 5.2.2 Post offices and vulnerable groups

Vulnerable groups, such as the elderly, the disabled, the unemployed and low-income families, are particularly dependent on post offices. They are frequent users because of their higher propensity to be claiming benefits and also may be less likely to have access to a car and therefore be dependent on a local source to withdraw their benefit.

#### *Elderly and disabled groups*

There was a strong bias towards elderly residents among the respondents to nef's survey at the closed post office location in Gladeside Road, Wythenshawe. This is mainly down to the presence of a large bungalow housing estate – Willow Park Housing –opposite the former post office site. The residents of this estate had formed the majority of the post office's customer base before it closed. Among elderly respondents the reported impacts were significant and, in many cases, severe. Among younger respondents there was a high level of awareness and concern for those that have suffered at the loss of the post office.

The findings reported earlier covering issues created for the community as a whole are reflected in the elderly subgroup. Many reported particular difficulties in travelling to the nearest alternative and problems with queuing when they get there. The reported queues were a big problem for elderly people who have trouble standing for a long time. Some people even reported 1-2 hour waits.

*“The saddest thing is when you see the really old people having to pull their trolleys up and down the street to the civic. It's terrible, they can hardly walk and when they get there the queues are really long - take up to 30 minutes sometimes”,* said one resident who is not elderly but is concerned about her neighbours.

*“There are a lot of elderly people around here that used this post office a lot. They have to travel much further now. It's not so bad for me because*

*I've got a car. For others it's a different story. If the weather's bad, they're really snookered."*

A small number of the Wythenshawe residents said the further distance to travel was not a problem because they had a car. Those with a car are the exception that proves the rule among the vulnerable groups in Wythenshawe. This was picked up in another of Postcomm's *Serving the Community* reports which found that those without a car and those who find it difficult to access public transport are particularly socially excluded as a result of post office closures.<sup>38</sup> Ninety-two per cent of those without a car and 94 per cent who find it difficult to access public transport rated post offices as important.<sup>39</sup>

Some people reported a loss of independence now that they have to travel further afield. Having previously collected their benefits in person, they would now ask their son or daughter to collect it. However, some people do not have this option as one resident reported:

*"It takes one lady I know the whole morning and afternoon to go to the Civic for her benefit."*

The loss of the post office has definitely caused particular problems for those who have disabling conditions, which are more common among elderly populations. One lady said her asthma meant it took her one hour to walk to the Civic Centre post office. Another gentleman said the trip presented problems because of his severe diabetes.

Here are some other testimonials from the Willow Park Estate residents:

*"It's a long walk to civic and I have arthritis. Sometimes if I'm feeling really bad I will take a paracetamol and can make it over there."*

*"I have chronic diabetes and I'm completely dependent on my scooter. I used to be able to nip over to Gladeside Road post office for my benefits but because I can't make it to the civic, I don't go out so much anymore. My husband has a bad leg so sometimes he can't even make it over. We need to pay bills and get our benefit so when neither of us can get out, it's a real problem. It's a real loss for us."*

*"I've had a stroke so when it's impossible for me to travel I have to ask my son to go and pick up my benefit."*

One resident pointed out that a policy of placing elderly people in closely populated housing estates, followed by a failure to ensure the presence of amenities to serve them was illogical:

*"It seems stupid to have built this estate of sheltered housing for elderly people and then get rid of the surrounding facilities like the post office."*

### **Parents of young families**

Two respondents near the now-closed Gladeside Road post office complained that with small children having to travel further to the Civic Centre to pay bills and collect benefit was proving difficult. For those questioned near both the

---

<sup>38</sup> *Serving the Community IV - post offices' vulnerable customers in rural and urban deprived areas*, April 2002

<sup>39</sup> *ibid*

open and closed post offices who mentioned difficulties in having to travel further, it is safe to assume that having children would be one reason for this.

Difficulties faced by vulnerable groups like those mentioned in this section are picked up in another report from the Postcomm *Serving the Community* series which explores post office usage among vulnerable groups in both rural and urban areas.<sup>40</sup> Its purpose is to look into which groups are most reliant on post offices. The vulnerable groups studied are those aged 65 and over, single parents, unemployed people, disabled people, carers, those without access to a car, and those who find it difficult to access public transport.

The report concludes that in urban deprived areas the groups who make most use of post offices and who would be most affected by post office closures are those aged 65 and over, single parents, those with a disability and carers. Thirty-three per cent of deprived urban post office customers are retired, 14 per cent are unemployed, 10 per cent are carers and 7 per cent are long-term sick or disabled. One-fifth of customers are getting services for other family members, friends and neighbours.

Vulnerable groups are in danger of becoming more isolated when their local services are reduced. It is well documented that sub postmasters play a vital, substantial but often overlooked role on checking on the health and well-being of the most vulnerable in the community. Half of sub postmasters in disadvantaged urban areas say they keep an eye on 20–50 people who use their post office.<sup>41</sup> This role, also highlighted by the National Federation of Sub-Postmasters, underlines the critical role post offices play in building the social capital of an area and acting as a safety net and part of the local welfare state. The loss of this role when post offices are closed in disadvantaged areas cannot be underestimated.

The impact of closure on vulnerable groups is substantial. Half of the customers in urban areas are one-parent families and more than 40 per cent of those with a disability, caring responsibilities or difficulties with access to public transport said they would be very inconvenienced by closure.<sup>42</sup>

The former sub postmaster at the Gladeside Road branch in Wythenshawe says financial pressures forced him to close it down:

*“I just feel bad for the elderly people we used to serve, they have lost a local amenity and a friendly face.”*

Having invested in the post office counter furniture for his shop, he has been reluctant to remove it so has now uses it to display his off-licence stock.

---

<sup>40</sup> ibid

<sup>41</sup> ibid

<sup>42</sup> ibid



## 6. Quantifying the impact of Manchester's post office closures

The previous section provides some quantitative evidence and a significant amount of qualitative evidence regarding the economic and social value of post offices to Manchester's neighbourhoods. This section goes further by using two of **nef's** economic analysis tools to provide a more detailed picture of the local economic importance of post offices in those neighbourhoods. These models provide quantitative information that help Manchester City Council to:

- assess the economic value of post offices, particularly their role in sustaining local neighbourhoods and districts
- inform decisions on effective ways to supporting remaining Post Offices.

### 6.1 The Local Impact Model (LIM) application to Manchester post office

The key to understanding a business's local impact is a careful evaluation of its spending and employment patterns. This spending is an essential component of the money circulating and re-circulating in a local economy and a determinant of the wealth an area is likely to generate and retain through its business base. **nef's** Local Impact Model (LIM) is a measure of these impacts using a mix of basic business data and average spending ratios which help to define the following factors:

- Spend on employing local people.
- Purchase of local goods and services.
- Financial and in-kind contributions to the local area, for example, donations to local schools and staff time devoted to local schemes.

The model estimates these levels for every company within a given geographical area. In this application of the model the geography selected is an area with a half-mile radius around the Hulme post office in Manchester (please see Appendix C for details of the methodology).

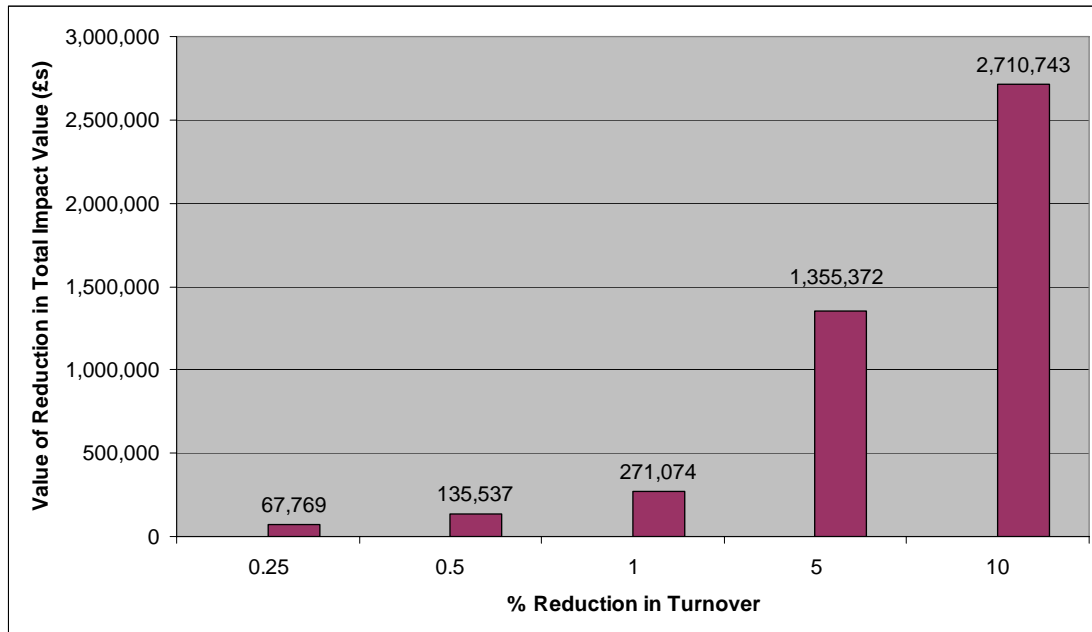
#### *The impact value of companies in the sample area*

The LIM analysis produced a total impact value for companies in the sample area of just over **£27 million**. Although this is an estimate from the LIM model, it gives a valuable insight into the considerable value SMEs contribute through

staff wages, supplier contracts and contributions to this area (see Appendix C for sectoral distribution in Hulme Area).

#### *Reduction of impact value following closure of local post office*

Figure 6.1 represents our modelling of the impact of the closure of the post office located in the area from where our sample is taken (i.e. the closure of the Stretford Road post office in Hulme).



**Figure 6.1: Value of reduction in impact resulting from different turnover reduction scenario**

We introduced a number of different levels of turnover reduction into the model showing how they would affect the impact values. Based on the qualitative and quantitative evidence compiled in Section 5, we are confident that the turnover of local companies would be negatively impacted if the local post office closed. However, we cannot be certain about the exact level of that reduction. Therefore we have offered a number of different turnover reduction scenarios (i.e. drops of 0.25 per cent, 0.5 per cent, 1 per cent, 5 per cent and 10 per cent) which are demonstrated in Figure 6.4.

At the lowest end of the scale, the local economic impacts would fall by nearly £70,000 per year and at the top of the scale the impact would reduce by just over £2.7million. Although further research is required to be sure of the exact nature of the turnover drop, there are clearly significant negative impacts on the financial resources being injected into the local economy.

For the purposes of this report and based on interviews with businesses in Manchester we are using the 1% reduction in turnover figure. This is an average that captures the large impacts on local retailers and the smaller effects experienced by other businesses. So the estimated value of reduction of impacts caused by the post office closure is £271,074.

## 6.2 Local Multiplier 3 (LM3)

The Local Multiplier 3 (LM3) is a tool that measures the impacts of an individual company (rather than a collection of companies as quantified in the LIM) on its local community.

The model quantifies a company's turnover and the extent to which that turnover is spent locally on staff and suppliers and, in turn, to what extent those staff and suppliers spend locally. This method, based on analysing rounds of spending, is based on the Keynesian multiplier but has a local focus. The extent to which a company spends its turnover locally determines the extent to which it is putting financial resources back into the economy in which it is based.

LM3 has been applied to a Manchester-based post office; the identity cannot be revealed because of the owner's request that it remain anonymous. With the owner's co-operation, the value of the post office's spending has been measured. The three rounds of spending analysed are comprised of:

- Round 1: the post office's turnover
- Round 2: the value of the post office's local (within two miles) spending including wages paid to local staff, value of contracts with local suppliers
- Round 3: the value of those wages spent locally plus the value of that spent with suppliers who then spend that income locally

There are many rounds of spending that form elements of the complex spending flows within a local economy; however, for simplicity's sake, the model only quantifies the first three.

The value of the first and second rounds of spending was calculated but the value of the third round had to be estimated because obtaining exact values of local spending by the post office staff and suppliers was not possible.

Supplier spending patterns were applied based on those obtained through previous work on nef's LIM model. Staff's local spending patterns were also estimated – four different scenarios were used with 10 per cent, 25 per cent, 50 per cent and 75 per cent of their spending being local.

### 6.2.1 Results of LM3

The summation of the values of the three rounds of spending gives the headline total value figure for the LM3 model. This estimates the value the company contributes to its local economy. The relationship between the company's turnover and the total value of the second and third round of spending generated by this initial turnover is the multiplier. The results are as follows:

**Table 6.1: LM3 for Manchester post office**

Round 1	£191,400	Post office's turnover
Round 2	£94,000	Value of post office's spending on local staff and suppliers
Round 3	£25,146	Value of local staff's local spending and local suppliers local spending (based on the assumption that local staff spend 25 per cent of their wages locally)
Total	£310,546	Value of post office to its local economy
Multiplier	1.62	

Table 6.1 shows that the post office generates £310,546 for its local economy, and £119,146 in direct local impacts. It also shows that its local multiplier is 1.62 which means that for every £10 it earns in income, the post office generates £16.20 for its local economy and £6.20 in direct spending on local goods and services. These figures are estimates based on data for the first and second rounds of spending. Displacement effects have not been accounted for within these estimates.

Please note that the worked example above is based on the assumption that local employees spend 25 per cent of their wages locally. For the purposes of this model application four different local sending scenarios were proposed and are set out in Table 6.2.

**Table 6.2: Local Multiplier value at different levels of local wage expenditure**

Proportion of wages spent locally	Income generated by firm for community	Local Multiplier
10%	£301,096	1.57
25%	£310,546	1.62
50%	£326,296	1.70
75%	£342,046	1.79

For the purposes of this report we estimate that 25% of income will be spent locally. So the estimated loss of income arising from the closure of this post office is £310,546 to the local economy and £119,146 in spending on local goods and services.

### 6.3 Summarising the model results

The models provide a more holistic measure of the economic value of the post office. Though the models use a number of assumptions, the values they generate provide an important source of evidence.

The LIM suggests that the closure of the post office in Hulme could cause a drop in the flow of financial resources, in the form of value generated by the companies within a half-mile radius. Based on the evidence gathered, the impact of post office closure on business turnover is estimated at one per cent of total turnover; therefore the loss to the local economy is £271,074.

The LM3 study estimates the value generated by a selected post office based in Manchester as between £300,000 and £342,000 based on a range of scenarios defining the extent to which its local employees spend their wages locally. A specific level of local spending was selected for the purposes of this study meaning the estimated loss of to the economy of losing the post office is £310,546, with a reduction of £119,146 in local spending on goods and services.

These two estimated figures are significant and illustrate the real value of the post office to the local community, the local economy and its enterprise base.

### The bigger picture

The application of values generated by LM3 and LIM to the 20 post offices that were closed during the UNRP provides insights into the scale of the issue for Manchester. Any assessment will be estimated and therefore aggregate figures should be treated with care.

Assuming that the closure of the Stretford Road post office in Hulme is typical, the loss to the local economy (based on impacts on business) is estimated to be £5.4 million (20 post offices multiplied by the £271,074 loss generated by the LIM model). So based on the LIM model we can see the economic value of post offices to the Manchester economy. Further work is required to find an accurate figure but the calculated estimate provides useful insights.

Clearly there are important caveats regarding the extent to which the Hulme post office is 'typical' but indications are that it is a reasonable proxy for those post offices that remain open in Manchester. This highlights the importance of sustaining the remaining network to ensure these benefits continue to flow into disadvantaged areas of Manchester.

Applying the findings from the LM3 analysis to the 20 closed post offices provides insights into the loss to the local economy and impacts on local spending. Based on the estimated loss to the economy of the post office studies, we can estimate that the closure of the 20 post offices in Manchester could have resulted in a loss of £6.2 million to their local economies (20 multiplied by the £310,546 estimate per post office). In terms of direct local spending on goods and services, there is an estimated loss of £2.38m (20 multiplied by £119,146).

Aggregating these two estimates provides a total of loss of **£11.6 million** per annum to the Manchester economy resulting from the closure of the 20 post offices.

## 7. Liberalisation and its implications

This section explores the nature and timing of the impending liberalisation of letter delivery services, its effect on the Universal Service Obligation (USO) and associated consumer interests, as well as the potential impacts on the wider post office network. It also covers the recent developments in this area, including the February adjustment of the liberalisation timetable and price regulation proposals introduced by Postcomm.

In the debate over the effect of postal liberalisation in Britain, relatively little attention is paid to the indirect impacts that could occur to the post office networks and their communities. Most focus is on the USO which is largely concerned with the delivery of post rather than the presence of a healthy network of post offices. This section will cover all dimensions of potential impact.

### 7.1 Liberalisation of the postal sector

Postcomm set out its plans to introduce competition into the postal system in a report published in January 2000.<sup>43</sup> The plans included the establishment of a long-term framework for promoting effective competition within the postal market for items weighing less than 350g and costing less than £1.

Its proponents believe liberalisation will improve the service for its users.

*“Postcomm is of the view that customers’ interests would generally be best served in a competitive market that offers them choice and encourages vigorous rivalry, efficiency and innovation on the part of postal operators.”<sup>44</sup>*

The liberalisation process began in 2003 when newly licensed operators were able to provide postal services to large customers mailing over 4,000 items in an individual mailing. Licences were also available to operators offering consolidation services at a price agreed with Royal Mail.

While full liberalisation was originally scheduled for completion in 2007, a decision taken in February 2005 moved this forward by 15 months to January 2006. Postcomm said the date had been brought forward after respondents to its consultations had reportedly favoured an earlier introduction of full competition. The liberalisation process has been phased and already a number of licences have been granted to service providers that have begun operating in certain areas of the postal system.

---

<sup>43</sup> *Postcomm’s Proposals for Promoting Effective Competition in UK Postal Services*, Postcomm, January 2000

<sup>44</sup> *The UK Letters Market 2000 – 2003: A Market Report*, Postcomm, January 2004

Postcomm says that effective, sustainable competition will have been achieved if there is:

- A range of credible choices for customers.
- A "level playing field" for competitors, with all key barriers to entry removed.
- No abuse of market power by Royal Mail.
- Real (not just threatened) competition that helps drive efficiency, cost-reflective pricing and innovation in products and processes.
- Competition that is based on credible, long-term business propositions.<sup>45</sup>

## 7.2 Implications for the USO and service quality

The USO guarantees a delivery every working day to every address in the United Kingdom, and a collection every working day from post boxes throughout the United Kingdom, at a uniform and affordable price. Royal Mail is obliged by its licence law to carry out the USO. Postcomm was set up by the Postal Services Act 2000 and has a primary duty to ensure the continued operation of USO. The USO features in discussions around liberalisation because there is much debate about whether increasing competition could threaten its future.

The Postal Services Act 2000 strengthened the status of the USO by giving it statutory status for the first time.

*"Postcomm has also committed to monitoring the impact of its market opening strategy and its other regulatory decisions in order to ensure that the universal postal service continues to be provided."<sup>46</sup>*

Postcomm and other proponents of liberalisation say it will ultimately benefit the consumer because the introduction of competitors will force performance up and pricing down. The idea is that new entrants to the market will provide direct competition to the incumbent Royal Mail which has received much criticism for declining performance in recent years. Recently it has improved its performance substantially with 93% of first class letters delivered on the next working day compared with a target of 92.5%.

Some organisations are concerned, however, that the USO could come under pressure in a fully liberalised postal sector. The National Federation of Sub Postmasters (NFSP) highlights concerns in a paper published in January 2005.<sup>47</sup> It reports concerns that competitors could 'cream off' the more lucrative markets leaving the less profitable activities which Royal Mail is obliged to provide through the USO. Geographical areas that are harder to deliver to involve much higher unit cost than a simple city-to-city delivery that competitors will focus on. This argument was supported by Nick Wells, Chief Executive of TNT in a media report who said the success of his business

---

<sup>45</sup> Postcomm website, October 2005

<sup>46</sup> *The UK Letters Market 2000–2003: A Market Report*, Postcomm, January 2004

<sup>47</sup> *Postal Competition*, National Federation of Sub Postmasters, January 2005

strategy is predicated on the ability to “compete in certain sectors or geographical areas or products...it would be silly to exactly replicate what Royal Mail do”<sup>48</sup> It is this vulnerability could jeopardise Royal Mail’s ability to provide the USO, according to the NFSP.

It should be noted that industry observers say that attempts to ‘cream off’ easy deliveries have had little success in the fully liberalised markets of Sweden and New Zealand. However, opinion remains divided about whether such a phenomenon will be experienced in the UK.

Some question the necessity of the USO. The University of Durham’s report for Postcomm suggests that service provision to those in rural areas should be left to market forces just like other services:<sup>49</sup>

*“It is believed that a service would exist for all areas with even the most rural of places having a supplier of the postal service. This can be presumed by the fact that all other goods and services are available in these areas. Granted they may be at an extra cost, as would the provision of the postal service, but this is surely taken into account when individuals move to these rural areas. There is no case for there not being a market in these rural areas because as long as demand exists then there will be a service, as is the nature of economics.”*

Pressure for abolition of the USO is limited – abolition would not appear to be likely in the short term given the statutory protection provided by the 2000 Act.

### 7.3 Implications for business

Less attention had been given to the implications for business than to the implications for the consumer. Postcomm has undertaken research, however, that explores business attitudes to impending liberalisation.<sup>50</sup>

The research reports that eight out of ten business mailers expect the competitive market to reduce prices, to improve choice and to improve the quality of Royal Mail’s own service. It also found that these business mailers believe the postal market should be opened to full competition as soon as possible.

Of 300 business mailers, ranging from companies spending £500,000 or more annually to small firms with an annual mail bill of £5,000–£10,000, more than 80 per cent favoured competition. A large majority of these felt that the speed at which competition was being introduced by Postcomm was either appropriate or too slow. More than half (52 per cent) expected competition to reduce prices, 75 per cent expected it to improve choice and 66 per cent expected Royal Mail’s service to improve in the competitive market.

Postwatch welcomed the research:

---

<sup>48</sup> *Direct mail millionaire who wants to be UK postmaster*, The Guardian 6 January 2006

<sup>49</sup> *The Implications and Consequences of the Introduction of Competition into the Postal Monopoly in the UK*, University of Durham, May 2004

<sup>50</sup> *2005 Business Customer Survey*, Postcomm, September 2005



*“These findings confirm that businesses want competition in the UK postal market, and recognise the many benefits that ending Royal Mail’s monopoly will bring.”*

However at this stage there is no way of knowing if this will be borne out in reality until liberalisation is actually introduced.

It is certainly possible that business customers will benefit from increased competition if it does indeed lead to lower prices and better performance offered by postal operators. However this is only one dimension of the ways in which businesses rely on postal services. Moreover, there will be a differential impact on particular sectors. It is possible that liberalisation may result in better performance and innovation at a national level, but a further elimination of local sub post offices could have a varying effect for different companies. While large companies – that are perhaps less reliant on small local services, such as post offices – gain from the lower prices of services such as bulk mailing, micro and small enterprises may lose out.

Businesses – particularly micro, small and medium enterprises – also use the physical network of post offices as a local service. These services include postage and packaging, banking, bill payment and cash withdrawal. If liberalisation contributes towards the decline in the number of local sub post offices, then the smaller companies, often overlooked when analysing markets on a national level, will lose many of these services.

Just as the reduction of banking branches can have a detrimental effect on the feasibility of locally run micro and small enterprises, so too can a disappearing network of sub post offices.

#### **7.4 Implications for sub postmasters, the urban post office network and their communities**

The NFSP has expressed concerns about the effect of competition on the sub post office network ever since the plans were unveiled. The organisation is concerned that the effect of competition will be to squeeze Royal Mail income and threaten the future viability of sub post offices because so much of their income stream derives from the Royal Mail.

*“NFSP has long expressed concerns about the effect of competition on the sub post office network. Royal Mail income is crucial to the finances of Royal Mail Group, of which Post Office Ltd is also part. In 2002/03 Royal Mail services provided 67% of the Group’s total revenue. Moreover, around 25% of the total sum paid to sub postmasters for undertaking product transactions comes from Royal Mail. If postal competition seriously damages Royal Mail income, this will inevitably have a negative impact on sub post offices.”<sup>51</sup>*

The fate of sub post offices depends largely on how well Royal Mail copes with the challenges of competition. If, as Postcomm predicts, the effects are positive, then it is possible to assume that the sub post offices network will remain intact and healthy. If Royal Mail does not manage to shake off new

---

<sup>51</sup> *Postal Competition*, National Federation of Sub postmasters, January 2005

competition then the network could suffer. The unions, NFSP and Royal Mail all argue that there could be a significant threat to a viable business model for post office networks if the introduction of competition is not handled appropriately.

## 7.5 Major developments in 2005

Until recently the majority of organisations were mostly supportive of the principle of liberalisation. Even those who have expressed some concerns, like the NFSP and Royal Mail for whom competition presents a challenge, welcome the concept in some form. However, recent developments orchestrated by Postcomm in the past year have raised alarm bells. These include the fast tracking of the liberalisation timetable which brought forward the introduction by 15 months to January 2006 and proposals to restructure price controls on Royal Mail in preparation for this new date. The following sections outline the proposals and responses to them.

### 7.5.1 Changing the timetable

The Communication Worker's Union (CWU) has expressed concern about the revised date. In a statement released just after the announcement was made in February 2005, the CWU said Postcomm was using a 'competition at all costs' ethos which puts Britain's post office network at a serious competitive disadvantage to its European rivals. The revised date will mean that the UK market will be opened up long before other countries leaving their incumbent postal operators free to take advantage of the relatively easy-to-enter market.

As CWU general secretary Billy Hayes put it:

*"The Dutch and German post offices in particular must be rubbing their hands in glee at this ill-advised and regrettable decision. At a stroke they are being allowed the opportunity to compete head on with Royal Mail while still enjoying the benefit of strong protection in their home markets. The sad thing is that British consumers are the ones who could easily end up suffering as a result of this macho posturing by Postcomm."*<sup>52</sup>

CWU shone a light on the consultation process Postcomm had used to make the decision to bring the date forward. It pointed out that a very small number of respondents (only 15) had expressed a preference for the quicker introduction and suggested that vested interests had been at play.

The Trades Union Congress (TUC) has recently joined the growing voices against the rapid introduction of competition on January 2005. In September 2005 media reports quoted its representatives saying:

*"There are 27 million addresses in the UK; does anyone really think these private firms are going to offer universal coverage at the price we do? It's cross-subsidy. The more profitable parts of the network ensure*

---

<sup>52</sup> *Rush to Liberalisation a grave mistake, CWU warns, CWU, February 2005*

*that we can also get a letter to your granny outside Dundee the next day.*<sup>53</sup>

At the time of the announcement to bring the date forward Postwatch remained steadfastly supportive of Postcomm's decision, saying it was good news and meant competition-induced efficiencies could be achieved even quicker.

### 7.5.2 Pricing controls

In June 2005 Postcomm announced proposals for new regulations featuring pricing controls, which it said would increase Royal Mail's efficiency in response to the market liberalisation.<sup>54</sup>

The proposals included controls to freeze Royal Mail's average domestic prices between 2006 and 2010; controls to improve and adapt service quality targets; and controls to enable new operators to establish themselves in the newly opened market. They would cap prices including that of a first class stamp at 34p and also require Royal Mail to make efficiency savings of three per cent per annum and restrict the company's profit to £285 million.

Postcomm's objective was to reduce Royal Mail's monopolistic control over the market and hence smooth the path for new entrants into the market. However Royal Mail considered the proposals to be a step too far which, coupled with the revised timetable for competition, would significantly hamper its chances to compete in the restructured market from January 2005.

Royal Mail Chairman Allan Leighton said:

*"These proposals will literally starve Royal Mail of vital investment and so wreck the quality of service we have fought so hard to improve. We cannot accept them. It's as simple as that."*<sup>55</sup>

Royal Mail claimed it needs more freedom to raise stamp prices (to a potential limit of 48p for a first class stamp) if it is to compete and still maintain the USO. This price, it claimed, represents the true economic cost of delivering to all remote locations.

In August 2005, the NFSP published its own analysis<sup>56</sup> of the proposals concluding that the price controls would further exacerbate the potential negative impacts liberalisation could have on Royal Mail and therefore the post office network as considered in previous papers.<sup>57</sup>

The NFSP reiterated its previous point that given the decrease of other streams of income (direct payments) and the resulting increase of

---

<sup>53</sup> TUC opposes postal liberalisation, *The Guardian*, 13 September 2005

<sup>54</sup> *Postcomm proposes tighter price and service targets for Royal Mail*, Postcomm, June 2005

<sup>55</sup> *Postcomm's "Blueprint for Royal Mail's inexorable decline"*, Royal Mail Group, June 2005

<sup>56</sup> *Consultation on Postcomm's Initial Proposals for the 2006 Royal Mail Price and Service Quality Review*, NFSP, August 2005

<sup>57</sup> *Postal Competition*, NFSP, January 2005

dependence on Royal Mail products and services, the fates of post offices were inextricably intertwined with the profits of Royal Mail. Therefore the future of many post offices would be dependent on the nature of these recent proposals. Having considered these proposals carefully, the NFSP concluded that they contained excessively far-reaching price controls and other restrictions on compensation payments that could strangle Royal Mail and therefore contribute to a further weakening of the network.

It went on to explain that the post office network is at a critical point in its development following the recent UNRP (covered earlier in this report). The network has taken a big hit following the programme and investment is needed to reduce the need for further closures. It sees the Royal Mail Group's profitability as key to ensuring future investment and warns that the price regulation proposals could put this in jeopardy.

NSFP continues to be the only organisation to specifically make the connection between inappropriately handled liberalisation and the marginalised communities that depend on post offices:

*“Under Postcomm’s initial proposals, we fear that Royal Mail’s reduced scope for profit generation will lead directly to less business for Post Office Limited, which in turn will lead to further deterioration in and reduction of the post office network. This would have serious consequences for communities and for vulnerable and marginalised individuals across the country that are dependent upon the post office to access a range of postal, community, financial and Government services.”*

A development came in early December 2005 when Postcomm announced what the media took to be a compromise position on the pricing regulation which will allow Royal Mail to increase first class stamp prices above inflation to 32p next year and to a maximum of 36p by 2010.

Postcomm said the proposals were made to allow Royal Mail to safeguard the universal service obligation, to provide £1.2 billion for investment in modernising the network and to allow an average of £320 million per year towards reducing the £4 billion deficit in its pension fund.

Royal Mail, which was lobbying the Trade and Industry Select Committee for a 39p increase, described the announcement as “tough” but didn't reject it out right. The company says it will be talking to its shareholder (the Government) about whether the concession is enough to help it cover its pension crisis debt and other financial crises.

Postwatch was not positive about the news saying it felt consumers were being penalised with the price increases. Millie Banerjee, Chair of Postwatch, had this to say:

*“Postwatch are clearly disappointed that customers will be asked to pay 20 per cent more for their stamps over a 4 year period. This is well in excess of inflation. Moreover the increases will be front loaded: as a result customers will pay more for longer. In return for their cash customers are not being offered any increase in the minimum quality of service targets set down in Royal Mail’s licence. It is particularly unfair that customers are being asked to shoulder such a high proportion of the*

*pension deficit burden. Customers are also underwriting Royal Mail's investment plans with no indication that the ensuing benefits will be shared by way of price reductions."*

Postcomm recently commented on the pension crisis at Manchester City Council's Postal Service Inquiry in December 2005. Denise Bagge, Director of Network and Universal Service, referred to Royal Mail's argument that the pensions crisis is another justification for putting up stamp prices. She said that Postcomm believes that customers should not have to pay for Royal Mail's pensions black hole. Postwatch's representative Judith Donovan CBE agreed with this.

### **7.5.3 The impact of competition-related postal price changes**

It is important to consider the implications of giving Royal Mail more autonomy over prices in order to cope with the challenges of competition. This relates to our previous section on the general implications of liberalisation but only applies if the Royal Mail wins its current battle with Postcomm for pricing control.

If Royal Mail succeeds in assuming full or partial control of the price of postage then the obvious assumption is that consumers will lose out in terms of price rises. The very people that send more mail, i.e. elderly, will end up paying more if the price of stamps increases. However, Royal Mail might argue that it is these very consumers that stand to be net recipients because the balancing of pricing will safeguard the USO which protects their rights to delivery at a standard price – albeit a higher one – anywhere in the UK. Others would point out that to expect those on fixed incomes to bear the brunt of these price increases reinforces inequalities.

Business, particularly micro and small businesses, would also be particularly affected. Royal Mail is introducing lower prices in its business services – for example, discounts on bulk mailing – to help it compete with entrants to the market. However, it is requesting freedom to put up the price of stamps which happen to be most used by smaller businesses. So it could turn out that while larger companies benefit from the more competitively priced services in the bulk-mailing sector, smaller companies will lose out because of their tendency to use stamps. This echoes our previous observation that liberalisation-induced post office branch closures could hit small businesses harder than large ones because of their higher dependency on branches.

This point was raised at the Trade and Industry Select Committee held in October 2005 to explore the effects of liberalisation. The Committee chairman asked the Royal Mail chairman if the company had considered that should the price hikes be permitted, "most small businesses do not use [large scale bulk mailing] so the costs to them are about to increase". Royal Mail said that it was aware of this issue. However its representative did point out that some discounts would be available for businesses using meter or pre-paid postage products. This is a valid argument but does not account for all small businesses, some of whom will continue to use basic stamps and will therefore lose out.

## 7.6 Other countries' experience of liberalisation

It could be useful to look at the experience of other countries as a way to predict what the effects of liberalisation could be on the UK, for example, the University of Durham's study of the implications of competition.<sup>58</sup>

It looks at the experience of four countries – Finland, Argentina, New Zealand and Sweden – where liberalisation was introduced using a 'big-bang' approach (i.e. the markets became suddenly free to competition) and where the incumbent operator was kept on, usually to service the USO. The presence of these two factors is echoed in the UK market and therefore makes comparison more appropriate.

The report concludes that the experience of the four countries analysed indicates that the introduction of competition has benefited the consumer through increased innovation and better quality of service and that the USO has been maintained.

It should be noted, however, that this report concentrates only on the pure commercial side of the implications for liberalisation. No mention was made of the effect on post office networks and the communities that rely on them in the newly liberalised markets analysed through the study.

## 7.7 Ownership of the Royal Mail Group and the question of privatisation

Royal Mail Group and its subsidiaries, including Post Office Ltd, are wholly owned by the Government. The company's high profile financial difficulties have given rise to much speculation about the possibility of privatisation and other ownership alternatives, including employee staff ownership. Although the company made an operating profit of £537 million in the financial year ending 2004-05 and an operating profit of £159 million for the first six months of the current financial year, the pensions deficit problem still remains.

Suggestions of privatisation have come under heavy fire from many parties involved in the postal sector, not least from the CWU which claims the move would be a disaster.

*"Instead of delivering a quality service, the emphasis will be on delivering profits to private shareholders. The new postal owners will simply come in and look to reduce costs in the quickest and easiest way they can (rather than look for real efficiency). This will mean a drive to reduce wages and terms and conditions rather than invest for the future. The result will be to threaten more of the Post Office network and undermine the quality of the UK's postal service."<sup>59</sup>*

The possibility of privatisation has been strenuously denied by the Government throughout the speculation. As the much-quoted line on this goes, the Government's "ambition is to see a publicly owned Royal Mail fully restored to good health..."

---

<sup>58</sup> *The Implications and Consequences of the Introduction of Competition into the Postal Monopoly in the UK*, University of Durham, May 2004

<sup>59</sup> *Delivering Quality – The Post Office in the Public Sector*, CWU, February 2005

Another option to boost the company's performance would be to introduce an employee share ownership designed to boost staff morale. This is seen by opponents as a partial privatisation. The concept was discussed at a Trade and Industry Select Committee Inquiry in October 2005 where Royal Mail Chairman Allan Leighton confirmed the company is still considering ownership options and proposed that 20 per cent of the company could be made available to employees.

According to Job Ownership Ltd – a campaigning organisation that promotes employee ownership of business – there are a number of advantages to be gained through this model. These include benefits for the company, staff, government and the unions. It also said customers will benefit:

*“Customers should benefit from using a postal service whose industrial relations are better, where staff feel truly involved in the company, and where commercial imperatives and public service obligations have been clarified.”<sup>60</sup>*

The idea is not without its opponents. Many think that an employee ownership model is a back door to privatisation. John Grogan, the Labour MP for Selby, has secured the support of 171 MPs for a motion to oppose any form of private or staff ownership and to insist that Royal Mail remains a full public entity with no share offers to employees.

The CWU has rejected the proposal outright. As mentioned earlier its main concern is the direct relationship between these schemes and the possibility of privatisation in the future, but more specifically it warns that employees of Royal Mail as a whole would ultimately lose out if any form of employee share ownership scheme was adopted.

*“Share schemes undermine the principle of collective pay bargaining and detract from the need for a significant uplift in basic pay rates. Unilateral imposition of a share scheme not only negates national pay negotiations but runs counter to the Board’s “partnership” approach.”<sup>61</sup>*

The Labour Party manifesto 2005 contained a commitment to retaining the USO and went on to state “we have given the Royal Mail commercial freedom and have no plans to privatise it. Our ambition is to see a publicly owned Royal Mail fully restored to good health, providing customers with an excellent service and its employees with rewarding employment. We will review the impact on the Royal Mail of market liberalisation, which is being progressively introduced under the Postal Services Act 2000 and which allows alternative carriers to the Royal Mail to offer postal services.”<sup>62</sup>

In November 2005, press reports noted that the Conservative Party had expressed misgivings about government moves to introduce employee share ownership.<sup>63</sup> In a statement in January 2006, the Conservatives expressed

---

<sup>60</sup> *A Stake in the Post: Making Employees Stakeholders in Royal Mail*, Job Ownership Ltd, October 2005

<sup>61</sup> *Delivering Quality – The Post Office in the Public Sector*, CWU, February 2005

<sup>62</sup> *Labour Party Manifesto 2005*

<sup>63</sup> *Personnel Today*, 25 November 2005

concern about the potential negative effect of liberalisation on the Royal Mail and stated that the USO must be maintained.<sup>64</sup>

The Liberal Democrat Party issued a policy paper in 2003 called 'Setting Business Free' which stated "we are increasingly coming to the view that a privatised Post Office... on Dutch lines could have a better chance of succeeding than the current structure". The Liberal Democrat Manifesto 'The Real Alternative' contained a commitment to maintaining the USO and proposed developing a business plan based on providing a combination of commercial services, benefits transactions and government information to ensure that the network remains viable.

In September 2005 Liberal Democrat Party Conference considered a motion that proposed a part stock market privatisation and part employee share ownership package at their party conference as well proposals for opening up an 500 extra post offices.

The CWU remains convinced the risk of privatisation is real because of the veiled support the concept has from Royal Mail's Chairman Allan Leighton. The Union believes that his claim at the Trade and Industry Select Committee in October that the company isn't in a good enough financial position to be privatised at the moment proves that it is not a question of if, but when.

At the end of December 2005 there were signs that plans to go ahead with the staff ownership scheme were being forged. Media reports revealed that the DTI and Royal Mail were in talks with banks to handle the share issue while others reported the Royal Mail was recruiting senior industry figures to handle the process.

## 7.8 The impacts of competition in the UK so far

Postcomm is reporting positive results following these incremental changes. It says that competition for bulk mail has brought about improvements in prices, quality and range of services. It expects full competition to continue this momentum, further improving postal services, keeping prices in check and stimulating much-needed innovation.<sup>65</sup>

Postwatch is also optimistic about results so far:

*"Customers know from looking at their own post that several household names have already moved some of their mailings to the new operators. Our message today is that you don't have to be a household name with millions of customers to have choice. There are thousands of small and medium-sized businesses that could choose to use another operator and be offered a better service, better prices or both."<sup>66</sup>*

At the Trade and Industry Select Committee Hearing to assess the effects of competition on Royal Mail in October 2005, the company's chief executive reported that competition is definitely already having an effect on the £20 billion letter market.

---

<sup>64</sup> [www.politics.co.uk](http://www.politics.co.uk), 18 Feb 2005

<sup>65</sup> *Postal competition countdown: 100 days to go*, Postcomm, 24 September 2005

<sup>66</sup> *ibid*



*“We have lost around one billion items annually to [new entrants] which is actually about the level that Postcomm in their predictions are suggesting that we might lose by 2009/2010; so that would suggest that clearly the market has opened up a great deal further than the regulator expected. It has been very successful both for end customers, competitors entering [the market] and, indeed, the Royal Mail as it stands today.”<sup>67</sup>*

With this statement, Royal Mail helps to support Postcomm’s argument that competition, to the extent that it has been introduced to date, has been beneficial for all parties including the incumbent operator.

The full effects of competition on the post office network so far are hard to measure since the markets that had been liberalised prior to 2006 only constituted 30 per cent of the market. These elements are located in the bulk mailing and business market which are not likely to impact on the post office network. So it will be necessary to wait for some time after the introduction of liberalisation in January 2006 to discover the full effects on post offices and their communities.

## **7.9 Most recent developments**

The last few months of 2005 have been a crucial period for Royal Mail as will the first few months of 2006. As well as the liberalisation deadline, which will have been reached by the publication of this report, other issues still need to be resolved.

Meanwhile the Secretary of State for Trade and Industry Alan Johnson has commissioned industry specialist Sir George Bain to look at issues faced by the industry and Royal Mail. Bain was due to report back in October 2005 on his review but recent revelations about Royal Mail’s £4 billion pensions deficit that were uncovered following changes in the company’s accounting procedures have delayed it. The pensions deficit along with the company’s other financial difficulties have further implications for the review and the state of the company.

Another development came in late December 2005 when the Trade and Industry Select Committee published a report following its inquiry into the effects of liberalisation on the UK postal sector.<sup>68</sup> This involved in-depth consideration of the pricing controls and the full liberalisation timetable change proposed by Postcomm earlier this year. The Committee has met recently on three occasions: in October to discuss the issues directly with representatives of Royal Mail, then in early November to talk to Postcomm and Postwatch, and finally in mid-November to garner opinion with members of the Mail Competition Forum which represents companies competing with Royal Mail.

The Committee was heavily critical of Postcomm’s decision to bring forward the full liberalisation date to January 2006:

*“We regard Postcomm’s choice of dates for the move to full liberalisation in the UK postal services market to be an untimely one—not because we believe that Royal Mail will be unfairly disadvantaged against other operators, as we*

---

<sup>67</sup> Transcript of oral evidence for ‘Royal Mail After Liberalisation’ hearing (uncorrected), Trade and Industry Select Committee, 18 October 2005

<sup>68</sup> *Royal Mail After Liberalisation*, Trade and Industry Select Committee, 20 December 2005

*have faith in the competitive strength of the Royal Mail, but because Royal Mail has also been asked to prepare for competition at a time of great commercial uncertainty.*<sup>69</sup>

The Committee acknowledged that liberalisation had so far had beneficial effects by making Royal Mail more efficient but warned that the USO would require even more protection given the concerns it had that competition could harm Royal Mail's ability to deliver on it.

---

<sup>69</sup> *ibid*

## 8. Implications of Changes for Manchester

This report was written in response to Manchester City Council's concern about the fate of its post offices following the large number of closures occurring through the UNRP. Councillors became concerned about the potential impacts these losses would have on the economic and social health of the communities of Manchester City.

Our brief was to investigate the impact of closures in the light of the programme and also other events that will impact the postal sector, including most notably liberalisation in 2006. The resulting report draws on national level information and applies this where appropriate to Manchester. This section draws together that information which has particular resonance for Manchester.

### 8.1 How the UNRP impacted Manchester

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 (see appendix B).

According to a NERA report for Postcomm, the North West region experienced the highest number of closures through the UNRP.<sup>70</sup> It notes, however, that the North West also had the highest number of branches and therefore a particularly high branch-density level.

It is interesting to note that representations from neighbouring Trafford Borough Council objecting to the closure of the Upper Chorlton Road post office were successful. Post Office Ltd and Postwatch have refused to disclose the reasons why the closure was withdrawn to Trafford Borough Council, though it may be argued that this information should be in the public domain. This post office is very close to the Manchester City Council local authority boundary and the catchment area includes many Manchester residents.<sup>71</sup>

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

---

<sup>70</sup> *Review of the Post Office Urban Reinvention Programme*, NERA, July 2005 (released October 2005)

<sup>71</sup> Conversation with Caroline Jones, Officer, Trafford Borough Council

closures their protests were not effective and closures went ahead anyway. Councillor Priest asked why Post Office Ltd and Manchester City Council had such differing positions when it came to the branches in question. Mark Partington, Post Office Ltd's Area Development Manager, said that the closures were necessary for commercial reasons and were unavoidable.

The UNRP process has been controversial. The House of Commons Trade and Industry Select Committee accepted that some branch closures were inevitable because the demand for those particular branches' service was so low. 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 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. This view was endorsed by the Postwatch representative, Judith Donovan MBE, speaking at a hearing held by the Manchester City Council in December 2005 on the impact of branch closures in Manchester.

## **8.2 Improvement programme accompanying UNRP**

At Manchester City Council's inquiry exploring the issues surrounding the loss of 20 of its city's post offices, Councillors drew attention to failures 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.

Councillor Anna Trotman asserted that the improvements promised for these receiving branches in her constituency had failed to materialise. Judith Donovan MBE who was presenting Postwatch at the inquiry backed these assertions, saying her organisation had been "appalled" by the failure to implement the improvement programme on a national level.

The NFSPs' General Secretary Colin Baker admitted that improvement activities among some sub postmaster had been poorly implemented despite the fact that these individuals had committed to them. He said that his organisation had now sent out teams among the sub postmasters to encourage them to begin the work and make them aware that there are funds available to support it.

## **8.3 The potential for future closures in Manchester**

The potential for further closures in Manchester City were discussed at the December 2005 inquiry. Post Office Ltd's Area Development Manager Mark Partington said that while there were no plans for future closures he could not rule them out altogether. A CWU representative said that Post Office Ltd is still experiencing financial troubles and suggested that further closures are

possible. He referred to a 'Project Rainbow' – an internal Post Office Ltd programme which involves further review of the network – that he said could lead to further closures. This cannot be corroborated and was not commented upon by the Royal Mail representative present at the inquiry.

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, according to Postwatch.<sup>72</sup>

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. Some investment into the physical infrastructure of post office branches was provided in the form of government funding to help win back consumers tempted away by electronic communications and discouraged by run down post offices. However, many improvement programmes are yet to be started. Post Office Ltd's card account (POCA) has failed to achieve retention rates that would help sub postmasters regain some of the benefits processing revenue previously lost to the Direct Payments system.

#### **8.4 The threat to Manchester's Crown offices**

The future of Manchester's Crown (or directly managed) offices 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. There are currently 555 Crown offices, the majority of which are based in densely populated urban areas, with approximately 30 based in rural areas. They are generally found in high street locations, with good transport links and access for disabled customers, according to Post Office Ltd. There are seven crown offices in Manchester City.<sup>73</sup>

As at July 2005, Postwatch was unable to confirm whether any Manchester Crown offices were under threat. It said that the Post Office Ltd was unwilling to divulge any details of specific sites under review because of the repercussions it would cause. At Manchester City Council's December 2005 inquiry the Post Office Ltd's Area Development Manager Mark Partington

---

<sup>72</sup> *The Urban Network Reinvention Programme: A Postwatch brief on the issues surrounding Post Office Ltd's plan for changes to urban post office branches*, Postwatch, Oct 2002

<sup>73</sup> According Post Office Ltd's Helpline

could not provide any details about the potential for Crown office closures in Manchester.

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.

The company maintains that no more than 30 Crown offices will need to close nationally, however there is no information about whether any of these are in Manchester. A further 165-235 Crown offices will be offered for franchise as part of the company's review. However, the viability of franchising as a solution has been questioned by the Communications Workers Union.

In addition, a representative of the Communication Workers Union (CWU) pointed out that the business model to assess the commercial viability of Crown offices was flawed and had the potential of leaving customers vulnerable to future closures. He said that Post Office Ltd was proposing that where they do not close Crown offices, they will offer them as franchises. He said this means that their future cannot be guaranteed and pointed out that there was no alternative plan if there were no takers for the franchise.

## **8.5 The economic and social impact 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. Sections 5 and 6 of this report cover the primary qualitative and quantitative research carried out by **nef** exploring the economic and social significance of post offices.

On the economic side, 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. Section 5 contains significant quantitative evidence and personal testimonies showing that the loss of the Wythenshawe post office has caused significant distress to its vulnerable neighbours. 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.

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.

Many local organisations in Manchester complained that closure of the nearby post office had caused significant problems for vulnerable groups, particularly the elderly and infirm, who pinpointed a loss of independence and an increase in the cost and distance of travel.

**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 impact with £119,146 in terms of direct local spending on goods and services..

Based on the estimated loss to the economy of the post office studies, we can estimate that the closure of the 20 post offices in Manchester could have resulted in a loss of £6.2 million to their local economies (20 multiplied by the £310,546 estimate per post office). In terms of direct local spending on goods and services, there is an estimated loss of £2.38m (20 multiplied by £119,146).

Aggregating these two estimated totals from the LIM and LM3 model provides a total of loss of £11.6 million per annum to the Manchester economy resulting from the closure of the 20 post offices.

## **8.6 Implications of postal market liberalisation for Manchester**

The impact of liberalisation, which comes into effect in January 2006, was a principal subject of the Manchester City Council's Postal Service Inquiry 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. Postcomm's Director of Network and Universal Service, Denise Bagge, said that liberalisation brings more competition and forces all operators to improve their performance. Royal Mail's representative agreed, saying that there is little chance the USO in Manchester would become vulnerable: it is the denser, city-based, compact areas that are the most attractive to competitors because of the low delivery cost implications. Royal Mail said that because competitors will be interested

in this area and therefore offer more to the market, customers are more likely to benefit.

Councillors went on to discuss the high level of complaints about postal services in Manchester and to question Royal Mail about whether things would be improved post liberalisation. Councillor Peter Rothery reported that there had been 30,000 complaints relating to missing or late items in the past year. He asked whether the entrants of new operators into the market post January 2006 would help to improve this. Denise Bagge said that things would definitely improve as new operators know that trust in the postal service among customers is paramount and that they would make sure their systems were set up to ensure reliability.

This led Councillors to question how customers would be able to track missing items in a market that is set to become more fragmented – they wanted to know who would be accountable in the event that an item went missing. Judith Donovan CBE representing Postwatch said that although new entrants come into the market at the collection end of the postal delivery process, it is still Royal Mail that will be in charge of ‘the final mile’ i.e. the delivery of all items. Royal Mail will still have control of keeping track of all items and will be the organisation to turn to when things go wrong.

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.



## 9. Recommendations

This report identifies the substantial economic contribution that post offices make to economic activity, local money flows and to sustaining local businesses in disadvantaged communities. The following recommendations identify a number of steps that Manchester City Council (MCC) and the Government can take that to sustain the viability of urban post offices. Given the potential threats of liberalisation and the review of Crown Post Offices, MCC should take a leadership role both locally and nationally.

### A Leadership Role for MCC

- MCC to build on this research and the Hearing it convened 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 – eg 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.
- MCC to host a forum every six months bringing together stakeholders present at 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.

### The Role of Post offices in Economic Development

- Given evidence of people and businesses keen to take opportunities to run post offices, 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. The 12 week consultation period did not allow sufficient time to identify viable alternatives to closure

- 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.
- 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. Also, analyse the implications of price changes following liberalisation for SMEs and social enterprises that may harm their competitiveness.

#### **Maintaining Services and Tackling Financial Exclusion**

Given the threats to postal services from liberalisation and possible future closure programmes, MCC should begin examining scenarios in which there is little to no provision of services within disadvantaged areas.

- 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.
- MCC to explore how post offices' roles in tackling financial exclusion can be supported. Where there is no post office, it is worth exploring alternatives with Credit Unions and Citizens' Advice Bureaus. One solution that requires further investigation is that of a Community Banking Partnership that combines affordable credit with advice.

#### **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 consider whether it can engage partners, eg Business Link, in supporting sub postmasters to carry out these improvements.

#### **Future Proofing for Developments**

In evaluating closures, no account seems to have been taken of increased demand as a result of imminent area regeneration and housing development.

- 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 ensure that data and information on area regeneration impacts of post offices is incorporated into area regeneration plans.

#### **Recognise 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.

#### **Enhancing Post Office Branch Viability**

- MCC to lobby for national measures to support sustainability e.g. highlight the implications of plans to phase out POCA on post office revenues, advocate alternative revenue streams to compensate i.e. wider availability of basic bank accounts at Post Offices, 'social services' payments and joined-up government approaches e.g. passport checks.
- MCC to advocate that Government review the current unrealistically low level of fixed payments made to Post Offices for transaction payments to enhance urban post office viability.

#### **Building an evidence base to resist Crown office closures and franchising**

A pre-emptive research programme should be undertaken to counteract any future prospect of Crown office closures or franchising in Manchester City.

- 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.

- 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.
- 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.

#### **A transparent decision-making system**

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 this six month period prior to any final decision for closure.

#### **Improve methodology to improve identification of deprivation**

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 should ensure that its knowledge of patterns of deprivation in Manchester is utilised and considered in any further assessment of post office closures.

## Appendix A: Research Methodology

We used qualitative and quantitative data to explore the economic and social impacts of post offices. We undertook surveys and interviews with customers and businesses near two specifically selected post offices: Gladeside post office in Wythenshawe and the Stretford Road post office in Hulme. It should be noted that the survey respondents do not represent an overall random sampling from the whole population but were selected from a population based near to the post offices in question.

Gladeside was closed in February 2004 and Stretford Road remains open. These post offices, selected by Manchester City Council, are located in areas of substantial deprivation but differing demographic, spatial and social characteristics. The Hulme post office is located in a diverse multi-ethnic inner city area whereas Wythenshawe is on the periphery/outskirts of the city with a stable population close to areas earmarked for regeneration. **nef** surveyed a total of twelve businesses – six near the Hulme post office and six near the Gladeside post office – who gave their perspective on the effects on their business of losing a post office. We also surveyed a further 54 individuals of which 22 were based near the Hulme post office and 32 near the now-closed Gladeside post office.

By selecting both an open post office and a closed post office, we could build a picture of the impact of a branch closure 'before' and 'after'. Clearly there are other factors that affect the status and economic health of an area but some observations can be made by examining how businesses and individuals currently value their post office and how others feel when their branch closes.

### Surveying at the Gladeside site

#### *Individuals*

Of the 32 residents surveyed at the Gladeside post office, some came from the area around the surrounding shops; we visited others at the Willow Park Housing Estate which is a sheltered housing estate for elderly residents. The following demographic breakdowns are based on the respondents that specified details on particular categories. The majority – 97 per cent – were white and the remainder non-white (Indian). Sixty-nine per cent were female and 31 per cent were male. Seventy-one per cent of the sample were pensioners over 65, 12.5 per cent were aged between 30 and 39, 12.5 per cent were aged between 20 and 39 and 4 per cent were aged between 16 and 19. Seventy-one per cent were pensioners, 16.5 per cent were unemployed and 12.5 per cent were employed.

## **Businesses**

Most of the six businesses surveyed at the Gladeside site were retail outlets based in the same parade of shops that formerly housed the post office. These included a wine shop, a grocers, a florist, a café, a funeral director and the nearby Barnardos family centre.

## **Surveying at the Hulme post office**

### **Individuals**

The 22 residents surveyed near the Hulme post office were drawn from within the branch itself. Coming from a broad range of demographic groups and economic backgrounds, the following demographic breakdowns are based on the respondents that specified details on particular categories. The majority – 72 per cent – were white, 12 per cent were black Caribbean, 5 per cent were black African, 5 per cent were Asian and 5 per cent were mixed race. Forty-four per cent were female and 55 per cent were male. Fifty-six per cent were in employment, 25 per cent were unemployed, 12.5 per cent were students and 6.5 per cent were pensioners. The rest did not specify employment status.

### **Businesses**

The Hulme post office is located in a small shopping parade of businesses comprising only two shops and a café. The sample of six companies in the survey was drawn from a wider geographical area compared with those interviewed around the Gladeside site. They included an engraving service company, a community arts organisation and a book distributor.

## **Manchester City Council's survey**

Additional data came from a Manchester City Council survey undertaken in 2005. Respondents were drawn from across the city so the findings do not relate to any particular post office but they are all individuals who recently lost their local post office branch.

There were 90 respondents to the survey of which 34 were individuals, 32 were businesses, 14 were from schools and 10 were community organisations.

## **Summarising data**

Findings in this report were drawn from analysis of different sets of the total data available for this study. At some points we refer to the total data set – the findings from both **nef**'s direct surveys and those collected by Manchester City Council – and at others we refer to findings drawn from one or other of the data sets. The data sets in question are specified each time.

## Appendix B: Manchester post offices closed through the Urban Network Reinvention Programme

Post Office Name	Address	City	Postcode	Consultation Started	Consultation Ended	Closure Date
WILLOW BANK	560 Parrswood Road	Manchester	M20 5QT	31-Jan-03	28-Feb-03	14-Apr-03
BARLOW MOOR ROAD	100 Barlow Moor Road	Manchester	M20 2PN	10-Mar-03	11-Apr-03	03-Jun-03
MOSS SIDE	Mazda House	Manchester	M16 7DJ	25-Jul-03	29-Aug-03	12-Oct-04
LEVENSHULME	30 Albert Road	Manchester	M19 2QE	27-Sept-03	05-Nov-03	22-Nov-04
ABBEY HEY	57 Jetson Street	Manchester	M18 8SX	16-Jul-04	08-Sept-04	01-Dec-04
ASHLEY LANE	163 Ashley Lane	Manchester	M9 4NQ	16-Jul-04	08-Sept-04	24-Nov-04
BEECH ROAD	109 Beech Road	Manchester	M21 9EQ	16-Jul-04	08-Sept-04	22-Nov-04
BRADFORD ROAD	11 Queensbury Parade	Manchester	M40 7DW	16-Jul-04	08-Sept-04	24-Nov-04
BURTON ROAD	119 Burton Road	Manchester	M20 1HZ	16-Jul-04	08-Sept-04	20-Nov-04
CHAIN BAR	741 Moston Road	Manchester	M40 5GT	16-Jul-04	08-Sept-04	22-Nov-04
CLARENDON ROAD	33 Park Drive	Manchester	M16 0AF	16-Jul-04	08-Sept-04	12-Oct-04
COLLYHURST	27 Eastford Square	Manchester	M40 7QT	16-Jul-04	08-Sept-04	17-Nov-04
HANGING DITCH	40/41 Long Millgate	Manchester	M3 1NX	16-Jul-04	08-Sept-04	17-Nov-04
HYDE ROAD	814 Hyde Road	Manchester	M18 7JD	16-Jul-04	08-Sept-04	04-Jan-05
MAULDETH ROAD WEST	248 Mauldeth Road West	Manchester	M20 1BE	16-Jul-04	08-Sept-04	12-Oct-04
RIVERDALE ROAD	67 Riverdale Road	Manchester	M9 8UJ	16-Jul-04	08-Sept-04	24-Nov-04
ST MARYS ROAD	260 St Marys Road	Manchester	M40 0AY	16-Jul-04	08-Sept-04	24-Nov-04
UPPER BROOK STREET	60 Hathersage Road	Manchester	M13 0FN	16-Jul-04	08-Sept-04	24-Nov-04
BENCHILL	42 Gladeside Road	Manchester	M22 9GQ	07-Oct-04	17-Nov-04	09-Feb-04
MOORCROFT ROAD	168 Moorcroft Road	Manchester	M23 0AH	07-Oct-04	17-Nov-04	17-Jan-05

## Appendix C: Impact Methodology

The Local Impact Model (LIM) aims to measure and quantify the importance and value of local businesses to their surrounding economy. The model can give an estimate of the value that these businesses collectively contribute to their local economy through their spending on local employees, local suppliers and other contributions (such as charity work/sponsorship).

The Local Impact Model works by using averaged impact values taken from a large sample of firms to build an aggregate picture of total business impact of a given area.

These average impact values are sourced from both publicly available information and detailed survey work. The publicly available dataset includes the Annual Business Inquiry (ABI) which is sourced from the Office of National Statistics (ONS). The research has also made extensive use of data from The BETA Model, a regularly updated database of individual businesses.<sup>74</sup> In addition, over 800 surveys informed the model and provided further insights into business attitudes influencing the level of impacts.

### Hulme Area

There are approximately 140 companies in the sample area.<sup>75</sup> Figure C.1 is a breakdown of the 129 companies in the sample data<sup>76</sup> which includes only the small and medium enterprises (SMEs) in this area.<sup>77</sup> It shows that property and business services (21 per cent), health services (20 per cent) and public administration companies (16 per cent) form the majority of SMEs in this area. Retail companies at nine per cent are a smaller subsection which reflects the fact that the Hulme area lies outside of Manchester's principal shopping zone.

---

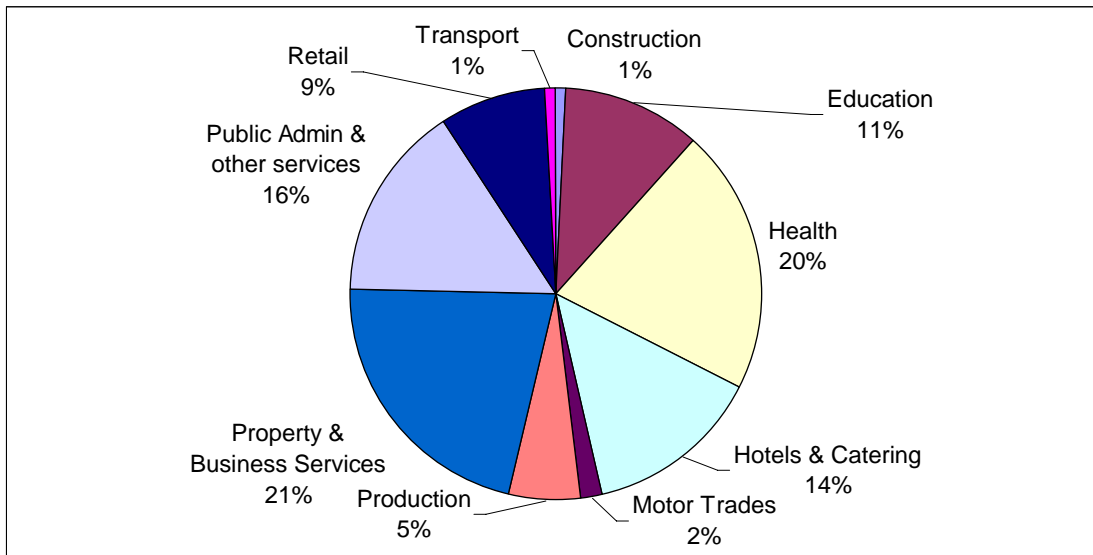
<sup>74</sup> [www.betamodel.com](http://www.betamodel.com)

<sup>75</sup> Office of National Statistics, Inter Departmental Business Register (IDBR), March 2005

<sup>76</sup> Data from The Beta Model, [www.betamodel.com](http://www.betamodel.com)

<sup>77</sup> Justification of selection of only small and medium sized companies can be found in Appendix A: LIM Full Methodology

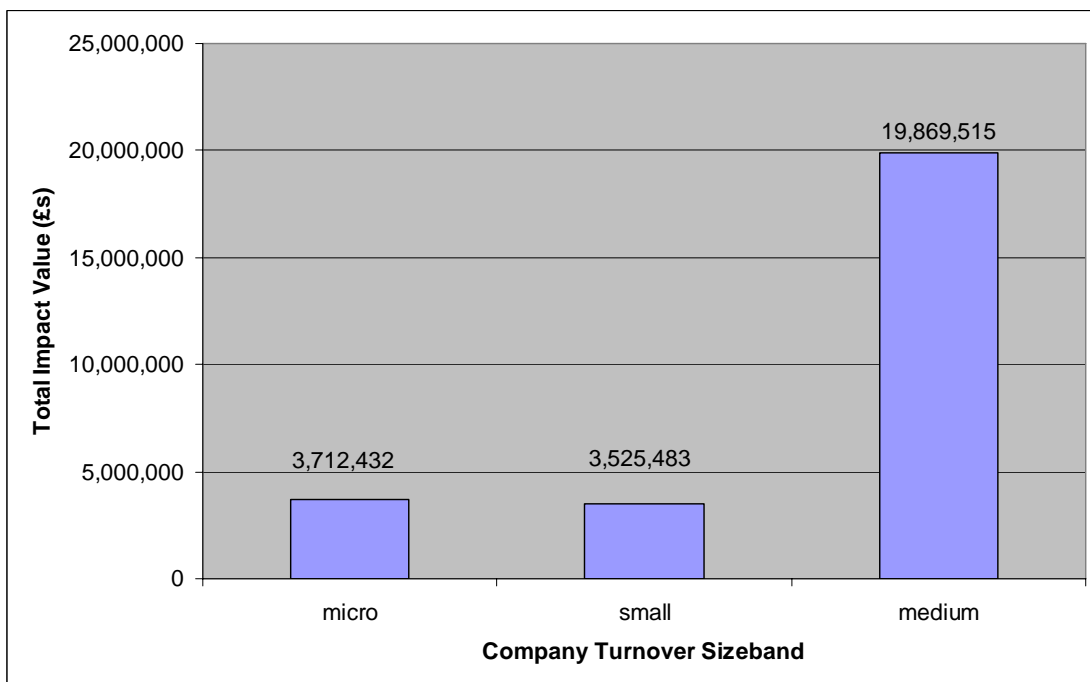




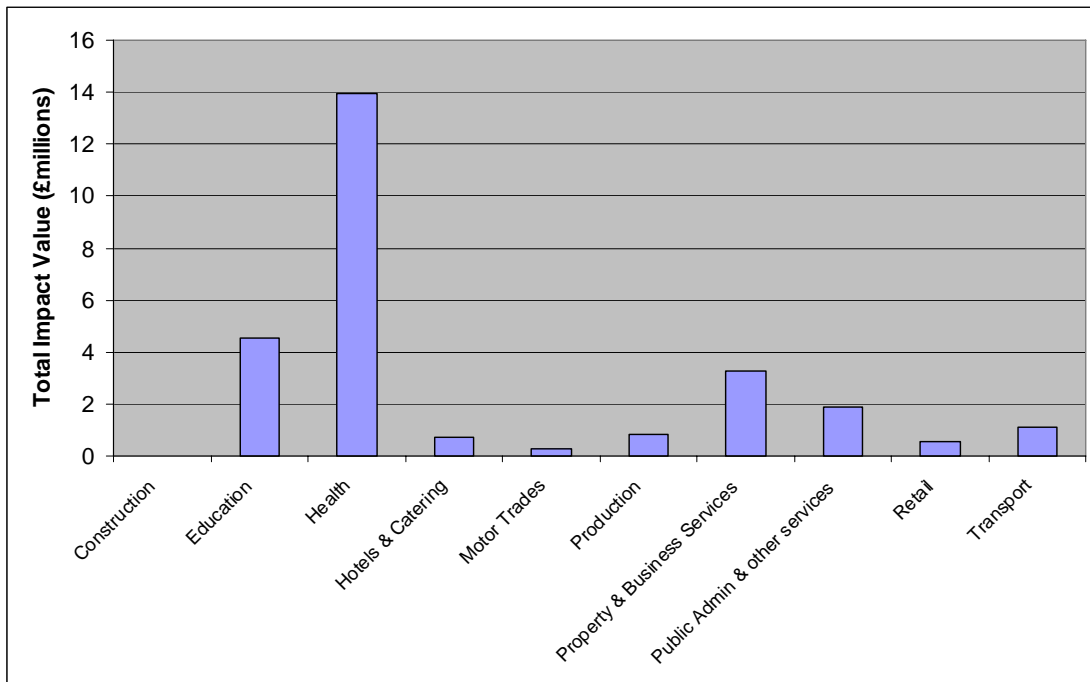
**Figure C.1: Sectoral distribution of small and medium-sized companies in Hulme sample area**

Source: *The Beta Model*

Figure C2 illustrates the value of SMEs' contributions by sizeband.



**Figure C.2: Value of impact from SMEs in sample by turnover sizeband**



**Figure C.3: Value of impact from SMEs in sample by sector**

Figure C.3 shows the distribution of impact between the sectors in the sample. The outstanding figure is the contribution of health companies at just under £14 million. This is explained by the relatively high proportion of health companies in the sample and the relatively high ratios of local employment, supplier sourcing and contributions of these companies in the survey data compiled for the model.

### The development of findings

#### *Stage One: Gathering sample data.*

We identified a sample of companies lying within a half-mile radius of the open post office in Hulme. As well as their geographical location it was also necessary to note their Standard Industrial Classification (SIC) code, the Government's system of classifying business description, and their turnover figures. Only SMEs were used in the sample.

#### *Stage Two: Generating key variables.*

The model is based on three key variables:

1. Local procurement
2. Local employment costs
3. Local financial contributions

We used the ABI to determine values for each enterprise's procurement and employment costs (or wage bill). The third variable, financial contributions, we tackled in a different way in Stage Three. As the ABI provides sector total

values of such variables we applied averages to each firm's turnover to obtain approximate values.

### *Stage Three: Applying local impact ratios to key variables.*

To obtain local impact values it was necessary to apply average local impact ratios to each enterprise's procurement and employment costs based on survey data and analysis. A local impact ratio identifies what proportion of a company's employment or procurement costs are spent locally rather than further afield. We compiled these impact ratios from business trend data compiled through **nef**'s Inner City 100<sup>78</sup> project together with a survey of 800 companies compiled for **nef** by a research company.

### **Parameters of the Model**

The Local Impact Model only measures the first order direct impacts of enterprises on their immediate areas. It does not measure additional secondary impacts; for example, how employees of local businesses spend their money. In the case of wages, the measurement is limited to the value of wages given to local employees and does not extend to the next stage or, second order, of spending by the local employee of that income. This underestimates the true value of money generated for the local area through local employment. The multiplier effect of further spending is not incorporated into the model's findings.

Defining a local area is problematic because it can depend on so many factors. In this application of the model, local has been defined as within a half-mile radius because of the proximity of other post offices. By keeping the catchment area to this size we can be reasonably sure that the companies included are influenced by the presence of the Hulme post office. This definition focuses on the immediate locality and contrasts with work on rural areas that defines the local area as up to a 20-mile radius.<sup>79</sup>

We focus is on small and medium enterprises (SMEs) but also include micro enterprises with a turnover in excess of £1,000. The model focuses on SMEs because there are considerable gaps in knowledge about their roles in local communities and they are central to creating a vibrant enterprise ecology. Clearly, large firms can have significant impacts on their local areas, but these are not considered here. Large firms are excluded from the Local Impact Model as it is problematic to calculate their direct local impacts given their scale and often broad geographical reach. For example, large firms may locate their headquarters in a given geographical location but their impacts are often predominantly non-local. This is not to say that large firms do not

---

<sup>78</sup> The Inner City 100 was a yearly business index and research initiative that located and celebrated the fastest-growing inner city businesses in the UK between 2001 and 2004. Led by **nef**, the Inner City 100's mission was to champion entrepreneurship in the inner city.

<sup>79</sup> Williams, C.C. (1994) *Rethinking the role of the service sector in local economic revitalisation*, *Local Economy*, 9 (1), pp. 73-83. Curran and Blackburn (1994) opt for a 10-mile radius. Curran, J. and Blackburn, R. (1994) *Small Firms and Local Economic Networks: The Death of the Local Economy*, (London: Paul Chapman).

have an important role in coastal economies, but the focus here is on SMEs and how to measure and improve their impacts.

#### **Purpose of the model and its level of accuracy**

The Local Impact Model does not claim to provide an exact figure reflecting the total impact value contributed by the companies in the sample. It is designed to create reliable and statistically significant estimates. The figures produced are intended to provide compelling financial evaluations of what are essentially real phenomena, namely local employment, local procurement and financial contributions of the local area.

The Model offers insights into the magnitude of local impacts generated by businesses in an area and segments these by organisational size and industry sector. It also raises a number of questions that can help mould future enterprise-led regeneration policy, for example, by informing policy on which firms and of what size contribute most to their local economy.

Where there are sectors not represented, this reflects omissions from the original data where figures were not present so they could not be represented.

It should be noted that there is some double counting in the Model. Not all money is 'new money' flowing into the area. For example, one enterprise may procure from another local SME and that firm in turn may procure some products from the original enterprise; in these cases double counting of impacts will occur. The extent of this double counting needs further research but it is highly probable that the effects are minimal and will be outweighed by the under-estimation of total impacts inherent in adopting such a limited definition of local i.e. within a half-mile.

## Appendix D: The post office network and access to finance

For years, the post office network has helped individuals to access benefits, withdraw cash, pay bills and conduct banking transactions. But the role of post offices in enabling people to conduct banking transactions has evolved over time as government priorities and the structure of the banking industry have changed. The current position of the post office network *vis à vis* provision of banking services and tackling financial exclusion is ill-defined and needs addressing: post offices are currently in a peculiar position of being both a competitor to the banks and an operator for the banks in offering transactional services for some of their customers.

Appendix D reviews the role of the post offices in access to finance covering the original proposal to create a universal bank, the creation of the post office card account (POCA), the introduction of basic bank accounts and the post office's provision of transactional banking services. It concludes by reviewing some of the challenges faced by the post office in fulfilling its role as a point of access for banking services and benefits collection.

### D.1 Benefits payment pre-2003

In 2000, around 18 million people, or two-thirds of benefit claimants, used post offices to access their benefit payments. The post office estimated that 85 per cent of claimants (including 90 per cent of pensioners) had a suitable account for direct payments but chose to receive their benefits through the post office. Research found that 79 per cent of people who wanted to collect their benefit from the post office did so because they liked to keep their benefit separate.<sup>80</sup>

Benefit payment transactions brought in up to 40 per cent of an individual post office's income, although the percentage varied with some post offices more or less dependent on this source of income. But concerns over the cost to the Government of over-the-counter benefits payment led to a drive to move the payments to electronic deposit into individuals' bank accounts, so called Direct Payment (DP).

### D.2 The proposed change: Direct payment and the creation of a universal bank

#### D.2.1 Direct Payment (DP)

The Government's DP plans were announced in 1999 and DP was introduced between April 2003 and March 2005 with an aim to convert at least 85 per cent of benefit recipients to DP in that time. The unstated aim for the

---

<sup>80</sup> NFSB May 2003

conversion to DP was to save the Government an estimated £400 million per annum in transaction costs for the payment of benefits over the counter through the post office. Please refer to Section 1.4 for further information on DP.

#### **D.2.1 Creation of a universal bank**

Concurrent with the proposed change to DP, the Performance and Innovation Unit recommended that the post office network's potential in the fight against financial exclusion be fully realised through creating a universal bank.<sup>81</sup> Post Office Ltd would offer current accounts through its branches targeted at individuals who had not held current accounts previously. It was envisaged that Post Office Ltd would co-operate with the high street banks for the IT back office functions and that agreement might be reached for one of them to "ghost" for the post office branded current account.

The main reason presented for the creation of a universal bank was that it was believed the post office network could achieve an even greater depth of coverage than the banks and make good use of its vast branch network. In addition, it was thought that the creation of a universal bank account offered through the network would create a new income stream to help Post Office Ltd stem declining income from payment of benefits due to the change to DP.

#### **D.3 The Post Office Card Account (POCA) and basic bank accounts**

In the end, the original recommendation for the creation of a universal bank was not followed and it was supplanted by the introduction of direct payment of benefits through either the Post Office Card Account (POCA), through the newly introduced basic bank account offered by the banks themselves or through an existing bank account.

##### **D.3.1 The Post Office Card Account (POCA)**

The POCA is not a bank account; it is an electronic form of benefits receipt. It can only be used to access benefits, although housing benefit is currently excluded from the system. The POCA cannot be used for cashing or depositing cheques, receiving wages, processing direct debits, or standing orders. Benefits may only be withdrawn at a post office counter; the card and PIN cannot be used in an ATM. In addition to cost savings for the Government, the only notable advantages of POCAs over benefits books or giro cheques are that with the card and PIN, benefits can be withdrawn at any post office and they do not have to be withdrawn in one full amount (improving budgeting). In spite of its limited features, 5.1 million POCAs have been opened to date, two million more than expected.<sup>82</sup>

The development of POCAs was funded by a one-off funding agreement with the banks who provided £180 million for their development and roll-out to 2008.<sup>83</sup> It is unclear whether any subsequent funding will be provided after

---

<sup>81</sup> *Counter Revolution: Modernising the Post Office Network*, Performance and Innovation Unit, June 2000

<sup>82</sup> *Basic Banking: getting the first step right*, National Consumer Council, August 2005

<sup>83</sup> *Everyday essentials: meeting basic financial needs*, National Consumer Council, March 2003

this period. Post offices receive £2 for every POCA they open. While more POCAs were opened than expected, the rate of opening will decrease dramatically going forward. Around 30 per cent of current benefit recipients chose to open a POCA but only three per cent of new benefit recipients (that were never on the benefits book system) are opting for this account.<sup>84</sup> So, in future, the number of POCAs will stabilise and the post offices will no longer receive the one-off £2 payment for new accounts. Although post offices will continue to receive 14p for every £100 of benefits withdrawn through a POCA, their overall level of income stream will thus be lower once current benefit recipients have all been transitioned to DP.

There have been criticisms of the way in which the change to DP occurred and of the way in which the Government seemed to be pushing individuals to opt for the basic bank account option over the POCA. The process for opening the POCA appeared unduly complicated involving as many as six different steps and phone calls to various numbers. Anecdotal evidence suggests that the Department of Work and Pensions' advisers were briefed to encourage people to open a bank account as opposed to a POCA.<sup>85</sup> In spite of this, almost one-third of benefit recipients are choosing to continue receiving their benefits through the post office in the form of the POCA.

### **D.3.2 Basic bank accounts**

As part of its commitment to tackle banking exclusion, the Government persuaded the banks to offer a basic bank account product by October 2003 at the latest. These basic bank accounts were to be available as transactional accounts with no or very limited overdraft facilities. Some banks already offered such accounts, for example, a step account or cash card accounts. Other banks had no such product and so developed one. All banks had a basic bank account available by 2003. The idea was to create a bank account that had no fees, no minimum monthly deposits and no need for credit checks so as to ensure that it would be accessible to all.

The BBA estimated [in 2002] that 3.5 million people did not have a bank account. Since April 2003, 1.3 million basic bank accounts have been opened, of which 96 per cent are accessible at the post office. Sixteen banks offer basic accounts that can be accessed through the post office.

Criticism has been levelled at the banks and the British Bankers' Association (BBA) for the way in which the basic bank accounts have been conceived and marketed (or not). While the BBA claims that the number of basic accounts is increasing, there is scepticism as to the commitment of the banks to promote and market these accounts. Mystery shopping exercises undertaken by the media and Banking Standards Board<sup>86</sup> have shown that many bank branch staff are not adequately trained to advise customers on opening these accounts. Some banks require potential applicants to undergo credit checks even though there is no overdraft facility associated with the account. The

---

<sup>84</sup> *Customer experience of Direct Payment*, Department for Work and Pensions, September 2004.

<sup>85</sup> While this is good from the standpoint of encouraging banking inclusion, this is detrimental for the post offices as they receive less income stream from people who opt for the basic bank account.

<sup>86</sup> Reference Banking Standards Board study

accounts do not have any kind of common branding, each bank calls them by different names and each bank offers slightly different features although the basic features are the same. This has led to confusion with members of the public who are not exactly sure what a basic bank account is and whether they are eligible to open one.

### **D.3.3 Missed opportunity**

All of this points to a missed opportunity in using the transition to DP as a tool to promote banking inclusion. Many more people have opted to open a POCA even though this is no more than an electronic payment system for benefits. And many of those that have tried to open a basic bank account have been turned away, while some have not even tried because of deep-seated mistrust in high street banks. The trust placed in the post office brand and the reach of its vast network could have provided an ideal platform to launch a universal bank account to financially include some of the socially excluded in society. This would have also helped to secure a new income stream for the post office to replace that lost from the change to DP. However, as the rest of this section shows, the ambivalent relationship between the post office and the banking sector means this opportunity was missed.

### **D.4 Access to transactional banking services**

After the privatisation of Girobank and its sale to Alliance and Leicester in 1990, Girobank accounts continued to be accessible at the post office. Since 2003, all Girobank and Alliance and Leicester branches operate under the same name and Alliance and Leicester personal current accounts are fully accessible through the post office.

Bank of Ireland, Clydesdale Bank and LloydsTSB also offer full access to banking at the post office. Barclays, Cahoot, the Co-op Bank, and Smile offer withdrawals and deposits but not balance enquiries. HSBC, NatWest and RBS and HBOS do not have agreements with the post office for access to their bank accounts. These banks capture 40 per cent of the current-account market. It appears that with HBOS the lack of such an agreement is purely one of cost, while with RBS the problem is that the post office is viewed as a competitor to RBS because of their agreement with Bank of Ireland (who “ghost” products for them).<sup>87</sup>

Business banking clients with Alliance and Leicester, Clydesdale Bank and Bank of Ireland can also use their business bank accounts at the post office. The post office provides personal loans, fronting for Bank of Ireland. It also offers money transfers as a MoneyGram agent but this is only available at 2,300 post office branches nationwide.

The post office accepts payment and pre-payments towards a whole range of bills including telephone, cable TV, gas, electricity, water, TV licence, mail order, council tax, council rent, housing association rent, Inland Revenue self assessment bills, insurance, record/CD/book club bills and TV and video rentals. For most of these, the post office takes payment by cheque and also offers budgeting facilities such as savings stamps or payment cards. It is also

---

<sup>87</sup> *Cash Machine Charges*, Trade and Industry Select Committee, Fifth Report of Session 2004–05



possible to recharge many electricity keys or gas cards and buy pre-payment tokens for gas and electricity. Some bill payments attract a fee.

### D.5 Post offices and ATMs

Across the whole UK post office network, 2,493 (16 per cent) of branches have cash machines; of the total number of cash machines, 1,856 (74 per cent) charge fees.<sup>88</sup> While the Press has criticised the post office for its fee-charging cash machines, this does not represent a significant source of income as it appears that sub postmasters are receiving as little as 4p from each transaction from a fee-charging ATM, while standard fees for withdrawals vary between £1.25 and £1.75.<sup>89</sup> Bank of Ireland has agreed to install 1,000 free cash machines at post offices nationwide. Some will replace existing fee-charging ATMs while others will be installed in new locations.

There are more than 50,000 ATMs in the UK of which 20,000 charge a fee to withdraw cash. Many believe that that fee-charging ATMs are acceptable in what has been dubbed “convenience locations” such as pubs, newsagents and petrol agents, in so far as they are additional to no-fee ATMs located at bank branches and on high streets. To the extent that there are no fee-free ATMs in the vicinity, however, some argue that the banks have a duty to subsidise the ATM. The role of the post office in providing access to bank customers’ cash needs to be recognised and just as post offices are paid by the banks for processing over-the-counter transactions, banks should also pay the post office for providing an ATM service and access to bank customers’ cash. The post office should not be vilified for offering increased points of access for cash withdrawal. A clear strategy and position on the role of the post office in providing access to cash needs to be developed.

### D.6 Conclusion

The role of post offices in providing access to finance is muddled by its dual position as both provider of access to transactional banking services for banks’ customers and as competitor to the banks through the launch of Post-Office-branded finance products (such as insurance and personal loans). Because of these competitive pressures, the move to create a universal bank account was resisted and what ensued was a watered-down version of the original proposals. Post offices will lose out in the long run because of loss of income from the transition to DP. Financially excluded individuals who opt for the POCA to receive benefits will also lose the opportunity to reap the benefits of access to transactional banking. The missed opportunity is clear.

Fresh thinking is needed to achieve the dual aim of securing the future of our post offices and enhancing their role in the fight against financial exclusion. One possible way forward might be a move away from national agreements between banks and Post Office Ltd. These could be replaced with local agreements between post office branches and local banks as a way to provide their customers enhanced access. Agreements could be negotiated on a case-by-case basis so that when banks are making branch closure

---

<sup>88</sup> *Cash machine charges*, submission to the Treasury Select Committee

<sup>89</sup> BBC article, Feb 2 2005

plans, they could arrange with the local post office to act as a banking provider for their customers. This would have the added benefit of securing another income stream for a post office that might be itself struggling to maintain profitability. The Campaign for Community Banking Services has also suggested that the post office be considered a candidate for providing shared banking services in areas where banks believe that maintaining branches is uneconomical. To achieve this, the post office would need to reconsider its strategy to compete against the banks. In the long term, it might be in the best interest of the post offices, as well as the communities in which they are located for them to not compete directly with the banks and for the banks to commit to continuing to provide access to transactional banking services in all localities.