



## ANNUAL REVIEW AND PLAN

# 2017



Supporting subpostmasters to maximise income from their Post Office and retail business

# MOVING FORWARD TOGETHER

# NFSP ANNUAL REPORT: Moving forward together

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# About the NFSP

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The NFSP is committed to sustaining a robust and vibrant post office network

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**T**he National Federation of SubPostmasters (NFSP) is the voice of subpostmasters across the UK.

We are a professional trade association that represents independent business people who act as agents for Post Office Ltd and own and run the sub post offices that make up 97% of the national post office network.

The NFSP is committed to sustaining a robust and vibrant post office network. We do this by supporting subpostmasters to maximise the profit from their post office and retail businesses. We also work closely with all organisations that have an interest in post offices, including Post Office, Royal Mail and Government, to influence on behalf of subpostmasters.



# Introduction from Jim

**A**fter 120 years, it could have proved difficult for the NFSP to become a limited company, but thanks to the staff and subpostmasters, the transition has been remarkably smooth. I would like to put on record my appreciation to all the colleagues at NFSP headquarters for ensuring such a seamless transformation.

During the last year, we have been able to increase staff levels at Shoreham by adding a Communications Director and Manager, who will be essential as we move forward. We also now have 8,000 members who can obtain everything from employment advice to discounted stationery and help dealing with local councillors or MPs. We continue to provide advice to members with various concerns on a day-to-day basis, both at NFSP headquarters and in the field. Therefore, these extra resources are invaluable.



**Jim Nott**  
NFSP National President

“We hope these changes can support every post office to become more valuable and viable”

In January, to coincide with our increased membership, we employed a retail field team to assist all members, no matter what the ancillary business may be. This team is available to any member who requires help with their business. The team, at present, is six strong but will be eight in the near future. They will operate throughout the UK and are highly motivated to offer help and guidance to postmasters.

Research by Franchise Finance was commissioned to evaluate the Post Office estate and a further survey is under way to improve the process of purchasing and selling of members' businesses. It is an area of worry and stress for everyone going through the system and it is in great need of modernisation. Furthermore, a package has been put forward to allow postmasters access to loans and financial assistance.

The NFSP Council continues to meet every three months, or more frequently if required. We also have a representative from a multiple partner as a Director, and there may be further additions to the Council in the future.

Meetings with the Post Office are held on a monthly basis at least, becoming more frequent as required. Our Chief Executive has regular meetings with Paula Vennells, Post Office Group Chief Executive, Kevin Gilliland, Retail Chief Executive and Moya Greene, Royal Mail Chief Executive.

These are challenging trading times for us, both in post offices and in the high street. We hope that by putting in place the above changes we can support every post office – rural, urban, outreach and community – to become more valuable and viable in the coming years.

I look forward to seeing many of you at our AGM in April and hope that you enjoy the conference and workshops. We are also helping members to get to the National Convenience Show at the NEC during this year's conference. This gives them a chance to meet fellow business owners and to get involved with the wider debate. Last year's conference was very successful and the feedback was positive.

Thank you and I look forward to working with you over the next year.



# Introduction from George

I am pleased to introduce this year's NFSP Annual Report. The report highlights many of the challenges and opportunities that have faced the NFSP, subpostmasters and the network over the last year. It also highlights some of the work that the NFSP is doing to meet those challenges and harness the opportunities for subpostmasters.

While research continues to highlight how important post offices are to local communities and economies, there is no doubt that fewer people are using post office services than ever before. Many of our members struggle to make a living from post office services alone, and in order to survive on the high street they are diversifying their businesses, offering a combination of post office services and retail.

I believe that this combination of post office, retail and banking services will be the future reality for the network.

As our members have changed, so have we. Over the last 12 months the NFSP has continued to change, better reflecting business reality for our members and network.

We are now putting in place the final changes in order to become an effective professional trade association and small business champion that properly reflects and articulates the full range and diversity of subpostmasters' views, their expertise, needs and aspirations.

The new agreement with the Post Office entitles all subpostmasters to free membership of the NFSP. Membership now stands at 8,000 subpostmasters, who own and run 9,300 branches. This will enable us to build a genuine single voice for subpostmasters that gives the NFSP a new legitimacy and greater authority to take forward subpostmasters' views.

What remains clear is that our members hold the key to a successful post office future, investing their livelihoods to build successful branches, as such they bear the risks and costs.

This means that they possess unique insight into customers and local markets. Which is why we have been calling for our members to be more fully involved in strategic and operational decision-making and providing expert advice to ensure we build a viable post office network.

The future is at times



**George Thomson**  
NFSP Chief Executive

daunting, but we have a clear agenda and are fully committed to working with our members and Post Office to build a successful, viable post office future. However, this can only be achieved if we, as subpostmasters, take on responsibility for our own businesses. Every one of us must work to attract new customers and keep existing ones. We must take more responsibility for our own future.

But subpostmasters also need more and continued support from Post Office.

The network will only have a future if subpostmasters and the Post Office work better together. We must support each other to build a successful future.

Only when subpostmasters and the Post Office recognise their respective obligations and responsibilities will we be able to successfully work together to make the changes the network so desperately requires.

“Our members hold the key to a successful post office future. They possess unique insight”



# Welcome Paula



**Paula Vennells**  
Post Office Ltd Chief Executive

**I**f it tells us anything, a look back at the political and economic events of the past year shows that we work in fast-changing times.

If businesses are to continue to be successful in rapidly shifting environments, they need to be flexible, to look forward and keep focus on their customers.

That is as true for the Post Office as it is for every one of the individual businesses who operate post offices. It is also true for professional trade associations such as the NFSP.

In that context, 2016 has seen all of us making progress and looking to the future.

The investment and modernisation across the country from Network Transformation has

continued at pace. By the time you read this, more than 7,000 branches will have been modernised under the programme. A further 1,000 branches will have made applications to the Community Fund.

And we're

“Change has been sometimes difficult but with a clear eye to ensuring a sustainable future”

modernising, simplifying and enhancing the way that the Post Office runs too.

We've re-focused our supply chain operation so it is dedicated to serving post offices alone.

We have restructured our central organisation so that we can support our network and customers as efficiently and effectively as possible. Our two new Retail and Financial Services/Telecoms business units will enable us to give postmasters and consumers the attention and focus that they deserve. And we have brought together all of our back office operations, specifically with the aim of making post offices and the Post Office simpler to run.

We have launched a new standardised commercial framework with partner banks, so that virtually all current account holders in the UK can use their local post office, as well as three-quarters of business banking customers.

It has been a year of change - and sometimes this has been difficult. But it has been change with a clear eye to ensuring a sustainable future Post Office and branch network.

The NFSP has, similarly, been going through significant change - extending its membership and developing member services such as the important new retail team. This review highlights the wide range of activities the NFSP has undertaken - at pace and in an environment that is itself shifting quickly.

For both of us, I want to see the pace of this change increase - critical to ensuring we transform, modernise and compete - and in 2017 I have no doubt that both organisations will continue our momentum to take the Post Office further still: making it simpler to run, better for customers and a great place for us all to work.

It has been good to meet new postmasters who have joined us this last year excited by the opportunity, and many more who continue to serve their local communities with acumen and distinction. It is a vibrant mix that serves us all well.

I celebrated 10 years with the Post Office at the turn of the year and I remain as enthusiastic an advocate as ever. I'm constantly impressed by the commitment, professionalism and tenacity shown by Post Office people. It is a great business that is so important for so many.

I continue to look forward to working with all postmasters on our unique and exciting challenge - planning forward to build a thriving future for our businesses, to sustain our network and, most importantly, continue to provide excellent service to our customers.

I wish the NFSP a successful and enjoyable conference.

# The situation?

**T**he Post Office is a unique organisation, and research continues to show that post office branches have a valued place at the heart of communities across the UK. 2016 research from TSB showed that the post office is the shop Britons most want to see on their local high street, with three-quarters thinking that a post office is the most desirable facility in their town. While a 2016 Association of Convenience Stores (ACS) report showed that having a post office in the local area had a positive impact – higher than any other local service in the survey.

Today, the UK's 11,600 branches offer an unrivalled range of services under one roof. Last year, post offices overtook Tesco to become the largest UK retailer. Post offices also play critical roles in supporting local communities and underpinning local economies.

However, what is also clear is that the Post Office network faces a series of critical social, political and commercial challenges that demand a radical change in approach. Changes in people's shopping habits, technology, the drive online and reductions in the number of government services offered through post offices have meant fewer customers coming through the door – down from around 28 million each week a decade ago, to around 17m each week today. There is also increasing competition in our core market – mail – as new entrants like Uber and Amazon change the market beyond all recognition.

Alongside the challenge is opportunity. More people are shopping locally than ever before, the convenience market continues to grow, and post office footfall has the potential to increase with the roll out of new and better banking services.

Working together, the post office still has a future, but we all must harness the opportunities that new business and technology provides.

## Transforming the network

Network Transformation ends in a year (March 2018). The £2 billion programme has played a critical role in securing the future of the post office network by delivering a lower cost operating model, providing investment funds and creating a more flexible model. It has been successful in sustaining the geographical footprint of the network and providing more than 200,000 additional opening hours per week. Around 4,000 branches are now open on a Sunday. It has also helped to improve service standards.

Without this funding, post offices ran the risk of being left behind by their competitors, making it even more difficult for post office branches to compete on the high street.

More than 7,000 branches have, so far, been modernised (this will be 8,000 by March 2018). Funds have provided desperately needed investment, stability and the chance to build a platform for the post office network.

We recognise that the transformation has not been



without its problems, and it has been a long, hard journey to get to this point, but the changes that subpostmasters have made will ensure the network's future for years to come.

The new models have enabled subpostmasters to better combine retail and post office staff costs; and the combined service has attracted customers for both their retail and post office businesses.

The new model also changed the relationship between Post Office Ltd and individual branches, with the aim of encouraging and incentivising branches to become more commercial and independent. For example, branch operators have moved towards a transaction-based model of remuneration, away from fixed pay combined with transaction-based reward.

These changes provide increased convenience for customers, particularly for mails customers, where the ability to collect and drop off parcels outside of traditional hours is a key requirement. The public benefits from the retention of a local post office service and the longer hours the service will be available.

In February, Citizen's Advice published a report evaluating the effectiveness of the Post Office Local model. The report showed substantial improvements on previous years, with 84% of customers satisfied with the service they receive. However, the report shows that there are still challenges around counter space and





“It's important to reflect that no other members' organisation has negotiated a comparable package”

privacy. Further, their research showed there is low awareness of longer opening hours.

Of the £2bn invested by Government, more than £300m has gone on compensation for those leaving or about to leave the network. More than £200m has gone on branch investment. £1bn is for ongoing subsidy to 31 March 2018. The lion's share of the funding has gone to subpostmasters.

At a time when we have seen high street giants such as BHS close, along with countless independent retailers, it is important to reflect that no other members' organisation has negotiated a comparable financial package from the Government over the same period.

### Transformation: where next?

As we get closer to the end of Network Transformation, it is clear that the work is not yet finished. The NFSP has made clear to the Government and Post Office that further investment is needed to enable the Post Office to continue to reduce central costs and restructure the company and the network to provide branches with the best infrastructure and technology. The money will help subpostmasters run profitable branches using the best and most modern equipment.

We also want to see further investment in the

development of an even more flexible operating model. This could be a potential solution for communities where the subpostmaster wants to leave the business, but is unable to do so without a 'bricks and mortar' alternative. It would also offer more options for those living in 'post office deserts'.

We believe that Post Office should ring fence a sum of money to allow stranded subpostmasters to leave beyond March 31, 2018 with compensation and be replaced by another outlet in their town/village.

### Retail & the high street

Talk of the death of the high street has been greatly exaggerated. While it is true that the high street has changed immeasurably, it is still very much alive and kicking.

What is clear, however, is that customers' shopping patterns and consumer habits are changing, with customers buying less, but shopping more often. This can be a real benefit for small shops.

Research last year by the Institute of Grocery Distribution (IGD) highlighted that the convenience store sector will grow by a further 11% to £41.9bn over the next five years. Now, 42% of shopping trips are made to a convenience store, more than to any other kind of outlet.

Neighbourhood retailing continues to see a steady growth and forecasts suggest that this will continue. Many symbol groups have become much more adept at reacting to local markets and changing behaviours. The symbol groups allow independent stores to use their buying power to compete with the major supermarket chains.

People like to shop locally and support small businesses. Research commissioned by the Post Office and conducted by YouGov, showed that around a quarter of customers said they would be more likely to do their shopping with a small business than five years ago.





## A retail future for post offices?

The continued strength of retail and the reduction of post office services and transactions has meant that owning and operating a stand alone post office is much more difficult.

Many subpostmasters, supported by the NFSP, have modernised their branches and are successfully diversifying their business, offering a combination of post office services and retail. The NFSP is clear that with the right business combination, in the right location and with hard work, you can run a very successful business.

With its new Retail Team, the NFSP is looking to improve our members' retail offer by providing hands-on support instore and online.

There is clear evidence that having a post office in store increases footfall, some retailers have suggested a post office has increased footfall by up to 20%, some suggest even more. However, for franchisees, it is also important that the post office part of their business pays its own way. Members tell us that the extra footfall is welcome, but because transaction rates have not risen, their retail business often subsidises their post office business. The post office needs to be self-supporting.

Future franchisees will not take on a post office for footfall alone and existing franchisees may look to remove the post office part of their business in favour of more profit making services.

## Banking

For some time, there has been a growing emphasis in the growth in banking and financial services in the Post Office. Success in this area is seen as critical to the Post Office achieving commercial sustainability, particularly in light of reductions in other key services.

This culminated in an announcement in January 2017 that the Post Office and high street banks had finalised the agreement on a deal that will see small business

customers and individuals able to use post office branches for basic banking transactions. When taken alongside the enhancements that the Post Office is making to banking services – including automation, paperless transactions and standardisation across banks – this could make the Post Office the first choice for many banking customers.

A recent report from Which? found that high street banks have closed more than 1,000 branches across the UK in the past two years. Analysis has forecast that the bank branch network will decline to about 7,500 by 2020, from around 8,500 today. Banks have cited the growth in online banking as a partial reason for the closure programme. However, the need for face-to-face banking is still a priority for many people, especially for small businesses, those living in rural communities and the more vulnerable members of society, many of whom are not able to access online services.

With 11,600 branches across the UK, the Post Office is in a perfect position to step in when a local bank closes. There exists significant opportunity for the Post Office to use its brand – the Post Office is one of the most trusted brands in the UK – to become a viable alternative to high street banks in the face of bank closures.

The Post Office has the chance to become a key platform, effectively integrating cash and other banking services. It is a once in a generation opportunity to secure a unique, vital role that could give the Post Office significant influence in the market.

However, the Which? survey highlighted a worrying lack of awareness of the banking services that a post office provides. The survey showed that while 72% of the people asked rated their experience of the Post Office as good or excellent, 41% said they did not realise that it offered banking services.

This lack of awareness was addressed in the recent review of the Access to Banking Protocol. We welcomed the recommendations set out in the review and we have committed to working with the Post Office and our members to publicise banking services.

## Banking: who pays?

We were pleased to see the Post Office's announcement of an industry-wide agreement with UK banks which included an extra payment to the Post Office for the additional services that the branches will deliver. We think that it was absolutely right for the Post Office to renegotiate the deal with the banks. However it is also right to expect that the Post Office will share any dividend from the banks with subpostmasters.

Our members, who own and run post office branches up and down the country, welcome the extra footfall banking services will bring in branch. However, the network will only be there to perform this important role in banking services if subpostmasters continue to invest their time and money. They will not do this without adequate payment. Remuneration for subpostmasters to undertake banking transactions is particularly low, and the NFSP will intensify pressure on Post Office to provide appropriate incentives and rewards.

We need to use this opportunity to strengthen the viability of individual branches by improving rewards for the work. Failure to do so risks alienating a lot of operators who gladly welcome extra work, but not at any price.



## Credit union

We have also called on the Post Office and Government to begin work on a National Credit Union, as a viable national alternative for those people who struggle to access high street banks and building societies and who all too often fall prey to doorstep/payday lenders. By targeting those people who would fall outside mainstream banking, the Union would supplement – not compete with – the Post Office’s agreements with the high street banks and its financial services provided through Bank of Ireland. A Credit Union would be a safe and secure national service, in keeping with the Post Office brand. It would also provide a first rung into banking for many of the most vulnerable in society.

## Subpostmasters as small businesses

This year has also seen significant challenges for post office branches as small businesses, and subpostmasters as small business owners. These challenges have included increases to the National Living Wage, pension auto enrolment and changes to business rates. All of which have increased business overheads for many of our members. The NFSP have been working to provide advice and guidance to members about these changes and lobbying Government where we think change is required to enhance a subpostmaster’s business.

National Minimum Wage increased in October, and will rise again to £7.50 an hour in April 2017. The Government also increased HMRC’s budget by £7m this year to strengthen its ability to crack down on employers who fail to pay a fair wage.

Another area of significant change for members is pensions auto enrolment. Under new rules, every employer who has staff aged between 22 and the state pension age must automatically enrol them into a workplace pension.

Auto enrolment started in October 2012. In August last year the Pensions Regulator announced that over 200,000 employers have now enrolled 6.5 million workers in a workplace pension. 156,000 small and micro businesses with more than 960,000 employees have also enrolled – three times the number of large and medium sized businesses.

Research firm IRI published a report last year that showed that small businesses would need to serve an extra 50 customers a day, and increase their basket size by an average of 2% in order to offset increases to the minimum wage and changes to pensions provisions. They highlighted that convenience stores will need to generate an additional £8,000 in annual sales to neutralise

the effect of the cost increases.

However, the Federation of Small Businesses (FSB) also published research late last year showing that small firms have, for the most part, been resilient. They have managed to absorb the initial costs of the new National Living Wage without cutting employment or passing costs on. However they also highlighted that this would be more and more difficult as time goes on.

The National Living Wage and better access to a pension will make a real difference to hundreds of thousands of people across the country, but these proposals are also challenging for small businesses to implement. Last year, the NFSP called on the Government to reward small businesses for being good employers and not penalise them. We welcomed the Government’s decision to increase the Employment Allowance from £2,000 to £3,000 from April 2016. This will mean that post office branches will be able to continue to employ four people full time on the new National Living Wage without paying National Insurance contributions. While this is a good start, it needs to go further if we want to make sure that post offices do not suffer for being good employers. We want to see the Government increasing the Employment Allowance in incremental stages to £6,000 a year. We also believe that the scope of usage should widen from just employees’ and employers’ NI contributions and should include at least employers’ and employees’ tax payments as well.

Business rates also changed this year. In his autumn statement, the Chancellor announced an increase in rural rate relief to 100%. Currently, rural retailers are only entitled to 50% rate relief, with further relief dependent on local authorities. NFSP welcomed this move – this will be a lifeline for many of the 3,000 post offices that operate in rural areas. However this positive change for rural post offices needs to be seen alongside the increases in business rates for those post offices in areas where commercial property is valued higher.

According to analysis by CVS Business Rent & Rates Specialists, shops in 791 villages, towns and cities in England and Wales will see their rateable values rise from April 1, 2017. Overall, rateable values between the last property assessment in 2010 and today have risen by £654m. This could mean make or break for many of our branches and we are taking this up in Parliament.

A potential area of positive change is apprenticeships. This Government has committed to having three million new apprenticeships in place by 2020. Post Office branches could benefit from this new initiative. The NFSP will be working with the Post Office to design a retail apprentice programme that is in line with the Government’s new approach.

## Change at the heart of the Post Office

Research shows that post offices are still well used, however it is a fact that branches now play a much smaller role in enabling people to access essential public services, certainly among younger age groups. This is, in large part, fuelled by the rapid growth in internet usage, which has reduced the need for face-to-face contact and enabled Government departments to migrate services on-line.

There are still certain sections of the population who

“Increases to the National Living Wage, auto enrolment and changes to business rates have increased overheads”



are reliant on the post office network. The heaviest users of post offices are older people and those in the lower (C2 and especially DE) socioeconomic grades. Studies show disabled people and rural residents are also particularly frequent users of post offices.

However, for the Post Office to regain a secure footing, it also needs to bring in additional customers and income through new or expanded revenue streams.

Much of the recent network investment has supported the Post Office to modernise and strengthen its branch network, ensuring it is fully integrated with digital channels to provide customers with access to services when and how they want. Post Office is also reducing its central costs and developing its commercial revenue streams. We believe focus should be placed on increasing the number of government services offered at post offices and banking and financial services. It is also crucial that post offices remain the first choice for the public's and small business' mails services.

### Reducing central costs

The NFSP has long recognised the need for change at the heart of the Post Office. In 2016, the Post Office implemented cutbacks to Cash In Transit and announced hundreds of Head Office redundancies, alongside changes to staff pension conditions.

Last year, the Post Office also announced that it was seeking franchise partners for 62 Crown Office branches. In January 2017, it announced that it was seeking franchise partners for a further 37 Crown Offices branches. This will reduce numbers of Crown Office branches to below 200. They also announced that 127

financial specialist roles would be cut.

Eliminating the losses in the Crown network and reducing central costs have been key objectives for the Post Office for some years. This is further proof of the real financial pressures of operating on the high street. These pressures affect all subpostmasters within the network, as well as the Crown Office branches, and mean that it is paramount for us all to diversify and evolve and make sure that income streams are not derived only from Post Office services. In effect Crown Office branches are an example of stand alone post offices under real pressure from falling remuneration rates, in an aggressive marketplace, with a significant decline in recent years in customer numbers.

This announcement of a much smaller Crown Office estate will sadly affect the staff employed in these offices, and whilst we recognise that redundancies, by their very nature, are devastating to the individuals involved, there can be no doubt that Post Office is finally serious about the need to reduce the central costs of the business.

In August last year, Post Office announced its financial results for 2015/16, which showed continued progress, with operating loss before subsidy more than halved from £57m to £24m. The results showed that Post Office's commercial turnover remained stable, up from £976m to £981m, in the face of challenging market conditions. The company grew revenue in the much-hyped financial services sector and it maintained its position in the Mails market - at the same time as delivering a £28m reduction in central costs.

However, it seems that breaking even is no longer the







PHOTO: Alamy

aim of the Post Office. It has recently publicised its ambition to eventually make a profit of £50m to £100m on an annual basis. Although we recognise that this is aspirational, we fear it will send out mixed messages to Government and Royal Mail Group, who could feel that they are paying over the odds for a Government subsidy and a mails contract, if the ambition is to increase the profit to that extent. Any subsequent reductions in Government subsidy or Royal Mail commission based on aspirational future profit will be devastating for the network.

### Network expansion?

There has also recently been publicity about the Post Office's ambition to expand the post office network by up to 2,000 branches. The NFSP believes that without careful management, an increase in branch numbers will lead to the cannibalisation of the existing network, with more competition for a smaller share of customers.

However, we recognise that there are a small number of communities living in 'post office deserts' and that, on this basis, there may be a need for a limited increase in the network.

We have told the Post Office that we would be willing to engage in meaningful talks about what this small extension programme might look like, but an assessment would need to be made for this on a case-by-case basis. It would need to be led centrally, with stakeholder input. It would have to look closely at the needs of the local community, the way the post office could be provided (outreach etc), and the impact on existing

subpostmasters in the area.

We also think there is scope for discussion about the type of post office that could be provided in certain areas. For example, we are aware of nearly 600 'stuck' branches, where the subpostmaster wants to leave the business, however cannot find a local business willing to take on a post office as part of their retail business. We also know of community branches where the subpostmaster wants to leave the business, but was not offered the opportunity to do so under Network Transformation. Often, these older subpostmasters feel trapped in the network, and desperately want to hand the business over. However, under current policy these subpostmasters cannot leave the business without a 'bricks and mortar' alternative.

We believe there is a case for reviewing the current 'bricks and mortar' policy. We would like to see the Government and Post Office increase the flexibility around alternatives such as outreach branches, or a 'post office basic' model. A more flexible model would have the dual benefit of allowing those who want to exit the business to do so, and also allow those living in 'post office deserts' an alternative to a 'bricks and mortar' post office branch. However this would require significant further investment in infrastructure and technology.

### Simpler to run?

The NFSP has been in discussions with Post Office about its 'simpler to run' programme of work. This aims to cut down complexity and cost across the business. Whilst we agree with any work that will make the post office easier to run for subpostmasters and easier to use for customers and businesses, we are wary of the value being taken out of the product range - people come to branches for their expertise and knowledge.

We worry that simplification will ultimately mean cuts to transaction rates. Also, there are more than 1,100 smaller Mains branches that receive limited, if any, income from retail. They are reliant on the commission they receive from the post office for transactions. Should simplification lead to a cut in commission rates, we would be worried that these smaller Mains would no longer be sustainable.

### Fair payment for post office transactions

Individual post office branches are almost all owned and run by independent retailers who, lacking a level of fixed income from the Post Office, are dependent upon sufficient transaction volumes and adequate margins in order to make a profit and therefore maintain a post office service. Post Office currently pays about £400m in remuneration to subpostmasters per year. For a company with a £1bn turnover, this is great value for money. With increasing overheads and fewer customers through the door, they will become insufficiently viable should transaction rates be squeezed further. Post Office will struggle to retain existing operators and find it more difficult to attract new operators willing to take on a franchise.

For franchisees, it's also important that the post office part of their business pays its own way. Many subpostmasters tell us that their retail business is already subsidising the post office. The post office needs to be self-supporting.

## Government income and work

Government provides an annual network subsidy to maintain a national network of post office branches that are accessible to everyone. This subsidy is a recognition of the fact that it is necessary to sustain a network that includes around 3,000 branches that are 'the last shop in the community', and fulfil an essential social and economic role, but are often unprofitable as businesses. Therefore, they require a minimum level of public investment. In its most recent manifesto, the Government committed to securing the future of 3,000 rural post offices.

The Government supports the Post Office with an annual network subsidy which will come to an end in 2018. In 2017/18, the subsidy provided by Government will reduce to £70m, compared with £210m in 2012/13. In November 2016, the Department for Business Energy and

Industrial Strategy (BEIS) launched a consultation on funding the post office after 2018. Under European Commission rules on state aid, an evidence base for the level of funding Government gives to the Post Office must be provided. As part of the consultation, BEIS sought views on the accessibility of post offices, the services available and the role of communities in the future of the network.

The NFSP made clear in its response [see box below] that while we know there are significant pressures on the public purse, the Government must be careful not to be over-ambitious in reducing the subsidy after 2017/18. Too large a cut in subsidy will result in larger branches being paid artificially low transaction rates to subsidise smaller branches, and many rural post offices being forced to close.

Further, this reduction in subsidy was predicated on a



# Summary of the NFSP response to the 2016 Post Office Network Consultation

## QUESTION 1:

### **Do you agree with the existing access criteria?**

Current branch numbers are about right. Any increase in post office numbers, however small, needs to enhance the network, and not impact on current subpostmasters' investment.

## QUESTION 2:

### **What different approach could Government consider to define what a nationwide network of post office branches should look like?**

Post Office Ltd and Government should further invest in technology and infrastructure to allow greater flexibility of the post office model. This will potentially offer a solution for communities where the subpostmaster wants to leave the business or those living in 'post office deserts'. However, new technology

and simplification should not mean that the value is taken out of products and that transaction rates are cut.

## QUESTION 3:

### **Which new services do you think could be offered at post office branches in the future?**

Post Office Ltd needs to bring in additional customers by offering new services including becoming the UK's bank on the high street, developing proposals for a Credit Union, working with local, national and devolved governments to enact the Front Office for Government policy, becoming central to the assisted digital programme and affirming its place as the nation's choice for mails and parcels.

## QUESTION 4:

### **In which ways do you think communities might be able to play a more**

### **significant role in the operation of the post office network?**

The opportunity for community input in the running of post office branches is limited. However where there is no obvious commercial solution, Post Office Ltd could offer a branch to the community to be run as a community facility.

## QUESTION 5:

### **Do you have any other views?**

We want to see a strong and sustainable post office with a future. Therefore, the network needs to: retain enough Government subsidy to support those vital 3,000 rural branches, ensure fair transaction rates so that post offices remain commercially viable and attractive, further invest in technology and infrastructure, and put subpostmasters at the very heart of the business.

Government commitment in 2010 to make post offices the 'Front Office for Government'. This policy aimed to offer citizens face-to-face access to government services. This announcement was followed by a number of trial post office services, including National Insurance number applications, signing on for Jobseekers Allowance and document checking for people applying for a state pension

However, very little else followed and the post office network now suffers from successive governments reducing their use of the network to provide government services.

The NFSP has long called on all levels of government in the UK to make better use of the network to allow citizens to interface with the state. However, since 2010, income from government services has dropped by more than 40% showing that this policy was not taken seriously by Government.

We firmly believe that there is still an important role for face-to-face Government and local services provided by the Post Office and that there are still local and national contracts that could be provided by the Post Office.

“Although we understand the financial imperative to drive services online, there are people being left behind”

Although we understand the financial imperative to drive services online, there are people being left behind. Local

Authorities and devolved and national governments should make better use of the resource that they have in the Post Office network.

About 10% of UK households do not have internet access. However, Government cut backs and the rapid growth in internet use have meant a drive towards digital service provision, leaving

many of the UK's most vulnerable residents without access to safe and secure government services.

We believe the Post Office's network of 11,600 branches can play a significant role in assisted digital, offering those members of the community who do not have easy access to the internet access to online services through their post office branch.

## Where next for mails?

Revenue from mail and parcel services remains the largest single part of Post Office business, comfortably exceeding that from financial services, government services or telecommunications.

While letters volumes continues to fall, the decline is being offset by a growth in parcels. Last year's Ofcom annual review of the postal sector found that addressed letter volumes fell in 2015 by 3.7% to 12.2bn. Of this total, the volume handled end-to-end by Royal Mail fell by 7% to 5.1bn items. However, in its review, Ofcom identified

the further growth in online shopping as a key revenue driver. Royal Mail estimates that the total blended market of parcels will grow at 4% per year in the medium-term and that returns volumes have grown by 24% in the past year. This highlights the need for a good returns strategy for Royal Mail and Post Office.

However, this is an increasingly competitive market, evidenced by the growth in competitors' access points across the UK. Maintaining and building this part of the business is, therefore, a key priority for Post Office and Royal Mail.

There is a growing consumer appetite for same-day, within-the-hour and scheduled home deliveries, as well as parcel lockers and parcel stores for click and collect items. For the Post Office to remain competitive in mails, it must ensure that mails services reflect developments in the market.

## Post Office and Royal Mail: relationship

Since Post Office was separated from Royal Mail in 2012, the NFSP has become increasingly concerned that the two companies are developing competing interests. The decision by Royal Mail, for example, to introduce discounted prices for online customers suggests that it is failing to recognise the true value of Post Office branches. The decision places yet further pressure on subpostmasters' income from mails.

We have called on Royal Mail to apply the online discount to Post Office Drop & Go customers and not aggressively market this option to customers, which could drive significant volumes from the post office franchises.

Royal Mail enjoys exceptional value from the post office branch network. Our network contributes almost a quarter of its UK-generated income. Subpostmasters' ability to upsell profitable products, such as special delivery, generates significant income for both Post Office and Royal Mail. They do this at only marginal extra cost. If Royal Mail aggressively pushes customers online, it will reduce the scope for subpostmasters to upsell.

Last year, Royal Mail announced that it was going to allow its customers to drop off their stamped parcels at its 1,200-strong Customer Service Points in Delivery Offices nationwide. This year, Royal Mail announced further plans to make it easier for consumers to post and return parcels at its Delivery Offices.

These announcements, which mean that customers can drop postal items directly into the Royal Mail delivery network for the first time, is a worrying development. In the last year, Royal Mail has opened up its Delivery Office Network to handle click and collect items. The 100 busiest of these have started opening on a Sunday as well. Royal Mail is stating that it has 11,700 'access points' including 10,500 'bricks and mortar' post offices branches -calling its Delivery Office Network 'access points' for the first time.

Mail is a competitive and growing market in which we must compete. Post office branches provide Royal Mail with a ubiquitous high street presence, offering unparalleled reach and quality of service.

Until four years ago, the post office network was an integral part of the Royal Mail infrastructure. Now, Post Office and Royal Mail are sister companies and should be working with each other, not competing against one another. The Post Office manages around £1.6bn in sales





from mails products on behalf of Royal Mail each year. In the last financial year, this generated £340m income from Royal Mail. This commission is the bedrock of our network.

Royal Mail needs to better recognise the critical role that post office branches play in its operations. It also needs to recognise the impact on subpostmasters of any decision that it makes, and better understand the financial pressures of running a post office branch.

The NFSP will continue to work with both Royal Mail and Post Office to ensure that our interests are aligned and subpostmasters' are properly rewarded for the work they undertake on behalf of Royal Mail customers. We would also like this to include an element of joint branding, building on the trust that there is in both brands.

### Fit for purpose universal service

A strong and effective universal service is crucial in order to maintain the UK-wide network of post offices that so many people rely upon.

Last year we called on Ofcom to make every attempt to ensure that the six-day-a-week, one-price-goes-anywhere universal service has a future, rather than further prioritising attempts to generate competition in the declining letters market.

We recognise that the universal service must adapt to the changing needs of society. Therefore, Royal Mail should have the flexibility to allow the universal service

to evolve, to ensure its services remain relevant to consumers' needs. Without the ability to evolve, the universal service will become increasingly financially burdensome.

We also called on Ofcom to remove the restriction on allowing tracking on universal service parcels, which would be of huge benefit to postal users.

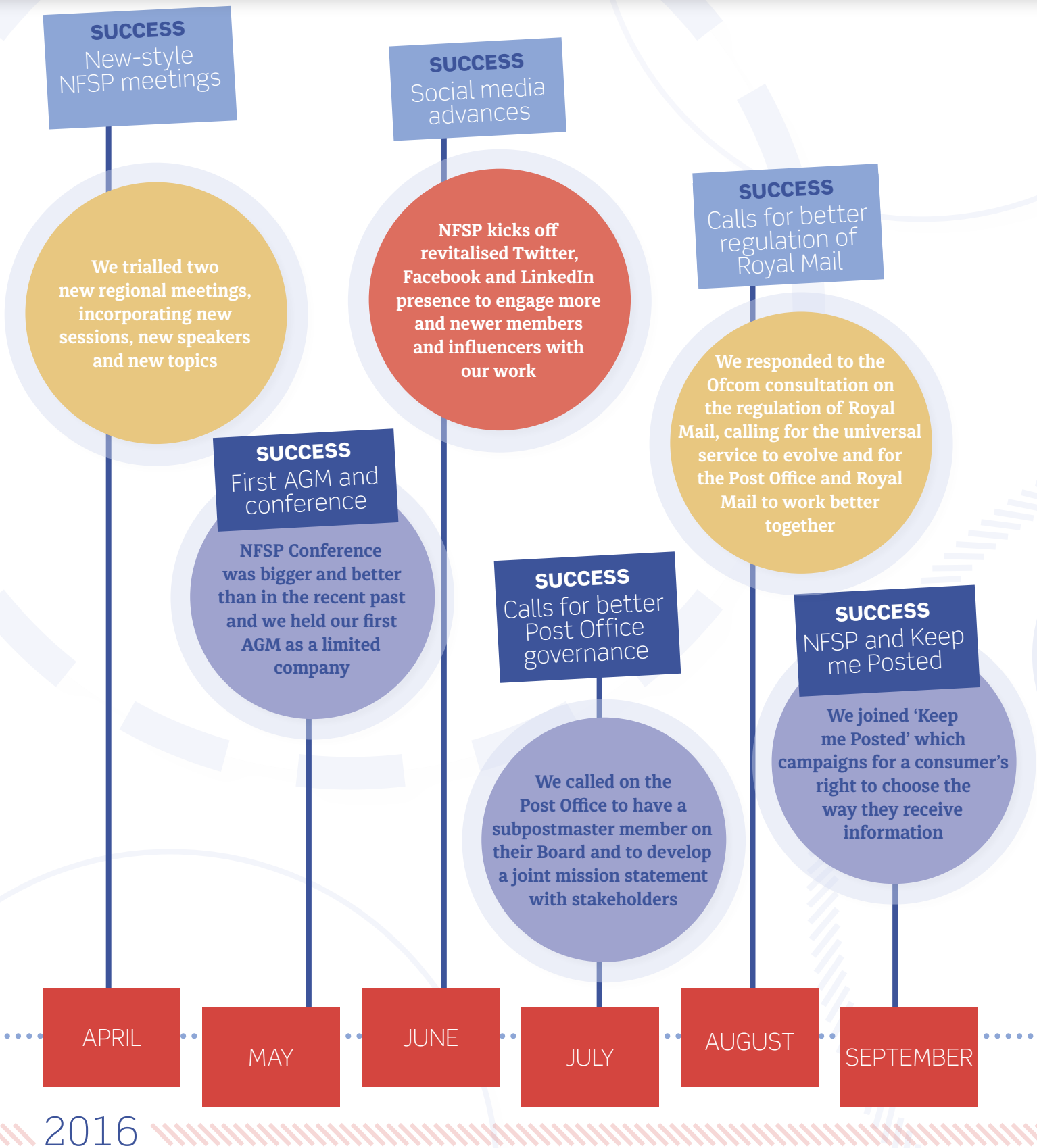
### A new mails agreement

Our members are the shopfront for Royal Mail. In 2012, Royal Mail and Post Office signed a 10-year Mails Distribution Agreement, designed to underpin the working relationship between the newly separated Royal Mail Plc and Post Office Ltd. The Mails Distribution Agreement ensures post office branches provide retail and parcel services to customers on behalf of Royal Mail (and Royal Mail alone), where the 11,600 post office branches act as drop-off points for Royal Mail items as well as customer collection points. Mail that is unable to be delivered to a customer is increasingly re-directed to the customer's nearest post office for them to collect there.

It is vital that Post Office maintains its exclusive agreement to be the high street access point for Royal Mail once the current agreement runs out in 2022. Any attempt to change this relationship or reduce this income subpostmasters receive from Royal Mail products would have a disastrous effect on the post office network.



# Key moments thro



# Throughout the year

# 2016-17

**SUCCESS**  
New ministerial appointments

NFSP held two productive first meetings with the new Postal Services Minister, Margot James MP and new High Street Minister, Andrew Percy MP

**SUCCESS**  
New retail team

Our new six-strong retail team started in January. In March they started in earnest to provide retail advice and guidance to subpostmasters across the country

**SUCCESS**  
Better financial support

Franchise Finance completed 50 business health checks for the NFSP, looking at the financial aspects of our members' business to assess their sustainability

**SUCCESS**  
Network subsidy

We responded to the government consultation on the future funding of the Post Office calling for a continued government subsidy, the current access criteria to be maintained and offering suggestions for further revenue streams

**SUCCESS**  
Banking framework

We welcomed the Post Office's new banking framework and improvements to banking services, which will help make the Post Office customers' first choice for high street banking

**SUCCESS**  
3,000 new members

We welcomed nearly 3,000 new subpostmasters into membership. We now have a membership of 8,000 subpostmasters who own and run 9,300 Post Office branches

OCTOBER

NOVEMBER

DECEMBER

JANUARY

FEBRUARY

MARCH

2017





# Our organisation: successes this year

**T**his year has been a significant one for the NFSP. As our members have changed their businesses to better reflect the needs of their customers, we are changing to better reflect the needs of our members.

We have developed a new vision and ambition to transform the organisation into a professional trade association and small business champion, whose aim is to support members to maximise both their Post Office and retail profit. We aim to:

1. Support subpostmasters to achieve commercial growth in both their retail and post office business through **effective advice, guidance**

“ The 2016 conference in Solihull incorporated some of the biggest changes to conference in the NFSP's history ”

## **training and networking opportunities**

**2. Maintain strong relationships with our stakeholders** including Post Office, Royal Mail, Government, trade bodies and others in order to influence on behalf of subpostmasters

## **3. Ensure good organisational infrastructure and governance**

The priorities for the NFSP over the last year have focused on strengthening the organisation's capability, developing services in support of members' retail interests, improving the effectiveness of communications and engagement with both members and Post Office Ltd.

Additionally, after a sustained period of internal change and building the infrastructure to effectively support our members, we have expanded our work with stakeholders, providing a more effective voice for subpostmasters.

While working with the Post Office is often challenging, we are all trying to achieve the same aim: a sustainable post office network, which has subpostmasters at the very heart. Therefore we are also working in a new way with the Post Office, not only to secure the best possible terms and conditions for members, but also working more closely on business and

product development and ensuring the insight and expertise of subpostmasters is integrated into commercial decision-making to help improve Post Office products, services and operations.

Much progress has been made on these key areas and over the last year we have achieved some significant milestones.

There is much still to do, but we believe that this is a great foundation on which to build. The changes that we have made this year will make sure that the NFSP is around for many years to come. By working together, we can ensure a post office network that is truly fit for the future.

## Retail team

In January 2017 we recruited a team of six retail experts with a further two to be employed over the coming months. This team will be working hand-in-glove with members to help improve their retail offer.

The Retail Team will provide a full range of support depending on a member's needs, for example:

- › Instore retail visits, 'health-checks' and action plans,
- › Face-to-face and online training and workshops,
- › Interactive 360 virtual tours,
- › Information about commercial suppliers of cards, stationery, food & drink,
- › Advice and guidance, and much, much more...

All members are being invited to get in touch if they are looking for retail support.

They will offer instore 'health checks' and visits, walking subpostmasters through different areas of their business. They will then work in partnership with subpostmasters to produce an action plan to help them to improve their retail offer. The team have solutions and ideas about increasing income and reducing costs from all areas of the business.

Last year the team - a number of whom previously worked for the Post Office - was named as finalist in the 'Supplier Initiative of the Year' category at the prestigious Retail Industry Awards for their interactive 360-degree virtual tour that allows postmasters to navigate award-winning branches to learn retailing principles that can increase profitability.

The team has kicked off their work with the NFSP by doing a piece of research asking a series of questions of subpostmasters that will help them to better understand members' retail businesses.

The six-strong team will also provide support for branch secretaries. They will cover all 10 NFSP regions, run retail workshops and social media events around the country and will be helping branches facilitate their meetings. This is yet another example of how the NFSP, as a small business champion, is committed to maximising the income and profit of our members' businesses.

## New-look conference

Our first AGM and reformed conference took place in May 2016 (with the second one planned for April 2017).

The 2016 conference in Solihull incorporated some of the biggest changes to conference in the NFSP's history. 'Facing the Challenges - working to build successful Post Office and retail businesses' was the theme of the conference, which aimed to explore some of the most

pressing issues facing subpostmasters, including partnership banking, retail, the mails market, future levels of public subsidy and potential structural changes to the network beyond March 2018.

A one-and-a-half day exhibition was held on Sunday and this year there was also a significant increase in the time allowed for delegates to visit the exhibition stands. Additionally the NFSP held workshops on best retail practice and retail trends. Post Office had a large presence during the main event and ran a number of well-regarded workshops.

The guest speakers included Paula Vennells, Chief Executive of the Post Office and Tim Parker, Chair of the Post Office. Martin Kearsley, Banking Director at Post Office and Mark Siviter, Head of Mails at Post Office, led sessions on the future of banking services and mails respectively. The conference also heard from a range of retail experts.

Alongside the conference, we held our first AGM as a company limited by guarantee.

The conference received positive feedback about the new format, the exhibition and the content and we will build on this in 2017.

## New branch meetings

NFSP branch meetings have traditionally been the cornerstone of the NFSP. However, as subpostmasters have had to work longer and harder to make a living, spare time is increasingly scarce, so over the years it has become more difficult to get grass-roots members (and





“... free NFSP membership has been extended to an extra 3,000 postmasters from February this year”



prospective members) out to a meeting - often there just isn't the time.

The NFSP recognises that it needs to be more imaginative to attract subpostmasters to meetings. Our solution is to create a series of 'must attend' events that will offer the opportunity to network, to hear about the work of the NFSP, the future of the post office, and to get commercial or retail information, training and experience.

In April 2016 we held two 'new-style' regional events. We ran two identical sessions, allowing members to choose which one to attend. Each session comprised:

- NFSP business, including the challenges and opportunities for postmasters
- Post Office session, where Post Office colleagues outlined their new business strategy, opportunities for the future and took questions and answers
- Advice from a retailer, specifically on how to

maximise footfall, retail offering and layout. These regional meetings were held on a Sunday, were extremely well attended and received excellent feedback. This is the start of a major drive in making regional meetings more accessible. This will kick off in earnest in 2017 and will help to re-establish a solid base of branches and regions.

## NFSP membership hits the 8,000 mark

Following the landmark 15-year agreement with the Post Office, free NFSP membership has been extended to an extra 3,000 subpostmasters from February this year. NFSP membership now stands at around 8,000 members who own and run 9,300 branches between them. This makes us one of the largest small business champions in the country. The NFSP is also talking to a number of multiples and hopes to include them in membership over the next year.

## Better advice and guidance

The NFSP continues to provide advice and guidance to our members about post office services, retail and business. To support our members' retail needs, we produced information on price marked products, changes to tobacco legislation, e-cigarettes and food-to-go. On the post office side, we produced information about travel money, post office returns, queue management and dangerous goods. On the business side, we published information on saving energy, pensions auto enrolment, engaging young and old people, social media and making technology work for you.

All of this advice and guidance was published in the *Subpostmaster* magazine and is in the advice and guidance library section of the members' website.

## Communication improvements

Businesses and our members are moving online and we need to be there with them. Our new website, launched in spring 2016, is a complete one stop shop for NFSP news, campaigns and developments and is a key source of essential information for members. Members will be able to tap into collective knowledge within the forum.

This new site is easier to use and has more relevant content. The site also works seamlessly with the NFSP's social media presence. This enables the NFSP to engage and share views across a range of practical and policy issues. Over time, it will be integrated with the magazine's microsite and the member forum, providing the platform to build and strengthen engagement with members. We continued to improve the *SubPostmaster* magazine based on reader feedback. The magazine - which now goes out to over 8,000 subpostmasters and influencers - is an important NFSP communication tool. It provides, directly to members, information about the NFSP, advice and guidance, news and comment from the sector (including Post Office and Royal Mail). The magazine includes a newly expanded section on retail and advice and guidance, to better reflect our members' businesses. This is alongside the traditional advice and guidance in relation to Post Office and Royal Mail business.



# Our aims for the year ahead



## Retail Team developing a comprehensive suite of support services:

Our new retail team will develop a comprehensive suite of support services to empower subpostmasters to build successful post office and retail businesses. This includes bringing subpostmasters together to help each other.

## Increasing the diversity of the NFSP Council:

We recognise that it is important that the leadership of the NFSP reflects the membership we have. We will increase the diversity of the NFSP Council with membership drawn from multiples, symbol groups and traditional branches.

## Offering engaging and compelling events:

The NFSP will offer more engaging, compelling events that reward subpostmasters for their time. We have begun trialling new-style meetings, and will further involve commercial partners and Post Office.

## Post Office Community Fund:

We will urge our members who own community branches to make use of the investment from the Post Office Community Fund to create more attractive shops.

## Improve our understanding of our members:

We will conduct more research about our members, making sure that we better understand their retail and post office businesses, and allowing us to better lobby decision-makers.

## Improve communication channels:

We will continue to develop and improve our NFSP communications channels, including the NFSP website, forum, social media and magazine.

## Annual Conference:

This year's annual conference will develop on the strong foundations of last year, with the inclusion of a full day at the National Convenience Show and ACS summit.

“NFSP is committed to help bring together partners to create a better deal for subpostmasters”



### Voice of subpostmasters:

With a membership that stands at 8,000 small businesses owners, our ambition is to become a single, comprehensive voice for all subpostmasters. This will ensure that subpostmasters get access to all the support, services and representation they need as small business owners.

### Better relationships:

We will continue to develop our relationships with Post Office, Royal Mail and Government. We are a single network and NFSP is committed to playing a key role in bringing together partners to create a better deal for subpostmasters and better future for the network.

### Banking opportunities:

The NFSP will work closely with Post Office and the Government to demonstrate the critical economic and social value of post office branches' role in banking services and the cash economy - and we will ensure that subpostmasters receive the remuneration they deserve.

### Advice and guidance network:

We will continue to build on the retail, post office and business advice and guidance that we provide to our members. We will look to provide this in new and engaging ways, to better reflect how our members work and the technology they use.

### Fair remuneration and better input:

We will work with our partners in the Post Office, Royal Mail and Government to ensure that subpostmasters are fairly remunerated for the work that they do and that they have sustainable businesses. We will also make sure that subpostmasters are better involved in strategic and operational decision-making within the network.

### Post Office transformation:

We will continue to lobby for Post Office transformation. It must abandon the top-down, command-and-control model of decision-making. In today's fast-moving market, we need to be lean and nimble, highly focused, capable of insight and quick action.

### Public subsidy:

Thousands of post office branches continue to provide essential services in rural areas across the country. These branches simply cannot survive without some measure of public financial support. We will press for the best possible settlement from 2018 to ensure these branches can continue.





“The network could not survive without the company and the company could not survive without the network”

## Concluding remarks

The long term future of the network relies on the link between subpostmasters and Post Office. Both rely on the company maximising income, growing sales, introducing new products and retaining existing business. The network could not survive without the company and the company could not survive without the network. We need to be together to make sure that we all have a viable, long-term future.





Supporting  
subpostmasters to  
maximise income  
from their post office  
and retail business

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