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The uncertain future of the Post Office network

Natan Doron

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Summary

• The future of the Post Office has not been part of the discussion about Royal Mail privatisation. But with a third of Post Office income dependent on Royal Mail, the fate of both organisations is intimately linked

• This report models nine scenarios for the future of the Post Office network. In only one of the nine scenarios does the network have anything resembling a secure future

• Furthermore, this scenario is based on a number of uncertain factors including the Post Office achieving rapid growth in the level of income received from financial services and winning significant new business for providing government services. A strong, successful relationship between the Post Office and Royal Mail is also key to this scenario

• In such a climate of uncertainty, the government has been reckless to relinquish a controlling stake in Royal Mail

• We therefore recommend that the government retains the maximum amount of shares in Royal Mail. This would provide future governments an opportunity to buy back enough shares to regain a controlling stake

• The privatisation of Royal Mail now makes a consideration of the long-term future of both the Post Office network and Royal Mail an urgent priority

• The government should therefore prioritise plans to use the Post Office to provide a greater number of services. Responsibility for overseeing this process could be given to the Cabinet Office to ensure greater buy-in across Whitehall

1 INTRODUCTION

The local Post Office and the red pillar box are both long standing symbols of community life in Britain. The future for both is very uncertain. The coalition government's plan to sell the majority of shares in Royal Mail has devalued the symbolic power of the red pillar box – replacing a symbol of the public realm with a reminder that everything is for sale in modern Britain. In time, the red pillar box could be retired completely, at the whim of some corporate rebranding by the company a privately-owned Royal Mail will become.

The privatisation of Royal Mail makes this future possible. The government has repeatedly insisted that the future of the Post Office network is separate from the debate about the privatisation of Royal Mail, but this argument does not stack up.

Royal Mail and Post Office Ltd were once part of the same company. In 2012 they were separated by the Postal Services Act. A 10-year agreement between Royal Mail and Post Office Ltd was signed to ensure that post offices continue issuing stamps as well as handling parcels and letters for Royal Mail. The income from these services provided for Royal Mail makes up a third of Post Office Ltd's revenue.

The government's assurance that it is hard to imagine Royal Mail not working closely with the Post Office is little assurance at all. With the agreement between Royal Mail not being publicly available, it is currently not possible to assert convincingly that the relationship will continue to be favourable to the Post Office. Royal Mail might gradually divert business away from the Post Office network to other channels. Over time there would be nothing to stop a privately owned Royal Mail aggressively renegotiating or even ending its relationship with the Post Office network altogether.

The future of Royal Mail has too often been considered in isolation from the Post Office. Richard Hooper, who was asked to undertake independent reviews of the postal services sector by the coalition and the last Labour government, explicitly 'parked' the future of the Post Office in his analysis. But as Hooper himself recognises, most people use the terms Post Office and Royal Mail interchangeably.

There is strong evidence demonstrating that the Post Office is a crucial public service for communities all over the country.[1] For some it is the only local shop; for others it is the hub of their community, or the point of access to essential services from paying bills to collecting social security payments. The Post Office can be thought of as the glue which binds citizens and the state.

The value of the Post Office network as a public service should be important to all political parties. David Cameron once spoke about the 'big society', where communities do more together to live a better life. Ed Miliband's 'one nation' agenda also emphasises the importance of institutions that bring people together, including at a very local level.

But if politicians value the Post Office network they must urgently consider the impact that privatising Royal Mail will have.

The government's plans for a viable future Post Office network are dependent on two assumptions: firstly, the income from services provided for Royal Mail increasing; and, secondly, strong growth in Post Office Ltd's income from government and financial services. If one of these assumptions proves incorrect the network could be in real trouble. If both fail to happen, the network will be in crisis.

This report demonstrates that the future of the Post Office network is fragile and intimately linked to the future of Royal Mail. To avoid future problems everything has to go according to plan, and the plans are optimistic. We all hope that a committed Post Office Ltd management team is able to grow all areas of the business. But it is only right that the significant risks involved are subject to public debate, since the taxpayer may have to pick up the bill if the plans do not come off.

2 CONTEXT

To properly evaluate the future of the Post Office network and its relationship with Royal Mail, it is important to understand the recent history and politics surrounding it. If we are to protect this valued institution, we must draw attention to a sober analysis of the key uncertainties facing the network.

The case for investment in Royal Mail

Ownership of Royal Mail and the future of the Post Office have been hot political issues for many years now. Ten years ago, the Royal Mail pension scheme had an £8bn deficit, after a 13 year pension holiday in which successive governments stopped contributions. This was followed by a series of Post Office closure programmes designed to save money. Despite a wave of reforms in the Labour years, Royal Mail seemed to stagger from one crisis to the next.

In response, in 2008, the Labour government commissioned an independent report by Richard Hooper to investigate the future of Royal Mail. Hooper concluded that Royal Mail was in desperate need of investment in order to modernise. His report argued that the level of investment needed could not come from the public purse in such difficult economic circumstances. The government responded to the report by unveiling plans to sell off a third of shares in Royal Mail to the private sector.

The government plans were opposed by Labour backbenchers and drew much public opposition too. Eventually they were shelved when then secretary of state for business Peter Mandelson declared that, due to market conditions following the financial crisis, a suitable buyer could not be found.

The coalition government

Where New Labour and Mandelson failed, the coalition government proved determined to succeed. After forming a government in May 2010, the coalition wasted little time in asking Richard Hooper to update his report. Hooper concluded that the fundamental facts, and therefore his analysis, had not changed. Royal Mail still needed private investment and this meant selling shares.

Royal Mail was then split from the Post Office to prepare for privatisation. In September 2013 the coalition government announced its intention to begin the sale of shares of Royal Mail. The government indicated that a minimum of 40 per cent of the company would be sold with a hope that Royal Mail would be majority private-owned by March 2014. In addition, Royal Mail staff have been offered 10 per cent of the shares for free as part of the deal. Investor demand was so high that the government sold 62 per cent of the company achieving its aim and relinquishing control. The government has been left with 38 per cent of shares in Royal Mail, at least for the time being.

This privatisation goes much further than providing Royal Mail with new capital, and the government has done little to explain why majority private ownership is necessary for the company's future. On the other hand, there are a series of important arguments as to why Royal Mail should have remained (at least majority) public. But this report looks at an aspect of the argument which is often ignored: the relationship between Royal Mail and the Post Office network.

The Post Office network

The Post Office is run as a limited company in public ownership. It is run on a commercial basis but depends on an annual subsidy from the government. Most of its services are delivered by over 11,000 branches of independent businesses known as sub Post Offices. The company also directly operates around 300 larger Post Offices known as crown branches. It is a remarkable example of a national public service delivered in partnership with businesses that are uniquely tailored to local circumstances. The Post Office is a well trusted and loved service. The most recent annual report of the Post Office cites an 87 per cent customer satisfaction rate.[2]

Post Office Ltd is very confident about its future and that of the Post Office network. Its most recent annual report shows increasing revenues. The network has been undergoing a transformation programme in which thousands of branches are being revamped. One of the main aims of this programme is for more Post Offices to offer longer opening hours and reach out to new customers through doing so. This transformation programme underpins ambitious plans for growth.

But the optimism of Post Office Ltd stands in contrast to the experiences of typical subpostmasters. According to research by the National Federation of SubPostmasters, times are very tough for most operators. With costs going up and the difficult economic times hitting business – the amount of salary that subpostmasters are drawing from their Post Office pay is down 36 per cent on average since 2006.[3] The picture painted by Post Office Ltd is far rosier than the one painted by the subpostmasters.

The future of the Post Office

In 2010 the Department for Business, Innovation and Skills (BIS) published a detailed statement setting out the government's vision for the future of the Post Office network.[4] This vision is based on income increasing in the next few years across all the Post Office's main revenue streams (see box 1). It also envisages public subsidy gradually declining.

The credibility of the BIS vision for the future of the network is dependent on three important factors:

First, the annual revenue for Post Office Ltd from both financial and government services needs to increase – and very rapidly in the case of financial services.

The second factor is the relationship with Royal Mail. Mail-related business (mails and retail revenue) makes up a third of the Post Office's income. There is currently a ten year agreement for Royal Mail to use the Post Office network. But this agreement is likely to include scope for renegotiating on prices. There are concerns that the power relations in any renegotiations between Royal Mail and the Post Office network would disproportionally favour the former. For example, Royal Mail could hold out the threat of using the Post Office network less, unless prices were cut.

The third factor underpinning the future of the network is public subsidy. The level of subsidy required to sustain the present network will depend on how successful the Post Office is as a business. If plans for mails, financial services and government services do not succeed it is unclear whether there will be political appetite for increasing the subsidy to compensate. EU state aid authorisation would also be required.

BOX 1: POST OFFICE REVENUE STREAMS

1. **Mails and retail: Income from the services provided for Royal Mail and Parcel Force**
2. **Financial services: Income from Post Office branded financial products such as savings accounts, credit cards, mortgages, travel services and bill payments**
3. **Government services: Income derived from delivering services contracted out by government**
4. **Telecoms: Income from Home Phone and broadband services**
5. **Other: This income is primarily from the cash supply chain business**
6. **Network subsidy: This is a government grant towards the cost of maintaining the Post Office network**

Key uncertainties

The Post Office network has areas of great potential but also faces real uncertainty. Post Office Ltd's optimistic vision is based around a focus on the potential. The concerns of the subpostmasters reflect both the current conditions of flat or declining income but also significant future uncertainty.

The key uncertainties are related to the main revenue streams that underpin the BIS plan for the Post Office network: mails, government services and financial services.

Financial services revenue for the Post Office saw growth of 6.4 per cent last year. Continued or higher growth is a key part of the Post Office plan. But the financial services sector is a very crowded and highly competitive market place. And while the Post Office is a trusted brand, the products on offer are not Post Office products but primarily Bank of Ireland products with a Post Office logo on them. The Bank of Ireland has a contract with Post Office Ltd to provide these financial products for sale across the network and on the Post Office website. It is difficult to see the unique selling point for these products. As a provider of another company's financial services, the Post Office faces constraints on the products it can offer. Its strategy also makes only limited use of its 'USP' as a national network, with many products simply being marketed through local branches as opposed to the full transaction being conducted in the branch.

One area of differentiation for Post Office financial services would be the use of the vast Post Office network itself. But financial services is a sector that is seeing business increasingly conducted online. While there will always remain a demand for some face to face service this somewhat limits the importance of the network as a unique selling point. This means that more will need to be done in product design and marketing to offer products that optimise the potential of the network. It also indicates that increasing growth in financial services business for the Post Office could fail to lead to increased footfall and business for the physical Post Office branches.

As for government services, revenue has been shrinking or flat for Post Office Ltd in recent years, with no growth last year. Contracts won in the last year such as the Driver and Vehicle Licensing Agency (DVLA) counter service have not brought in the revenue levels hoped for. This is despite a clear statement by BIS that the Post Office becomes 'the front office of government'.

The Post Office Ltd annual report plays up the significance of identity verification business being of more importance in future for the government services arm of the organisation. But this type of business is characterised by infrequent one-off transactions. It is unclear what sort of revenue growth can be expected from more contracts of this sort.

The mails revenue uncertainty relates to the relationship between Post Office Ltd and Royal Mail. Revenue from mails grew 4.3 per cent last year. Part of this growth was driven by the health of the parcels business but part of it was on account of an increase in stamp prices.

There is clear potential for Royal Mail to enjoy future growth from parcels as the boom in online shopping continues. But a privatised Royal Mail may choose to pass on less of this growth to the Post Office.

There currently seems to be very little public acknowledgement of any of these uncertainties. There appears even less in the way of publicly available contingency plans for protecting the network in the event of any deviation from the government's plans for the future of the Post Office.

It may well be that Post Office Ltd sees strong growth in financial services as well as increased revenue from new government contracts. This would be a very good thing. But if this happens, would it be enough on its own to secure the future of the network?

It is in this context that the sale of Royal Mail seems unnecessarily rushed and risky. If we are to protect the Post Office network we must understand the extent to which its future is at risk.

3 SCENARIOS

The future of the Post Office network must be an integral part of the debate about the privatisation of Royal Mail. As outlined above, a privately-owned Royal Mail could gradually divert business away from the Post Office network to other channels, and after a decade could threaten a 'nuclear option' of ending the relationship altogether, even if this was only a bargaining position to push prices down. Government services revenue has been shrinking or flat in recent years, and there are uncertainties surrounding the financial services revenue of Post Office Ltd.

With this context in mind, the Fabian Society has constructed nine scenarios based on indicative numbers for revenue growth for the Post Office. Full details about each of these scenarios and the calculations involved can be found in Appendix 1. The future of the network only looks safe in one scenario and we consider it has a low probability of being realised, because it assumes that:

- **Private shareholders in majority ownership of Royal Mail will not seek to renegotiate their agreement with the Post Office or divert postal business to other channels in order to increase profits**. *This is unlikely as shareholders will almost always seek to maximise profit. So while Royal Mail revenue is predicted to rise, in line with the growth of the parcel business, the share of turnover it passes to the Post Office could feasibly decline.*

- **The Post Office sees very high annual growth in financial services (improving on the 6.4 per cent it grew at last year).** *This is unlikely, due to the very crowded market. While the Post Office is clearly a trusted brand at present it is not clear how its financial products will be differentiated from other market players.*

- **The government services revenue grows strongly as the Post Office transforms into a 'front office for government'.** *Also unlikely, as government services contracts have not brought in significant income for the Post Office and this revenue stream has seen notable decline over the last 10 years.*

In addition to the fragility of the network's future, there is real concern about the diverging interests of Royal Mail, Post Office Ltd and the wider network of subpostmasters who operate 97 per cent of the UK's Post Offices. Royal Mail has already demonstrated its willingness to chip away at the amount of revenue going to the Post Office.

For example it is plausible that Royal Mail could approach business customers to cut out the Post Office from transactions for a better deal direct with Royal Mail.[5] Furthermore a substantial portion of recent growth from mails income is accounted for by an increase in prices to the consumer. This is clearly not a sustainable strategy for growth from this revenue stream as consumers will only tolerate a certain amount of price increases.

There is also a concern that new growth for Post Office Ltd will not filter through to the wider network of subpostmasters. For example, much of any hypothetical growth in financial services will likely be conducted online and may in fact reduce footfall to physical Post Offices.

Table 1: The nine scenarios based on indicative numbers for revenue growth for the Post Office network

	RM1 Royal Mail keeps the agreement and mail revenue grows at 5% a year			**RM2** Royal Mail undertakes a slight renegotiation of the agreement and mail revenue declines 5% a year			**RM3** Royal Mail aggressively renegotiates the agreement and mail revenue declines 25% a year		
BIS1 The Post Office performs very well as a business and exceeds targets	2013 Revenue	2015 Revenue	2020 Revenue	2013 Revenue	2015 Revenue	2020 Revenue	2013 Revenue	2015 Revenue	2020 Revenue
	£1234m	£1240m	£1564m	£1234m	£1199m	£1274m	£1234m	£1117m	£1043m
	Network Health: **Good** Probability: **Low**			Network Health: **Poor** Probability: **Medium**			Network Health: **Poor** Probability: **Low**		
BIS2 The Post Office sees basically flat growth	2013 Revenue	2015 Revenue	2020 Revenue	2013 Revenue	2015 Revenue	2020 Revenue	2013 Revenue	2015 Revenue	2020 Revenue
	£1234m	£1206m	£1245m	£1234m	£1165m	£956m	£1234m	£1083m	£725m
	Network Health: **Poor** Probability: **Medium**			Network Health: **Very poor** Probability: **High**			Network Health: **Very poor** Probability: **Low**		
BIS3 The Post Office performs badly as a business	2013 Revenue	2015 Revenue	2020 Revenue	2013 Revenue	2015 Revenue	2020 Revenue	2013 Revenue	2015 Revenue	2020 Revenue
	£1234m	£1184m	£1104m	£1234m	£1143m	£814m	£1234m	£1061m	£583m
	Network Health: **Poor** Probability: **Low**			Network Health: **Very poor** Probability: **Medium**			Network Health: **Very poor** Probability: **Low**		

All revenue figures and projections are for Post Office Ltd. For more detailed information about each scenario please see the appendix.

The projections in RM3 are extremely implausible by 2020 given both the inter-business agreement and the importance of the Post Office network for Royal Mail at present. But in the long term, there would be little to stop Royal Mail renegotiating its agreement with the Post Office in this way.

4 PROTECTING THE NETWORK

The analysis of the scenarios in this report suggests that government action is urgently needed to prevent the future collapse of the Post Office network becoming a probability. In exploring what government can do to ensure that the network is secure it is helpful to think through four main areas underpinning our scenarios: government services, financial services, network subsidy and the relationship with Royal Mail.

Government services is the most obvious aspect of Post Office revenue that government can affect. Revenue growth from government services over the last few years indicates that the contracts awarded have been too few and not valuable enough for the Post Office network.

The small number of government contracts awarded to the Post Office suggests that BIS has not secured sufficient support across Whitehall. Responsibility for providing more government services through the Post Office could be relocated to the Cabinet Office. There are also innovative local authorities using Post Offices to administer services. Lessons from authorities such as Sheffield City Council cited in the 2010 BIS report 'securing the Post Office network in a digital age' could be used to drive a more localised approach to the government business strategy.

It is harder for government to do much to support the growth of financial services revenue in the short term. But by addressing the other areas government can ensure that the future strategy of Post Office Ltd is less reliant on huge growth in income from financial services. In its place a broader-based, more resilient and lower-risk strategy for Post Office Ltd would emerge.

In the longer term government could commit to capitalising a state-backed Postbank to offer a more unique set of products.[6] A Postbank could be one of the solutions to the recent rise in payday lenders that has seen vulnerable groups borrowing money at rates of up to 4000 per cent. The 2010 BIS strategy also suggested that credit unions could work in closer partnership with Post Offices to ensure cheaper access to finance.

Another option for government action is to make a stronger case for increasing the network subsidy in future. Current plans are to decrease it so that Post Office Ltd is less dependent on public subsidy. But our scenarios demonstrate that this would be very difficult if either the assumptions in the 2010 BIS strategy or the relationship with Royal Mail are proved to be ill-founded.

Perhaps the simplest solution would be that the current government retains a significant stake in Royal Mail. This would allow the government to scrutinise decisions with implications for this key component of the Post Office's revenue. Profit from Royal Mail could also be used to cover ongoing subsidy should the network need it as well as being reinvested in Royal Mail itself.

The current round of privatisation has left the government with a 38 per cent share in Royal Mail. The government should retain this to allow future administrations the opportunity to buy back enough shares to regain a controlling stake in Royal Mail.

The arguments for government retaining a controlling stake in Royal Mail are backed up by international precedent. Only three European countries do not have a controlling stake in their postal service.[7] In the countries where government does not have a controlling stake, the service is characterised by low pay and poor conditions for workers and low standards for customers.[8] Alternatives to privatisation have been offered in the past, for example by the pressure group Compass. Their 2009 report in response to the New Labour privatisation plans looked at Welsh Water, Network Rail and the BBC as ownership models that could be applied in some measure to Royal Mail.[9]

These models were plausible options from a position of full government ownership. But from a position of at least part privatisation they would be very expensive, difficult or illegal. Network Rail and Welsh Water both have not-for-profit arrangements that came about in response to a crisis when in private ownership. It is somewhat difficult to imagine a profit-making private company performing well against its own measures being forced to become a not-for-profit company in the current political climate. This only increases the weight behind the argument for the government to retain maximum shares in Royal Mail. The government must use its stake to prevent a crisis for either Royal Mail or the Post Office in the future.

There will be some difficult discussions about the future of both Royal Mail and the Post Office in the coming years as a result of the government losing a significant stake in the former.

5 CONCLUSION

If politicians truly value the Post Office network they must do more to proactively safeguard its future. Following the overwhelming investor demand for shares in Royal Mail, part privatisation is a reality. But this report provides clear evidence that until a more secure future for the Post Office can be ensured, the government has a duty of responsibility to retain a significant stake, to exert real influence, and also that the door for a future government to buying a majority of the shares remains open, if this became necessary.

The Post Office is a prized institution and it is in the interest of neither the public or of politics that the sale of Royal Mail brings about the end of the Post Office. Local branches form the heart of many small communities, acting as a site for local identity and solidarity, while the local Post Office and the red pillar box are both long standing symbols of community life in Britain. Post Offices are also points of access to essential services, and a significant number of the people who are most reliant on these services are older people or vulnerable in some way.

Post Office Ltd has an ambitious business strategy and it is essential that it be given a chance to succeed. But as it stands, there is a real risk that its business strategy could be undermined by a privatised Royal Mail renegotiating the terms of its agreement with the network. The work of thousands of subpostmasters and Post Office employees could be undone by a rushed and poorly thought through privatisation.

The future of the Post Office network cannot be separated from the debate about privatising Royal Mail. Given that one of the plausible solutions to any future threat to the Post Office network is increasing the level of government subsidy, the public have a right to know that the network's future is safe.

This research shows there is not enough security for the Post Office to justify any further sale of shares in Royal Mail. Can politics respond by protecting the Post Office network in the future?

APPENDIX 1

The scenarios in detail

The scenarios have been constructed by running some indicative numbers, detailed below, drawn from our literature review, an advisory seminar as well as interviews with our advisory partners.

The scenarios only look at revenue for the Post Office. While costs are clearly important, it was a concern of the research to keep the scenarios as plausible as possible and it was felt that introducing another layer of speculation would weaken the scenarios.

The scenarios are based on assumptions for what happens to Royal Mail and its relationship with the Post Office. We have developed a high, medium and low success rate projection for the Royal Mail relationship with the Post Office. The scenarios are also based on a high, medium and low success rate projection for the government plan for the other revenue streams. The scenarios are then based on a mix of all six projections. Probability and network health are discussed at the end of the appendix.

The network subsidy reduces in the same way in all scenarios. This is partly for ease of comparison but is also designed to indicate what the reality of vastly reducing the network's dependence on subsidy would look like. There have been discussions and consultation in government to eventually mutualise Post Office Ltd.[10] This plan is predicated on the network becoming less dependent on government subsidy. For this reason our scenarios all project a 25 per cent annual decline in the subsidy which is roughly in line with the stated plans of the Department for Business, Innovation and Skills (BIS).

The time horizons chosen are 2015 and 2020. These dates give an indication of what the health of the Post Office network will be at the time of the next two general elections. The rates of growth and assumptions behind the three Royal Mail success rate projections are as follows:

Royal Mail One (RM1)

In this projection Royal Mail does not try to renegotiate the agreement with the Post Office. Income from mails revenue for Post Office Ltd grows at a rate of 5 per cent a year. This is essentially a rough continuation of how the mails and retail income grew for the Post Office last year.

Table 2: Revenue projections for RM1

Mails revenue for Post Office Ltd 2012 (£m)	Mails revenue for Post Office Ltd 2013 (£m)	If annual growth of mails revenue for Post Office Ltd continued at 5%	
		Mails revenue for Post Office Ltd 2015 (£m)	**Mails revenue for Post Office Ltd 2020 (£m)**
392	409	429	576

Royal Mail Two (RM2)

In this projection Royal Mail undertakes a slight renegotiation and/or finds how to cut out the Post Office from some of its business (eg striking deals with large clients that removes the need for the Post Office). This leads to Post Office Ltd income from mails revenue declining by 5 per cent each year. The renegotiation in this scenario is described as 'slight' because it represents a chipping away at the amount of money going from Royal Mail to Post Office Ltd as opposed to a larger renegotiation.

Table 3: Revenue projections for RM2

Mails revenue for Post Office Ltd 2012 (£m)	**Mails revenue for Post Office Ltd 2013 (£m)**	If annual growth of mails revenue for Post Office Ltd declined continually	
		Mails revenue for Post Office Ltd 2015 (£m)	**Mails revenue for Post Office Ltd 2020 (£m)**
392	409	389	286

Royal Mail Three (RM3)

In this most pessimistic of Royal Mail projections, the company undertakes an aggressive renegotiation of its agreement with the Post Office and/or breaks the agreement and provides some business to competitors of the Post Office. This leads to income for the Post Office declining by 25 per cent each year. The projections in RM3 are extremely implausible by 2020 given both the inter-business agreement and the importance of the Post Office network for Royal Mail at present. But in the long term, there would be little to stop Royal Mail renegotiating its agreement with the Post Office in this way.

Table 4: Revenue projections for RM3

Mails revenue for Post Office Ltd 2012 (£m)	**Mails revenue for Post Office Ltd 2013 (£m)**	If annual growth of mails revenue for Post Office Ltd declined continually by 25%	
		Mails revenue for Post Office Ltd 2015 (£m)	**Mails revenue for Post Office Ltd 2020 (£m)**
392	409	307	55

The rates of growth and assumptions behind the three Department of Business, Innovation and Skills (BIS) projections are as follows:

Department of Business, Innovation and Skills One (BIS1)

In this projection, the BIS plan succeeds and sees strong growth in financial services of 10 per cent a year and strong growth in government services of 5 per cent. This is essentially double the growth rate of the previous year's performance. The telephony and other revenue streams are projected to grow at 1 per cent each in this scenario as they are not emphasised in the BIS statement on the future of the Post Office as being essential to the immediate business strategy.

Table 5: Revenue projections for BIS1

			If annual growth of financial services revenue continued at 10%, growth of government services revenue continued at 5%, telephony and other revenue annual growth continued at 1% each	
	2012 (£m)	**2013 (£m)**	**2015 (£m)**	**2020 (£m)**
Total revenue for Post Office Ltd from financial services	264	281	309	548
Total revenue for Post Office Ltd from government services	164	164	172	231
Total revenue for Post Office Ltd from telephony	120	129	130	138
Total revenue for Post Office Ltd from 'other'	40	41	41	44

Department of Business, Innovation and Skills Two (BIS2)

In this situation, the BIS plan does not work due to difficult conditions in the financial services sector (with only 1 per cent annual growth) and the failure of government to find new contracts for the Post Office (causing this stream to decline by 0.5 per cent a year). The telephony and other revenue streams are projected to grow at 1 per cent each in this scenario as they are not emphasised in the BIS statement on the future of the Post Office as being essential to the immediate business strategy.

Table 6: Revenue projections for BIS2

			If annual growth of financial services revenue continued at 1%, growth of government services revenue continually declines by 0.5%, telephony and other revenue annual growth continued at 1% each	
	2012 (£m)	**2013 (£m)**	**2015 (£m)**	**2020 (£m)**
Total revenue for Post Office Ltd from financial services	264	281	284	301
Total revenue for Post Office Ltd from government services	164	164	163	158
Total revenue for Post Office Ltd from telephony	120	129	130	138
Total revenue for Post Office Ltd from 'other'	40	41	41	44

Department of Business, Innovation and Skills Three (BIS 3)

In this situation, the BIS plan goes very wrong. The financial services revenue declines 3 per cent a year due to challenges faced competing in a crowded and difficult market. Government services decline at 5 per cent a year as not only does new business not come but old contracts such as the Post Office Card Account decline in value. The telephony and other revenue streams also decline at 1 per cent a year as the morale and reputation of the organisation is damaged and brings down these revenue streams.

Table 7: Revenue projections for BIS3

			If annual growth of financial services revenue continually declined by 3%, growth of government services revenue continually declines by 5%, telephony and other annual revenue growth continually decline by 1% each	
	2012 (£m)	**2013 (£m)**	**2015 (£m)**	**2020 (£m)**
Total revenue for Post Office Ltd from financial services	264	281	273	227
Total revenue for Post Office Ltd from government services	164	164	156	115
Total revenue for Post Office Ltd from telephony	120	129	128	120
Total revenue for Post Office Ltd from 'other'	40	41	41	38

The different mixes of projections are summarised in the table below:

Table 1: The nine scenarios based on indicative numbers for revenue growth for the Post Office network

	RM1 Royal Mail keeps the agreement and mail revenue grows at 5 per cent a year			**RM2** Royal Mail undertakes a slight renegotiation of the agreement and mail revenue declines 5 per cent a year			**RM3** Royal Mail aggressively renegotiates the agreement and mail revenue declines 25 per cent a year		
BIS1 The Post Office performs very well as a business and exceeds targets	2013 Revenue	2015 Revenue	2020 Revenue	2013 Revenue	2015 Revenue	2020 Revenue	2013 Revenue	2015 Revenue	2020 Revenue
	£1234m	£1240m	£1564m	£1234m	£1199m	£1274m	£1234m	£1117m	£1043m
	Network Health: Good Probability: **Low**			Network Health: Poor Probability: **Medium**			Network Health: Poor Probability: **Low**		
BIS2 The Post Office sees basically flat growth	2013 Revenue	2015 Revenue	2020 Revenue	2013 Revenue	2015 Revenue	2020 Revenue	2013 Revenue	2015 Revenue	2020 Revenue
	£1234m	£1206m	£1245m	£1234m	£1165m	£956m	£1234m	£1083m	£725m
	Network Health: Poor Probability: **Medium**			Network Health: Very poor Probability: **High**			Network Health: Very poor Probability: **Low**		
BIS3 The Post Office performs badly as a business	2013 Revenue	2015 Revenue	2020 Revenue	2013 Revenue	2015 Revenue	2020 Revenue	2013 Revenue	2015 Revenue	2020 Revenue
	£1234m	£1184m	£1104m	£1234m	£1143m	£814m	£1234m	£1061m	£583m
	Network Health: Poor Probability: **Low**			Network Health: Very poor Probability: **Medium**			Network Health: Very poor Probability: **Low**		

All revenue figures and predictions are for Post Office Ltd

The high (RM1 BIS1) and low (RM3 BIS3) are all extreme situations and any mix of these is deemed low in probability. The medium scenarios (RM2 BIS2) are slightly more plausible as they are closer to current trends or expected trends in relation to RM2. These two scenarios combined are therefore deemed to have high probability. The remaining scenarios are deemed medium in probability as they fuse a plausible with an implausible probability. This does not hold for any of the RM3 projections, which are all deemed low probability because of the implausibility of such severe renegotiations before 2020.

The network health is deemed good if total revenue is growing in both 2015 and 2020. The network health is deemed poor if revenue in 2015 and/or 2020 is below what it was in 2013.

There are two exceptions to this rule with scenarios having total revenue growth that are deemed poor network health. There are RM2 BIS1 and RM1 BIS2. The reason the network health is deemed poor is that both initially see total revenue drop in 2015 and by 2020 these are only £11 million and £40 million above 2013 levels.

The scenarios with very poor network health are when the 2020 total revenue is more than £200 million below what it was in 2013.

ENDNOTES

1 http://www.nera.com/extImage/PUB_Postcomm_Aug2009.pdf
2 http://www.postoffice.co.uk/sites/default/files/Campaign_Annual_Report_and_financial_statement.pdf
3 The 36% is actually a reduction in subpostmasters' personal drawings (i.e. the salary taken from their Post Office pay) since 2006. This is different from business income, of which it is a subset. http://www.nfsp.org.uk/write/MediaUploads/Research%20and%20Policy%20docs/2012_Income_Survey_May2013.pdf
4 https://www.gov.uk/government/publications/securing-the-post-office-network-in-the-digital-age
5 The September 2013 edition of the magazine The Subpostmaster features discussion of increased 'poaching' of business from Post Offices by Royal Mail.
6 For more information on the plans for a Postbank see the report by the Postbank coalition http://www.fsb.org.uk/policy/assets/postbank.pdf
7 http://ec.europa.eu/internal_market/post/doc/studies/2010-main-developments_en.pdf
8 This London Review of Books essay provides an in-depth account of postal services in Holland http://www.lrb.co.uk/v33/n09/james-meek/in-the-sorting-office
9 http://www.compassonline.org.uk/wp-content/uploads/2013/05/Compass-Modenisation-by-Consent-web.pdf
10 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/175666/12-939-building-a-mutual-post-office-government-response.pdf

About the Fabian Society Next State programme

How we view the state defines our politics and gives rise to different policy approaches.

Throughout its 129 year history the Fabian Society has been associated with the creation and evolution of the British state: from the birth of social security and modern public services to constitutional reform and our place in Europe. The Next State is a major programme, bringing coherence to the contested territory of left and right thinking on the state. The work reaches across party politics, seeking to inform the thinking of all the main parties as they prepare for the next general election.

HERE TODAY |

THE UNCERTAIN FUTURE OF THE POST OFFICE NETWORK

Natan Doron

The local Post Office and the red pillar box are both long standing symbols of community life in Britain. The future for both is very uncertain. The prospects for the Post Office have not been part of the discussion about Royal Mail privatisation. But with a third of Post Office income dependent on Royal Mail, the fate of both organisations is intimately linked.

This report models nine scenarios for the future of the Post Office network. In only one of the scenarios does the Post Office network have anything resembling a secure future. This will come as troubling news for the communities all over the country for whom the local Post Office is a crucial public service; a glue which binds citizens and state together.

In such a climate of uncertainty, 'Here Today' concludes that government has been reckless to relinquish a controlling stake in Royal Mail. To ensure the survival of the Post Office, the report recommends that the government delays any further reduction in its stake in Royal Mail to retain influence over its operations.

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