



# Annual Review 2014



**NFSP**  
The voice of the  
UK's post offices

# About us



The National Federation of SubPostmasters (NFSP) supports subpostmasters across the UK

We are an independent membership organisation, with a commercial trading company to aid the retail businesses of our members. We are the only organisation recognised by Post Office Ltd to represent subpostmasters. We are committed to sustaining a robust and vibrant post office network. We seek to achieve this by influencing policymakers and working closely with all organisations with an interest in the post office network.

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# Foreword from National President

Subpostmasters still face many challenges, as the NFSP evolves to ensure that it continues to represent the network



As your National President I am only too aware how hard you all work. When I sum up the challenges we face, there is no doubt about how difficult it has become to succeed in the present retail environment. But without the efforts of the NFSP we would all be in a much poorer place.

The failure of this government to deliver any of the promised new work to the network jeopardises its ongoing viability. However, although Post Office Ltd (POL) is attempting to get the Crown Offices to be revenue neutral, as well as downsizing its Head Office prior to relocation, this will not deliver any additional revenue to subpostmasters.

Network Transformation has changed many offices for the better, but has also left many colleagues who would like to leave the business unable to do so.

The first wave of compulsory leavers has started. The recent trial of 177 pilot access points offers unique challenges which we must ensure do not cannibalise the investment made by subpostmasters in delivering the current network.

So, once again, we face key challenges for the future, including the decision on the pathway the NFSP will take to ensure it will represent the network in the future.

As a working subpostmaster, I know we need a strong voice to make certain that we can work in partnership with POL to ensure that a strong and viable business will evolve and continue to be there for our children, grandchildren and well into the future.

A handwritten signature in black ink that reads "Andrew Craddock".

**Andrew Craddock**  
National President

# Foreword from General Secretary

The need for a retail offering underpins the reason for the NFSP's support of Network Transformation

This year's Annual Review will highlight both the challenges and opportunities facing subpostmasters and the post office network.

The NFSP, as the voice of the UK's subpostmasters, must reflect the fact that the post office network is changing. It is now clear that the majority of subpostmasters have a much greater retail offering than ever before. It is important for the NFSP to respond to and recognise the effects of these changes.

As the need for a retail offering becomes increasingly apparent, it underpins the reason behind the NFSP's support for Network Transformation. This has already enabled around 1,000 subpostmasters to leave with 26 months' compensation, with thousands more planning to leave with compensation and be replaced in their communities with branches that are much more retail focused than before.

Additionally, hundreds of formerly traditional subpostmasters have become Post Office Local branches, benefitting from one year's extra bonus salary and a lump sum equivalent to the value of their fixed pay until September 2015. These payments have allowed subpostmasters to significantly improve their retail offering to the public and the sustainability of their business.

It is important that the NFSP continues to work with POL and Royal Mail to identify the changes affecting our marketplace, ranging from an explosion of mails collection and drop off points, to extra competition in international money transfer outlets.

The NFSP will continue to represent Community, Main, Local and Traditional offices, and I look forward to welcoming visitors and delegates to our Annual Conference in Stratford-upon-Avon in May 2015.



**George Thomson**  
General Secretary



# The changing face of our network

The ability of a post office outlet to grow its retail turnover and profitability will be a key determinant to its future prospects

No other high street operator received a comparable financial package from the government over the same period.

As the voice of the UK's post offices, no-one should underestimate the role of the NFSP in helping achieve the £2bn of government funding to modernise and reposition the network.

At a time when the government has borrowed, on average, an extra £100bn per year for each of the five years of this parliament, we were able to achieve a package, unique on Britain's high streets, of compensation and investment for subpostmasters. The network also received an ongoing subsidy. No other high street operator received a comparable financial package from the government over the same period.

The funding includes a substantial proportion to help subpostmasters modernise their branches to become far more retail focused. This is particularly relevant for the Local model. If they are unable to do this, and if another suitable outlet can be found in the area, subpostmasters can receive payment to leave the network.

Working closely with POL, the NFSP was instrumental in the award of a new Post Office card account (POCA) contract running from 1 April 2015 to 31 March 2022, paying subpostmasters the same rates as currently despite the fact that POL is receiving less.

We are also seeing considerable movement towards achieving the aim of access to all bank accounts at post offices.

In addition, the NFSP was instrumental in the decision not to levy separate business rates on ATMs in England and Wales, saving our members millions of pounds.

## Government and the network

Extending to March 2018 over a 16 year period, various governments will have put £5bn of taxpayers' money into the post office network as investment, compensation and/or subsidies. It is apparent, with the enormous level of government indebtedness, that this will be the last significant government investment in restructuring the post office network.



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Over the last 20 years, both the NFSP and POL have tried to persuade successive governments to use the post office network to reach the public. Despite these efforts, government payments for the services we provide on its behalf have dropped to £130m per year. It is becoming clear that there will be no new government work of a significant volume put through the post office network. We have, of course, retained the POCA, but there is unlikely to be anything new coming over the horizon.

Already the government subsidy has reduced from £210m two years ago to £160m in 2014/15. The government has indicated that this payment will be reduced in the near future to around £70m a year. This means that the only part of the network that the government expects to subsidise on an ongoing basis are the Community offices in rural areas and some offices in urban deprived areas. This highlights the reasons why the NFSP continues to support Network Transformation (NT).



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## Network Transformation

We have repeatedly stated that subpostmasters have to become as retail focused as they possibly can to respond to the changing face of UK high streets. This means:

Retailers who have already converted to a Main branch should try their best to maximise not only the post office sales, but retail sales. Every inch that can be given to retail should be merchandised and developed. Traditional post offices which are classified as a potential Main converter should seriously consider all options going forward. Is it better to take the compensation money and move on to another challenge? Is it better to relocate somewhere else on the high street and grow the retail offering? Does it make sense to convert on-site and look at what retail can be squeezed in?





Competition on the high street in retail, in bill payment and now in mails collection and delivery, is the fiercest that it has ever been.

Any subpostmaster in the Local category who has a retail offering of £4,000 per week, should seriously consider taking one year's salary plus a lump sum based on fixed pay up until September 2015, and converting their branch to concentrate much more on retail. If there is insufficient retail or the subpostmaster feels that it is too much of a challenge, then it will be worthwhile giving serious consideration to taking the 26 months' compensation and moving on to the next challenge.

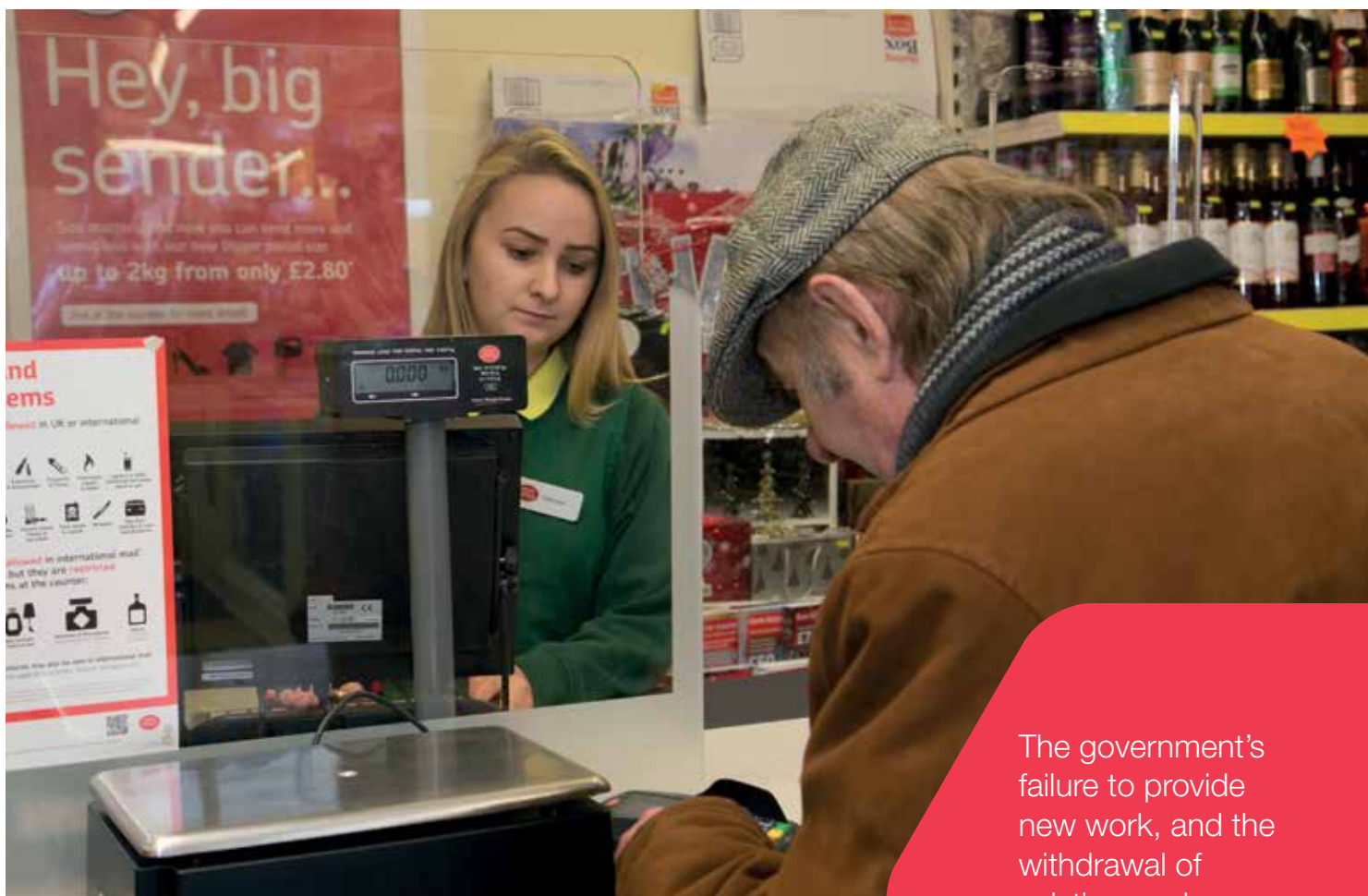
There are around 3,400 Community branches including nearly 1,000 outreaches. It is highly likely that these are the only branches that the government will continue to pay a subsidy for. This enables POL to continue to provide fixed pay to these branches. It is likely, in the near future, that a reduction in the level of government subsidy coming into the post office network for fixed pay will mean it will not be affordable for any branches that are not classified as Community branches. These offices can convert to a Local model if they choose to do so; and all Community branches are able to apply to POL's £20m Community Branch Fund, which runs until 2018.

## Times are changing

It is clear that competition on the high street in retail, in bill payment and now in mails collection and delivery, is the fiercest that it has ever been. The expansion of CollectPlus and myHermes threatens the top position in mails that POL has historically held.

Two things are obvious. Firstly, previous post office closure programmes over the last 12 years have left us at a disadvantage to some of the competition which have outlets in what have become post office deserts. This needs to be looked at carefully and addressed if we are serious about retaining the business. Secondly, the competition has a massive advantage over the post office network in opening hours. Many of the competitor outlets are open from early in the morning to late at night, seven days a week. Although NT helps tackle this weakness, as a network we are at a definite disadvantage to the competition in our lack of opening hours and it is something that needs to be addressed.





The government's failure to provide new work, and the withdrawal of existing work, makes the Network Transformation programme all the more necessary.

The contract for the Passport Check and Send service was renewed for a further seven years. However, there are concerns that HM Passport Office is looking to direct more of its customers to do applications and renewals online.

The end of the year brought news of a new Post Office card account (POCA) contract, to run to 2022. This was unquestionably good news – particularly as the NFSP succeeded in dissuading POL from implementing a reduction in subpostmasters' remuneration under the new contract.

But the announcement to maintain this well-used, long-standing service was made just three months before the contract was due to terminate; and came after a full year of delay and mounting pressure on ministers from the NFSP, MPs of all parties and other interest groups. In addition, there are concerns that the government's Universal Credit scheme could lead to a migration of working age POCA customers into bank accounts.

## New revenue sources

The government's failure to provide new work, and the withdrawal of existing work, makes the NT programme all the more necessary, providing subpostmasters with choices for their future. It seems unlikely that any incoming government will significantly increase the provision of government services through the network, so subpostmasters need to carefully consider their options with this in mind.

Subpostmasters – whether long-standing or new entrants to the business – urgently need new revenue sources. Without this, we risk leaving POL unable to operate as an independent business; and the UK with a hefty bill for the smartest, emptiest post office network in Europe.

# Mails competition

With Royal Mail still our members' biggest source of income, it is vital that the NFSP works closely with the company



Post offices are facing growing competition in the parcel sector. The year saw a significant expansion in click and collect services, where internet shoppers buy online and collect the purchase themselves.

Online retailers without a high street presence are increasingly using the rising numbers of parcel shops run by companies such as CollectPlus and myHermes through convenience stores, newsagents and petrol stations. Self-service lockers for customers to collect or return parcels are a further recent development.

These facilities all operate in direct competition with post offices. This is a particularly worrying development as the UK's rising parcel volumes are expected to compensate for the ongoing decline in letter volumes.

Questions have been raised about the quality of some of these rival services which stress the long opening hours of their outlets as a major advantage. POL is seeking to take this on – in part through introducing longer opening hours at post offices.

## Royal Mail

The privatisation of Royal Mail has continued to be the source of much controversy. At the end of the year, the Business Secretary Vince Cable said that the government should remain a significant shareholder for the foreseeable future.

This decision is a success for the NFSP, which has long urged ministers to retain the government's 30% stake in Royal Mail and use it to defend the interests of the public and the post office network.

Subpostmasters are worried that, unchecked, a privately owned Royal Mail could divert business away from the network or reduce the prices the company pays to the Post Office. With one third of subpostmasters' post office income and half of all customer visits coming from Royal Mail transactions, this is a major concern.

In addition, the government's retention of a sizeable stake in the company helps to balance out the disparity in size between Royal Mail and POL; and allows the government to be aware of any future contract negotiations between the two businesses.

Fears are growing that the expansion of competing doorstep letter delivery services could leave Royal Mail unable to fund the universal service.

## Universal service

Meanwhile, fears are growing that the expansion of competing doorstep letter delivery services in UK cities will leave Royal Mail unable to fund the one-price-goes-anywhere six day a week universal service. Whistl (formerly TNT Post) has been expanding its deliveries, and the company plans to deliver to 42% of addresses by 2019. This takes place in the context of declining letter volumes, with the number of letters sent having fallen by around 6% a year between 2008 and 2014.

Royal Mail says Whistl is 'cherry picking' the more lucrative types of mail, which removes from Royal Mail revenues that are used to support the costs of the universal service. The NFSP joined Royal Mail in asking the regulator, Ofcom, to bring forward a planned review of the effects of rival doorstep deliveries. But in December Ofcom rejected these calls, saying there is no evidence to show a threat to Royal Mail's ability to provide the service.

Separately, a parliamentary inquiry is also looking at competition in the UK postal sector. The NFSP has submitted evidence to the Business Innovation and Skills Committee's investigation, stressing the risk to the post office network if competition results in fewer Royal Mail services being transacted at post offices.

## Working together

With Royal Mail still overwhelmingly our members' biggest source of income, it is vital that the NFSP is able to work closely with the company. During the year the NFSP, Royal Mail and POL formed an advisory council for joint working on mails. This gives our members a new direct channel through which we can exchange views on a wide range of issues including operational matters, products, marketing and training.

The council will facilitate discussions on key concerns for subpostmasters such as parcel pricing, the complexities of mail products and the ongoing poaching of business customers by Royal Mail.

The NFSP has long urged ministers to retain the government's 30% stake in the Royal Mail and use it to defend the interests of the post office network.



# Retail

Having a post office in store is an extremely attractive proposition to many retailers, giving the store a competitive edge.

Network Transformation continues to create uncertainty for many, while for others it presents a unique opportunity.



The changing face of high streets in the UK has led to a substantial increase in vacant retail properties in many locations resulting in lower footfall and reducing customer visits. This decline combined with changing shopping patterns, increased competition through online retailers and the big four supermarkets opening new express or neighbourhood outlets, has created a difficult trading environment for many independent retailers.

However, consumer shopping habits continue to change with customers tending to buy less but shop more often. For many people on a tight budget the temptation to overspend in the large supermarkets is offset by visiting local stores on a more regular basis.

Neighbourhood retailing has seen healthy growth in recent years and forecasts suggest this growth will continue. Symbol groups like Spar and Costcutter have become much more adept at reacting to local markets and changing customer behaviours. These symbol groups enable the independent stores to use their buying power to compete with the major supermarket chains.

There is clear evidence that having a post office in store is an extremely attractive proposition to many retailers, giving the store a competitive edge and creating a destination shop.

Network Transformation (NT) continues to create uncertainty for many, while for others it presents a unique opportunity to create more profitable and sustainable businesses. For those already converted under NT, the challenge is to grow and develop profitable retail businesses in a more modern environment with longer opening hours, designed to meet the ever changing needs and shopping habits of the 21st century customer.

## Supporting members

The challenge for the NFSP is how best to support members in achieving these ambitions while retaining a high level of expertise within the post office sector. For many the emphasis within their businesses has already changed. Many of our members have moved away from being solely subpostmasters and have become much more retail focused with great success.

As the NFSP moves forward, members' retail activity will, to a large degree, determine the sustainability of the post office and the success of the business overall. It is essential that the NFSP adopts a holistic approach to the needs of members within the retail environment as well as the post office sector.

Our relationships with trading partners continues to provide a worthwhile contribution to many members' businesses. Challenging market conditions, combined with advances in technology, make it important that the NFSP affords everyone the opportunity to enhance their retail offering. Declining membership, the diversity of the network and the uncertainty created by NT make finding partnership opportunities more difficult than ever. The success of these relationships needs to be mutually beneficial to both our members and our trading partners.

The NFSP will continue to offer membership benefits, goods and services that will enhance the overall business and add real value for our members.

We must also develop a strong capacity to assist members to improve their retail skills and their understanding of the convenience store and newsagent business models using post office footfall to generate additional sales.

The NT programme has been a difficult journey for many while others have sought to take the opportunity created by investment capital and incentive payments to grow their businesses. The NFSP will need to evolve quickly and professionally to ensure that those members who have shown commitment and desire to succeed are fully supported.

Many members have moved away from being solely subpostmasters and have become much more retail focused and there is clear evidence of success.



# Our organisation

We retain our specialism and focus on postal issues; while supporting our members in their transition to a greater retail provision

It remains business as usual - regardless of trade union status, the NFSP is the only organisation recognised by POL to represent subpostmasters.



The NFSP has reached a decisive point in its history, with members set to choose the organisation's future direction.

The year began with confirmation of the NFSP's loss of trade union status. This was the result of a decision by the Certification Officer, based on the very narrow definition of 'worker' within trade union law which states that the majority of members have to be employees to be categorised as workers.

However, we made clear to members that in every other respect, it remained business as usual; and that as far as POL was concerned, regardless of trade union status, the NFSP was the only organisation recognised to represent subpostmasters.

The acceleration of conversions under Network Transformation (NT) has inevitably seen membership levels begin to decline. This development was anticipated, and comes as a result of the NFSP prioritising its members and their investments.

Nonetheless, the organisation will have to evolve as a result of these changes; and we are looking at all options to ensure a modern, representative body for all subpostmasters. The Transformation Committee, a sub-committee of the Executive Council, has been created to lead this process.

A Special Conference will take place in 2015 on the NFSP's future at which delegates will choose which path to take. This includes whether the organisation should seek to continue in its present form; enter an agreement with POL to secure our status as a stand-alone organisation, representing more outlets than at present; or merge with another organisation, such as the Communication Workers Union (CWU) or the National Federation of Retail Newsagents (NFRN).

All members will receive detailed information on the various options six weeks prior to the Special Conference.

We need to ensure that however the NFSP evolves, it continues to be the voice of subpostmasters, as a body which specialises in and truly understands subpostmasters' needs. The organisation must continue to work closely with POL in future, be able to negotiate and represent subpostmasters' interests with the business and speak out publicly on issues affecting our members and their businesses.



## Evolution is key

As the composition of our network changes and the NFSP prepares to change to reflect this, we maintain the provision of high quality support for our members.

We continue to promote the wide range of member benefits available. These include savings on everyday purchases and activities with NFSP Plus; a number of insurance products; as well as support through helplines specialising in employment issues, legal advice and trauma counselling.

And while it is not solely a benefit for members, we have continued to promote opportunities both to give and to apply for assistance from the NFSP Benevolent Fund.

*The Subpostmaster* continues to be our primary means of communicating with members while the NFSP website provides up-to-date information. The forum is well-used, offering members the opportunity to seek advice and exchange views.

We have maintained our own profile on Twitter, and encouraged members to make use of the growing social media channel to boost their businesses.

Throughout our communications, we retain our specialism and focus on postal issues; while also increasing our retail focus, to support our members in their transition to a greater retail provision within their businesses.

NFSP branch secretaries continue to offer support and advice to individual members throughout the UK; while our national network of branches provides subpostmasters with the opportunity to raise their views and receive updates at regular face-to-face meetings.

We also continue to maintain our profile among opinion formers, contributing to debates and inquiries and voicing subpostmasters' views both at Westminster and in the devolved administrations in Northern Ireland, Scotland and Wales.

As the composition of our network changes and the NFSP prepares to change to reflect this, we maintain the provision of high quality support for our members.



# Working with Post Office Ltd

The NFSP has a wealth of experience to offer in working collaboratively with POL to simplify and improve customer experience



The long term interests of subpostmasters and POL are inextricably linked. Both rely on the company maximising income by growing sales, introducing new products and retaining existing business. The network could not survive without the company, the company could not survive without subpostmasters. We need to be working in harmony to take on the considerable challenges that face our industry, both from competitors and changing customer expectations brought about by new technology.

While the working relationship between the NFSP and POL is generally cordial, there are considerable tensions. The first of these is the proportion of any income retained by POL to meet seemingly ever-increasing central costs. Under the guise of commercial confidentiality POL refuses to disclose the income it receives under any given contract. Consequently the NFSP can only negotiate to get the best possible rates based on incomplete knowledge of what is fair. Recent changes to the DVLA contract demonstrated this issue. The initial offer from POL was so low we even considered refusing the work altogether. While the figures which were eventually implemented were not acceptable, we believe they are the best we are able to achieve and represent a huge improvement on the initial offer.

Another tension is the way POL introduces new products and technology without proper consultation with the very people who have to use it. An example would be the introduction and subsequent changes to Drop & Go. The NFSP has a wealth of experience to offer in working collaboratively with POL to simplify and improve customer experience, and that is what we will need to do if we are to take on the competition.

# Message from Paula Vennells

As the reduction in operating profit at half year showed, trading conditions remain a challenge for our business, but we are fighting back strongly. We are modernising at an unprecedented pace, growing in financial services and responding to the competition in mails.

Over 2,000 branches converted to main or local models in 2014, making a total of 3,500 which continues to rise by a staggering 40 each week. We have 2,050 branches now open on a Sunday and almost 100,000 additional opening hours across the network. These amazing figures are great credit to the foresight of postmasters, the professionalism of the Network Transformation (NT) team and the relationship we have with the NFSP. I am also grateful for the NFSP's input to the Community Branch fund launch – which, when added to the opportunities within NT, means every branch can now benefit from investment in their business.

The modernisation of the Post Office isn't of course confined to the agency network. Our Crown branches remain on course for breakeven during 2015 which is a huge turnaround from just two years ago, and we're taking significant costs out of our supply chain and central teams.

In mails, we're taking the game to the competition with market-leading parcel pricing and by making things easier for customers with the trial of 150 new Home Shopping returns points. Our financial services business has seen an extension of current accounts and the successful introduction of mortgages. It is growing at a rate of 11% year on year and excitement is building for the launch of our Post Office Money brand. And while developments with vehicle licencing were disappointing, the seven year extension to the POCA contract is great news for us and for customers who want to continue using their local post office.

We're working with postmasters to grow business locally by working together on mails training, and by taking our products out to local businesses - helping sign up an impressive 80,000 Drop & Go customers so far.

The next 12 months are critical. We must continue to transform our network and cut our cost base by focusing on our customers. We are keen to do this in collaboration with the NFSP - pursuing our shared aim of a successful Post Office and successful Post Office branches.

Thank you, as always, for your valued contribution to the Post Office and the customers and communities you serve.



**Paula Vennells**  
Post Office Chief Executive



We have 2,050 branches now open on a Sunday and almost 100,000 additional opening hours across the network.



### **NFSP Headquarters**

National Federation of SubPostmasters  
Evelyn House, 22 Windlesham Gardens,  
Shoreham-by-Sea,  
West Sussex, BN43 5AZ

**Tel:** 01273 452324 **Fax:** 01273 465403

**Email:** [admin@nfsp.org.uk](mailto:admin@nfsp.org.uk)

**Web:** [www.nfsp.org.uk](http://www.nfsp.org.uk)

**Forum:** [www.forum.nfsp.org.uk](http://www.forum.nfsp.org.uk)

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