



## **Our submission to the Business & Enterprise Committee's inquiry: Post offices – securing their future**

### **The Commission for Rural Communities**

The Commission for Rural Communities (CRC) became an independent body on 1<sup>st</sup> October 2006, following the enactment of the Natural Environment and Rural Communities (NERC) Act.

The CRC provides independent advice to Government and others and works to ensure that policies reflect the real needs of people living and working in rural England with a particular focus on tackling disadvantage.

The CRC has three key functions :

- Rural Advocate
- Expert Advisor
- Independent Watchdog

The CRC is responsible for hearing and capturing the concerns and priorities of rural people and their representatives and communicating these concerns publicly and to Government.

### **Summary of consultation response**

Our response concentrates on issues of particular concern and relevance to rural areas of England. The areas covered in this memorandum are :

#### **Financial inclusion**

- the role of the Post Office in providing a range of financial services for vulnerable people
- the scope for the Post Office in providing banking services
- the case for working in partnership with credit unions

#### **The rural economy**

- the importance of the Post Office to rural businesses, home-workers and self-employed people
- relationship with the village retail sector

#### **Local authority initiatives**

- emerging good practice to retain post offices and village shops
- increased use of the Post Office by Councils for conducting their own business and acting as a community hub

#### **Outreach services**

- need for an evaluation of the current provision

## Financial inclusion

1. Research<sup>1</sup> by the CRC into financial inclusion has found that limited financial services in rural areas hit the most vulnerable people more. Access to cash is a major problem for rural communities, where an estimated 300,000 people in rural England do not have a bank account. Around 12% of banks and building societies are in rural areas although 20% of people in England live in rural areas. Less than 10% of all cash points are sited in rural areas, with only 46% of these being free to use (62% in urban areas). The limited financial services in rural areas are made even more inaccessible by the transport barriers that people face.
2. In a report by the CRC<sup>2</sup> it was noted that Post Office Ltd had extended the range of financial services that branches can provide and has therefore become an increasingly important means of addressing financial exclusion in rural areas.
3. We feel that there is scope for the local post office to enhance its role as the financial hub for the community. The Post Office already gives access to basic bank accounts (including cash withdrawals and receiving payments) through arrangements with a range of 17 UK banks and building societies. There is therefore potential for the post office to expand its role as a local bank by extending the availability of local credit. This would help local residents and businesses alike, help to stimulate the local economy and place the post office on a sounder business footing and give it a greater sense of purpose.
4. Even after the recent Network Change, the post office has an extensive geographical coverage approaching 12,000 offices in the UK, rather more than half of which are in rural locations. This is roughly equivalent to the total number of branches of all UK banks. Allowing post offices to act more like banks would not only double the number of outlets but, more importantly, provide banking services to communities presently without such provision. At a time of turmoil for the banking sector, expanding the role of a respected brand such as the post office is an attractive proposition. This would help build on the welcome decision by the Government to award a further contract to the Post Office for the Post Office Card Account, until at least 2015, which already provides for the payment in cash of pensions and other benefits.
5. As an alternative, the Campaign for Community Banking Services has advocated the use of a shared banking for some smaller rural communities within post offices where there is no other banking presence<sup>3</sup>. This would provide a further means of addressing financial exclusion in rural areas. In view of the relatively low level of sales at such locations, there is unlikely to be much conflict of business interest.
6. We also consider that there is a case for post offices to become an outlet for local credit unions and also building societies. Credit unions can provide low cost finance and offer an alternative to mainstream financial institutions whose rates of interest may be punitive for those on low incomes and rural businesses. This is particularly significant in the current economic downturn where there is a general reduction of credit and tighter lending terms which is affecting all businesses. However the geographic coverage of credit unions is uneven and particularly in rural areas where financial sustainability is a problem due to the lack of a critical mass of customers. A partnership with post offices would create a wider accessibility to credit unions and help many communities currently without access to low cost banking. In rural areas, post offices are a particularly important resource for certain disadvantaged groups who face difficulty travelling, including older people, those without their own transport, people on low incomes and people with a disability.

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<sup>1</sup> Financial inclusion : boosting rural communities, Summary Report, 2008

<sup>2</sup> "Rural Disadvantage : reviewing the evidence", September 2006

<sup>3</sup> "Bank closure problems – one solution fits all", November 2007

7. The CRC supports the Government's proposal to contract local organisations, such as credit unions and community development finance institutions, to offer credit alongside advice and other financial services that will continue to be available after individuals have left benefit and returned to work. We also support the Government's proposal to establish a single credit facility for social funds proposed in the recent Government consultation<sup>4</sup>. However, this would need to have national coverage to ensure equitable access for rural areas. The Social Fund Reform Feasibility study pointed out that delivering the social fund through credit unions would mean coverage in rural areas would be patchy and in some areas non-existent. A partnership approach with the post office would help to overcome these access problems.
8. The CRC is working closely with the Department for Work and Pensions on matters of financial inclusion in rural areas and we would be pleased to provide further information to the Select Committee as this work develops, including the role that the post office could play in addressing matters of financial inclusion.

## **Post offices and the rural economy**

9. A characteristic of the rural economy is the prevalence of micro and small businesses. A survey carried out by The Federation of Small Businesses in October 2006, prior to the recent Network Change, found that 20% of their respondents used the post office daily and almost half more than once a week. Research on behalf of Postcomm has also confirmed that access to post offices is important for small business : they tend to use their local branch more and already had to travel further to an office, even before the recent round of closures.
10. In addition to small businesses, home-based workers and self-employed people are more common in rural than in urban areas : both are increasing at a faster rate in rural locations. In rural England around 12% of the workforce work from home and 17% are self-employed whilst the proportions for urban districts are 8% and 11% respectively. These groups rely heavily on local facilities, in particular village shops and post offices.
11. Given this background, the CRC has repeatedly drawn attention to the important relationship between the post office and village shop, notably where the two are co-located. Withdrawal of the post office from a village will have a significant impact on the remaining shop business. If customers are required to travel elsewhere to reach a post office, the tendency will be for them to carry out other shopping at the alternative location. Prior to the Network Change our research showed that 78% of sub-postmasters in rural England also ran an associated business, usually in the form of a general store providing day-to-day requirements for the community. Further, our research indicated that the majority of sub-postmasters (80%) felt that without the post office, the village shop would not provide a reasonable living and would also close.
12. Figures from the Network Change programme show that of the 1,010 rural post offices to be closed in England, some 428 (42%) also housed the sole remaining retail store (i.e. providing critical supplies such as bread, milk). From our previous research, therefore, it is conceivable that as many as 342 last remaining general stores could close as a direct result of the post office closure. This will create added social and economic pressures for those communities affected. In addition, of these offices to be closed, 533 provided the sole access to obtaining cash in the settlement which will add the financial inclusion problems identified above. The CRC intends to carry out further research on the effects of these closures on associated businesses and we would hope to be in a position to furnish the Committee with more information in due course.

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<sup>4</sup> "The Social Fund : a new approach", DWP, 2008

## **Local authority initiatives**

13. These damaging effects on local communities have been recognised by a number of local authorities, many of whom have been looking at the feasibility of retaining some of these post offices and local shops. Such initiatives are very welcome. One authority taking action is Devon County Council who, working in partnership with others, such as the Rural Shops Alliance, is launching a business advice scheme complemented by annual grants (for up to 3 years) of £5,000 to help retain the only convenience store in the community affected by a post office closure. The intention is to retain the post office as a form of partner outreach service and 15 village shops are being supported under these proposals in order that post office services continue to be provided and the shops remain viable.
14. A further element of assistance that local authorities can provide is to use post offices for their own business such as the payment of council tax, business rates and general invoices. By bringing additional transactions to the post office this will help to sustain the viability of the outlet into the future and encourage people to use their local office and village shop. Local authorities and their partners under the Local Strategic Partnership, such as health, police and fire authorities, may find other services that they could deliver through post offices.
15. Post offices can also act as a focal point for community information and advice. This is a feature of the model being created by Essex County Council for re-opening some post offices in their area.
16. We are already monitoring these local authority initiatives with the intention of making examples of good practice more widely known. We feel there may be further scope for the integration of the post office with other local services to help sustain a more vibrant community – examples might be the pub or farm shop.

## **Outreach services**

17. The CRC has welcomed the development of outreach services in rural areas as a means of providing a basic level of post office service. Whilst it is recognised these help to give a cost effective service, where a fully fledged office cannot be sustained, we would add a note of caution about converting more offices to outreach before the performance of the current models have been assessed. The limited days and hours provided by these alternative methods will not suit everyone, in particular the business sector who require a more regular service.
18. We consider that the performance of the current 500 or so outreach services, more than half of which are in England, should be fully evaluated before this service is extended further. The CRC is therefore keen to participate in the monitoring and assessment of the current outreach service and would be willing to work alongside the Post Office or others to achieve this. Again we would be able to share the results of this work with the Committee when available later in the year.

## **Recommendations**

1. Encouragement should be given to the Post Office to offer more banking services.
2. The Post Office should aim to work in partnership with credit unions.
3. The role of the Post Office in assisting local business should be more widely recognised, in particular supporting the local retail sector.
4. Local authorities should be encouraged to aid the sustainability of post offices through business advice and grants.
5. Local authorities should aim to use post offices as much as possible for conducting their own business and as a focal point for community information. By working with their local strategic partners, they could also offer an added range of services.
6. The provision of current outreach services should be evaluated before consideration is given to expanding the service further.

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