House of Commons
Trade and Industry Committee

Post Office Urban Network Reinvention Revisited
Comments on Responses to the Committee’s Seventh Report of Session 2003-04

Tenth Report of Session 2003–04
Post Office Urban Network Reinvention Revisited
Comment on Responses to the Committee’s Seventh Report of Session 2003-04

Tenth Report of Session 2003–04

Report, together with formal minutes and appendices

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The Trade and Industry Committee

The Trade and Industry Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department of Trade and Industry.

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Introduction

1. In our Seventh Report of Session 2003-04 we reviewed the way in which Post Office Ltd had implemented its Urban Network Reinvention Programme.1 We recognised that the programme was a vital element of the company’s strategy to develop a commercially viable retail network and to halt the unmanaged decline of that network caused by unplanned post office closures that were a feature of the years preceding its introduction. We also recognised that it was inevitable that the rationalisation of the urban network through planned branch closures would cause concern among their customers, especially those who relied most on the services they provide. In so doing we agreed with the conclusions of the Government’s Performance and Innovation Unit (PIU) report on the future of the post office network.2

2. However, we had a number of concerns about the way in which Post Office Ltd had approached the implementation of the programme. We concluded that a better planning and consultation process would have given customers and other stakeholders more opportunity to air their concerns and the company a better opportunity to address them. We were concerned that consultation was carried out in such a way as to restrict comment from customers and other stakeholders to individual closure proposals rather than allowing involvement by stakeholders in planning a sustainable post office network in specific areas.

3. We were also concerned that inflexibility in the use of public funding available for the Network Reinvention programme led to too much concentration on branch closures and prevented the development of innovative strategies to create sustainable local post office businesses in individual communities. We were critical of the fact that such inflexibility derived mainly from the approach taken by the DTI to the task of securing clearance for the necessary financial support for the programme under the European Union’s regulations governing state aids.

4. While we recognised the role of Postwatch in taking up issues of concern to customers with Post Office Ltd, we were concerned that its part in the consultation process was limited to attempting to influence and advise Post Office Ltd in its decision-making process. Postwatch had no real power to insist on changes in the consumer interest. We were also critical of the extent to which Postwatch had exercised even its limited power in the development of the reinvention procedures and of its failure to ensure the adequacy of consultation procedures before the start of the reinvention programme.

5. Our main concern, shared by all of the witnesses to our inquiry, was that the programme should leave a commercially viable post office network in urban areas. In view of the social and economic importance of the network, we recommended that if Post Office Ltd’s strategy did not succeed and the network continued to decline, especially in areas of urban deprivation, the Government would need to consider providing support to underpinning the urban network similar to that provided for rural post offices.

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2 Counter Revolution – Modernising the Post Office Network, Performance and Innovation Unit, June 2000
6. We were grateful for the Government’s response to our Report, and for the additional observations provided by Postwatch. It is our normal practice to ensure that such responses to our Reports are put into the public domain without delay. In this case, we have taken the opportunity to comment on those aspects of the response which we find unsatisfactory. Departmental responses to Select Committee Reports often tend to concentrate upon areas of agreement rather than treat points of difference with the attention that they deserve, and this was no exception. We were disappointed that the Government has chosen to dismiss some of the points made in our Report, or not to address them directly, particularly in view of the general agreement between us on the importance of the post office network to so many people.

Areas of agreement

7. It is generally agreed that the post office network is highly regarded by its customers for its social as well as its economic role, particularly among those who rely most heavily on its services. It is beyond doubt that, as the PIU concluded, rationalisation of the post office network in urban areas was necessary in order to help its modernisation and to improve the prospects for its survival. We agreed with the widely-held view that the managed rationalisation of the network was preferable to its unmanaged decline through unplanned branch closures. However, we had reservations about the way in which preparations were made for the reinvention programme and how it was implemented, which the Government’s response has failed to address to our satisfaction.

Areas of contention

Recognition and protection of the network’s social role

8. During our inquiry we found almost universal recognition of the social importance of the post office network, particularly in urban deprived areas. In our Report we took note of Post Office Ltd’s assurances that the company attempted to reconcile potential tensions between Government objectives for such areas and the need to ensure the viability of the network and that it was sensitive to the needs of deprived micro-communities within otherwise more affluent areas. While we welcomed support from the Office of the Deputy Prime Minister (ODPM) for post offices in the most deprived urban wards in England and from equivalent schemes in the rest of the UK, we were concerned that the resources available under such schemes would cover only the most deprived ten per cent of wards but not equally deserving communities within wards which also contained more affluent areas. In the course of our inquiry the then Minister for Postal Services conceded that the Government had recognised the social importance of the services provided by post offices when it agreed to provide funding for the rural post office network. Postwatch suggested that this recognition should manifest itself in the form of financial support if necessary. We agreed and in our Report we recommended that the Government should consider

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3 Stephen Timms MP, Minister of State for Energy, e-Commerce and Postal Services
4 Q 248: see the second volume of our Seventh Report, HC 611-II (2003-04)
extending its support to include those urban areas where it was not possible for Post Office Ltd to provide such services on a commercial footing.5

9. The Government response to this suggestion provided a useful update on the implementation of the ODPM scheme and its equivalent in the rest of the UK. However, it did not address our recommendation. We find this omission disappointing, particularly as the Government’s views on the importance of the post office network were reprised in the Secretary of State’s recent announcement of the continuance of support for the rural network for a further three years.6 It is not clear to us why parallels cannot be drawn between uncommercial rural post offices and uncommercial post offices in deprived urban areas and why both could not be equally deserving of support from the Government.

**The sub-postmaster compensation scheme**

10. Prior to the commencement of the reinvention programme, the Government sought and obtained clearance under the EU State Aids regulations for the public expenditure of up to £180 million to compensate sub–postmasters for the loss of value to their business caused by their exit from the post office network. In doing so the Government was implementing a recommendation from the PIU. It was pointed out to us by Postwatch that the Government’s decision to restrict eligibility for compensation to post office closures had closed off the possibility of funds being made available for the transfer of a failing post office business to another site which could, in certain circumstances, have resulted in a better local area network than could be achieved solely by branch closure.7 In our Report we expressed regret that the Government’s application for State Aid clearance was so narrowly focused on branch closure that it effectively precluded a more imaginative approach in cases where it was merited.

11. In its response, the Government asserts that, within the confines of the European Commission’s clearance for funding (which the Government itself defined by the narrowness of its application), it has sought to be as flexible as possible in the authorisation of funding to enable the creation of new branches (of which there have been 26 since urban reinvention began) or the relocation of existing branches (of which there have been 110). However, it has provided no examples of such flexibility to support its assertion, not even an indication of how many times this flexibility has been exercised. In other words, it has provided no evidence that any branch openings or relocations have been assisted in any way through funding under the reinvention programme.

12. The Government further defends its refusal to support the transfer of post office businesses in the way identified by Postwatch on the grounds that it would be inappropriate for public funds to be used in such a way as to interfere in the commercial market for post offices. In doing so it assumes that subsidised transfer of post offices business would be undertaken on a large scale, whereas in our view it would be appropriate only in a limited number of cases. The response also overlooks the fact that the

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5 HC 611 –I (2003-04), paragraph 42
6 HC Deb, Col 166WS 16 September 2004
7 Q 17: HC 611-II (2003-04)
compensation scheme as it has been implemented has interfered in the market to the extent that, in the Government’s own words:

“…changes under the Programme are resulting in increased vitality in the commercial market for urban sub-post offices…”

13. In summary, therefore, we conclude that the Government has not provided a satisfactory explanation for its inability to at least attempt to gain the European Commission’s agreement to a more flexible approach to the compensation scheme and that its unimaginative approach has precluded what might have been a useful addition to the range of options open to Post Office Ltd and to sub-postmasters. This inflexibility would seem also to prevent the use of unspent compensation funds to increase the amount available for improvements to surviving branches, as advocated by Postwatch in its comments on our Report.

Programme implementation

14. We were critical of the procedures for public consultation on Post Office Ltd’s proposals for branch closures used during the reinvention programme. While we understood that given the scale of the exercise it was perhaps inevitable that all would not run smoothly, we felt that Post Office Ltd and Postwatch had not ensured that adequate consultation procedures were in place.

Transparency

15. We believed that it was a mistake to undertake a survey of sub-postmaster preference (for participation in the closure programme) in advance of any consultation or communication with the general public. Given the scale of the survey, it was inevitable that the news of the survey would emerge, giving support to the perception—shared by Postwatch—that sub-postmaster preference was the main factor taken into account in the company’s decision-making process.

Consultation

16. At the beginning of the reinvention programme the consultation period was set at four weeks from the date of publication of a Post Office Ltd closure proposal, which is the period set down in the existing Code of Practice for post office closures and relocations. In the face of public criticism of the inadequacy of this timescale, Postwatch and the company agreed to increase this period to six weeks from September 2003, and in February 2004 this was extended to allow for bank holidays. Post Office Ltd further extended this period to eight weeks for proposals published during the recent Summer Recess. While all of these concessions were welcome, we wondered why Post Office Ltd had not been obliged to follow the Cabinet Office guideline of twelve weeks for public consultations that government departments are normally required to observe.

8 Appendix 1 (page 17)
9 Appendix 2 (page 22)
10 Q 3: HC 611-II (2003-04)
17. The Government rejected this suggestion on three grounds. First of all, it was suggested that it would delay the delivery of the reinvention programme:

“To increase further the length of time across the board would cause considerable disruption to the Programme…”

This suggestion ignores the evidence given to us by Postwatch that it would have been possible to accommodate a twelve week consultation period into the process without detriment to the programme, and the fact that Post Office Ltd did not reject the suggestion when given the opportunity to comment on the length of the consultation during the company’s oral evidence to us.

18. Secondly, the Government suggested:

“… [it] would only prolong the uncertainty for sub-postmasters and customers alike.”

We observe that many, if not most, sub-postmasters who have volunteered for closure will have had to wait more than a year for a decision from Post Office Ltd in any case. We cannot agree that it would be unreasonable to ask them to wait for another six (or more recently four) weeks for a decision which, after all, involves the use of public funds. The impact of the extra period of uncertainty for customers has to be balanced against the need to ensure that all stakeholders have had adequate time to assess the proposals and register their views. We recall that the length of the consultation period attracted considerable criticism from many contributors to our inquiry, including those who represented customer groups.

19. Finally, the Government argued that its own advice on timescales for public consultation was not applicable to the reinvention programme:

“Requiring a twelve week period of consultation on these individual instances of network change would not recognise that the Programme is a commercial one, concerning the company’s operational decisions and the privately-owned businesses of sub-postmasters.”

We cannot understand the logic of this argument. It is true that the reinvention programme has been implemented by a company, but that company is one which is wholly-owned by the Government and which has been charged with the delivery of public policy with respect to the post office network. It is reasonable, therefore, to expect that the procedures laid down in the Government’s own guidance should at least have been considered. In addition, we find the Government’s reference to “individual instances of network change” puzzling, given that Post Office Ltd abandoned its attempt to conduct the reinvention programme on an individual branch-by-branch basis and moved to the current system of preparing Area Plans which set out the changes planned in whole

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11 Appendix 1 (page 19)
12 Q 67: HC 611-II (2003-04)
13 Q132-134: HC 611-II (2003-04)
14 Appendix 1 (Page 19)
15 Ibid.
constituencies. The scale of these plans certainly warranted a twelve week consultation period.

20. A further criticism of Post Office Ltd’s implementation of the network programme was that the company had failed to involve local authorities, Postwatch and other stakeholders in the preparation of its Area Plans prior to its presentation of individual closure proposals. In its reply, Postwatch endorsed our comment that this omission had been unacceptable.\(^\text{16}\) It is our view that the Government’s failure to address this aspect of our Report in its response is also unacceptable.

**The role of Postwatch**

21. In assessing the performance of Postwatch in the implementation process we made the point that the consumer organisation did not have any specific powers to change closure proposals made by Post Office Ltd and that it could only seek to influence the company’s decisions. At no point in our Report did we accuse the consumer watchdog of being overly compliant with Post Office Ltd’s plans. In their responses, both Postwatch and the Government took care to point out that the organisation had been instrumental in persuading the company to modify or withdraw nearly 400 closure proposals, or 16% of the total proposed by 7 September. However, we note that, according to Postwatch’s own figures, over 50% of those modifications or withdrawals came about as a result of information gathered during the public consultation process. Postwatch may have played a significant role in collating and presenting this information, but it admits that its influence has not been sufficient in a number of cases:

> “Post Office Ltd has the final decision and has closed post offices that Postwatch believes should have stayed open. We believe this has been to the detriment of customers and the frustration of Postwatch and stakeholders such as MPs and local authorities.”\(^\text{17}\)

22. In our opinion this statement calls into question the effectiveness of the “escalator process” for the resolution of disputes between Postwatch and Post Office Ltd to which the Government response refers. The small number of cases to which the procedure has been applied in full leads us to question the willingness of Postwatch to use the whole range of the limited powers that it has at its disposal and weakens its case for an independent dispute resolution mechanism.\(^\text{18}\) Even though this weakens the case, we believe that it is important the Government considers how a more effective method can be established for the resolution of disputes.

**Crown post offices**

23. We note with some concern Postwatch’s doubts about the effectiveness of the consultation procedures for branch closures as they are being implemented by Post Office Ltd with respect to directly managed branches (or Crown post offices, as they are more widely known). It is essential that full account is taken of the needs of customers in such

\(^{16}\) Appendix 2 (Page 22)

\(^{17}\) Appendix 2 (Page 23)

\(^{18}\) Ibid.
cases. We note Postwatch’s support for our view that the company’s review of these branches should not have been conducted separately from the urban reinvention programme,\textsuperscript{19} although we are partially reassured by the Government’s agreement that any decision on the directly-managed branches should take account of the restructuring and commitments made under the reinvention programme.\textsuperscript{20} Our inquiry into the future of Crown post offices will include detailed consideration of these issues.\textsuperscript{21}

**Conclusion**

24. We agree with the Government’s description of the Post Office Urban Network Reinvention Programme, which is now in its final stages, as a massive undertaking, and with the widely-held view that a restructuring of the network was necessary to improve its prospects of survival. However, in our Report we attempted to reflect the high level of concern expressed by many stakeholders in the process about the procedures adopted by Post Office Ltd to implement the programme. Many of those concerns were confirmed by the personal experience of several Members of this Committee.

25. In view of such problems, we feel that the Government’s opinion that the implementation programme has been handled “effectively and efficiently” demonstrates an inappropriate complacency. The operation can only be regarded as efficient in the sense that it will be completed on time. The effectiveness of the operation can only be judged now on the basis that it will achieve the number of closures that Post Office Ltd think that is required, which is a narrow basis for assessment. Its true effectiveness can only be assessed in terms of the future viability of the urban network.
Formal minutes

Tuesday 26 October 2004

[Afternoon sitting]

Members present:

Mr Martin O’Neill, in the Chair

Mr Richard Burden    Linda Perham
Mr Nigel Evans       Sir Robert Smith

The Committee deliberated.

Draft Report (Post Office Urban Network Reinvention Revisited), proposed by the Chairman, brought up and read.

Ordered, That the Chairman’s draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 25 read and agreed to.

Resolved, That the Report be the Tenth Report of the Committee to the House.

Several papers were ordered to be appended to the Report.

[Adjourned till Tuesday 2 November at Nine o’clock.]
Appendix 1

Government Response to the Committee’s Seventh Report of Session 2003-04

Introduction

The Government welcomes the Committee’s investigation into the Post Office Urban Network Reinvention Programme as an important contribution to the public debate on the modernisation of the post office network.

Post Office Ltd’s (POL) restructuring of the network of urban sub-post offices to better fit the needs and expectations of today’s customers is a huge undertaking. Not surprisingly the Urban Network Reinvention Programme has been the focus of considerable attention and discussion. And rightly so. The Programme has undoubtedly been a matter of concern for those affected by individual closures, whether they are customers—some of whom may now find that they need to travel further to their closest post office branch, or sub-postmasters—who have seen a decline in the fortunes of their post office businesses following decades of stagnation and under investment.

However, the underlying case for rationalisation, and for the Government to enable POL to undertake its commercial Programme with the provision of public money, remains. The Post Office operates in a commercial environment and must move to reflect the requirements of today’s customers. We are backing POL’s plans that will help create conditions for a sustainable future for the network whilst ensuring that even after the Programme has concluded 95 per cent of the urban population nationally will still live within a mile of their nearest post office.

We note that witnesses with very different perspectives i.e. POL, Postwatch and the National Federation of Sub-Postmasters were all agreed that the rationalisation of the urban post office network under this Programme is necessary if we are to avoid the alternative of prolonged unmanaged decline and consequent gaps in service.

Every proposed closure of a post office branch is of interest to the community which it serves, but only a small proportion, less than 10 per cent, of proposed closures have been particularly controversial and been strongly opposed by the local community and Postwatch. Overall the Government believes that the Programme is working well, particularly since changes, agreed between POL and Postwatch and announced by Stephen Timms on 5 February 2004 that make consultation on individual proposals more transparent and inclusive.

Response to conclusions

“Post Office Ltd assured us that they try to reconcile the potential conflicts between Government objectives for urban deprived areas and the need for commercial viability of individual post office branches in such areas. It appears, however, that their success in doing so is patchy. Although the Post Office Ltd assured us that they are sensitive to the needs of deprived micro-communities, it is also not clear to us if and how the
Company translates any such sensitivity into action when formulating its Urban Reinvention proposals. While we welcome the support that the Government has made available for urban deprived post offices, we are concerned that such support is so limited that it will not help sub-postmasters in as many wards as was originally intended, and that it provides only short-term (though still valuable) assistance. The Government recognised the social importance of post offices when it agreed to support the rural network up to 2006: it should consider extending long term support to those parts of the urban network which serve disadvantaged sectors of the community in cases where it is not possible to maintain a service by normal commercial operations.” (TIC Conclusion 1, paragraph 42)

In line with the recommendations of the Performance and Innovation Unit’s (PIU) year 2000 report on the future of the post office network, the Government has provided the first ever financial support for the urban post office network, aimed at addressing, in a complementary way, two different issues. We have provided funding for POL to carry out rationalisation in areas where there are currently too many outlets serving the same district for them all to remain viable, whilst special provision has been made to support post offices in the most deprived urban areas.

The Office of the Deputy Prime Minister (ODPM) administers the Deprived Urban Post Office Fund in England with equivalent schemes operating across the devolved administrations of Scotland, Wales and Northern Ireland. POL works closely with the ODPM and the devolved administrations to ensure that no post office in receipt of funding from their respective schemes will be closed on a compensated terms basis under the Urban Network Reinvention Programme. Additionally, post offices in the 10 per cent most deprived urban areas with no other office within a half a mile are ring-fenced and protected from consideration for closure under the Urban Network Reinvention Programme unless there are exceptional circumstances to warrant consideration of closure.

Before the Urban Network Reinvention Programme began, POL identified those post offices in the 10 per cent most deprived wards more than a half a mile from the nearest alternative branch. A straight-line basis was used to enable this general categorisation and showed a total of 507 such branches at the start of the Programme. The funding specifically aimed at supporting individual sub-postmasters of post offices located in deprived urban neighbourhoods is not available to post offices owned by franchise chains or those that are directly managed by POL.

The Committee’s concern that funding to support post offices in deprived urban areas might not be available to as many branches as initially envisaged clearly arises from indications that the £15 million made available by the ODPM in England has now been fully allocated and is not expected to accommodate applications from sub-post offices in areas beyond the most deprived 10 per cent of urban wards. However, it was always made clear that under the ODPM scheme, priority would be given to the 389 post offices in the most deprived 10 per cent of wards with no other post office within a half a mile, and that applications from less deprived wards would only be considered if funds were available. Though some applications are still being considered, thanks to the ODPM scheme alone, up to 350 post offices in England will receive funding to make improvements to their offices, with a further 85 post offices in deprived urban areas of the devolved administrations having already received grants, or being considered for grants, from their
equivalent schemes. Whilst not all applications have been successful, a significant proportion of those sub-postmasters in the 10 per cent most deprived urban wards that are eligible, will receive support from these schemes.

The Committee seeks to draw parallels between post office branches in urban deprived and rural communities, and suggests that the Government should consider extending long-term support to those parts of the urban network which serve disadvantaged sectors of the community in cases where it is not possible to maintain a service by normal commercial operations. In response we note that POL’s management recognises the intrinsic ‘social’ element of the company’s business. The attractiveness of the network as a whole to current and potential partners, as well as its highly-regarded status by customers is due in no small measure to its unsurpassed coverage and the company will need to ensure that the network can continue to provide easy accessibility to customers where need remains. However, in urban deprived areas POL does experience more difficulty in finding new agents than in other parts of the urban network. POL’s plans for the urban network, which are in line with the PIU recommendations, are aimed at securing a commercially sustainable urban network. We have no reason to believe that will not be achieved.

“We were surprised that the review of the future of the Crown Office network appeared to be undertaken separately and at a different pace from the urban network reinvention programme. For any one area, the absence of certainty over the future of a Crown Office in that area must, to some extent, undermine the credibility of decisions taken over the neighbouring network of sub-post office branches. Such decisions will necessarily have been taken on the assumption that the Crown Office was available to act as a receiving branch. If that were the case, its subsequent closure could leave a serious gap in the local network. The review of the Crown Office network must take account of any assumptions made about specific Crown Offices during the implementation the urban network reinvention programme.” (TIC Conclusion 2, paragraph 44)

Directly managed, ‘Crown’, offices are typically the largest post office outlet in a given area and in most cases are prominently located in town centres. Due to the higher running costs involved, POL’s network of directly managed offices continues to make substantial losses. In 2003/04 alone losses were £71 million. Clearly that is unsustainable and with POL projecting losses to increase, particularly as property costs rise, the continuing losses of directly operated offices need to be addressed in the wider interests of the business and its customers.

The PIU concluded that, as a matter of priority, the Post Office should take forward work to maximise the commercial potential of the network, the efficiency of its operations and the quality of individual post offices. A particular conclusion of the PIU report was that more directly managed offices should be converted to privately run operations as a means of addressing the poor profitability of that part of the network.

POL routinely assesses the directly managed network and as suitable opportunities have arisen has converted, and in some cases, closed, directly managed branches where this is in the wider business interest. We are pleased to note POL’s assurances that, wherever possible, changes to the directly managed network have been considered alongside
proposed changes to the network of urban sub-post offices under the Urban Network Reinvention Programme.

The Post Office network has historically been managed in clearly demarcated categories. The management of directly managed post offices necessarily stands separate from that of urban and rural sub-post offices. Though these three elements of the network are clearly interrelated, the Government believes it is not unreasonable for POL to seek to review how it manages its directly managed post offices separately from the Urban Network Reinvention Programme which deals exclusively with urban sub-post offices—those that are owned and operated by private individuals acting as agents of POL. However, it is clearly essential that POL continue to consider the locations of all offices, urban, rural and directly managed in developing proposed changes, so that customer needs are reflected in these decisions.

We understand that POL is reviewing wider options to improve the performance of the directly managed network. Subsequent proposals will take into account discussions with employee representatives and the Government agrees with the Committee that any decision for the future of the directly managed network should also take account of restructuring and commitments under the Urban Network Reinvention Programme, including that 95 per cent of customers in urban areas will continue to live less than a mile from their closest post office branch.

“We note the perception that the reinvention programme has been driven primarily by the willingness of sub-postmasters to leave the network and that this willingness has been encouraged by the compensation arrangements in place. However, we also note that, after considering the evidence on a case-by-case basis, Postwatch has agreed to more than 90% of Post Office Ltd’s closure proposals, and has advised us that the compensation arrangements have not had undue influence on the outcome of the programme. In our view, such perceptions have been encouraged by the fact that the company undertook its survey of sub-postmaster preferences well in advance of any public consultation. Better and more open communication from Post Office Ltd in advance of either exercise might have helped to reduce public cynicism about the object of the reinvention programme.” (TIC Conclusion 3, paragraph 53)

The Government agrees with the Committee that the idea that the Programme is driven solely by sub-postmaster preference is largely a matter of perception rather than reality. Sub-postmaster preference is not and should not be the sole or even the main factor by which POL should determine closure proposals. Proceeding on that basis would not result in a properly planned, sustainable network for the future, and would lead to many of the problems associated with unplanned closures, such as gaps in the network. The Government has received assurances from POL that sub-postmaster preference is not the key driver of change, with customer accessibility of alternative offices the prime consideration in developing proposals for changes to its network in a given area.

In preparing its proposals, POL seeks to achieve a balance between sub-postmasters volunteering to leave the network, those offices that are not viable and the need for relocations and new openings. As the Committee heard and accepted, some 800 of the 3,500 sub-postmasters who expressed interest in leaving the network under the Programme have already been informed that their offices will not be proposed for closure.
as their areas have come up for review. Sub-postmasters of offices with an annual remuneration of over £45k have also been informed that it is very unlikely that their offices will be put forward for closure—whether they have ‘volunteered’ or not. With POL now anticipating around 2,500 closures under this Programme, as opposed to the 3,000–3,500 mooted before the process began, it is clear that the evidence heard by the Committee does not support the conclusion that the Programme is led by the preferences of sub-postmasters.

The Committee also heard compelling evidence from the National Federation of Sub-Postmasters about the sub-postmaster perspective on this Programme. The Urban Network Reinvention Programme has a dramatic effect on many, including the thousands of sub-postmasters of urban sub-post offices. Sub-postmasters—the private businessmen and women who contribute 97 per cent of the outlets in the post office network—are undoubtedly one of its greatest assets. It is through their care and dedication that POL enjoys unsurpassed brand recognition and loyalty.

The Government does not agree that POL should not have consulted with sub-postmasters about their future plans for their businesses. This exercise helped prioritise closure proposals in the earlier stages of the Programme by helping identify those sub-postmasters facing the most difficulty. This has also enabled closures to be managed where they would otherwise have been unplanned as sub-postmasters continued to make their own decisions to leave the network. It has been crucial for the effective implementation of this Programme that POL work with sub-postmasters in how it has drawn up proposed changes.

"Overall, we are concerned that Post Office Ltd has approached the formulation of Area Plans as drawing up lists of proposed closures for particular areas and actions to be taken in respect of migration of customers to remaining branches. This is a very restricted view of a programme called Network Reinvention. We are disappointed that Post Office Ltd has not used the Area Plan process to publish positive proposals to create a sustainable local post office network in different areas, with proposed closures being only one, albeit important, part of the plan, and has not sought to involve local communities pro-actively in drawing up the plan. We do not believe this is in keeping with the spirit of assurances either given to the Committee by Post Office Ltd in the summer of 2003 or those given by Ministers in response to Parliamentary Questions in the Autumn of last year.” (TIC Conclusion 4, paragraph 54)

The PIU report recommended that should POL decide it needed fewer offices in urban areas the Government should ensure that sub-postmasters whose offices are closed are compensated for the loss of value of their asset (the post office business). The Government provided funding on that basis. Additionally, we have provided funding to help remaining sub-postmasters invest in the future.

For restructuring to work, supply and demand for Post Office services needs to be radically realigned. That requires a painful but absolutely necessary reduction in the number of outlets. There can be no viable future without closures.

In a number of cases POL’s proposals have allowed for relocations and new openings where there is a clearly defined need to introduce a post office or where it is clear that both
service and sustainability can be enhanced with the introduction of a new outlet in place of two or more existing branches.

On the Committee’s concern at POL’s perceived failure to “involve local communities proactively” in drawing up plans for network change, the Government believes that POL has recognised the need to consider local authority issues before submitting proposals. Local Authorities have always been included in consultation on proposed changes but, following changes to the processes announced on 5 February 2004, POL now routinely contacts local authorities to identify any published plans that they may have which might impact on the level of provision required for a particular area ahead of drawing up individual network change proposals. It would however be unrealistic for POL to take into account any development prospects that have not yet been included in Local Authority plans.

“We do not believe it credible that there would be no circumstances where the transfer of a post office branch from one business to another better placed to support it would not be of benefit to the network and to the local community. We are disappointed that, when preparing the case for the compensation scheme, the Government did not foresee such a situation. We are not convinced that the Government has correctly identified the competition issues on which it ought to seek advice from the European Commission. In our view, catering for the kind of situation described above need not have breached competition law nor undermined the principle that compensation should address the lost value of sub-postmasters’ investments. We are disappointed that the Government’s submission to the Commission did not seek flexibility to facilitate such transfers in the interests of improving the urban post office network. Such flexibility might have been useful to Post Office Ltd in its reinvention programme, and would have helped to counter the argument that the programme is focused solely on closures.” (TIC Conclusion 5, paragraph 58)

As was made clear by POL in its evidence to the Committee—where necessary there have been new post office openings under the Urban Network Reinvention Programme. Overall there have been a total of 26 new branches and 110 relocations over the period of the Programme to date. Contrary to the Committee’s conclusion, the Government has, within the confines of the European Commission’s clearance for funding, sought to be as flexible as possible in its authorisation of funding to POL for these purposes.

In accordance with the PIU recommendations, the Government sought State Aids clearance from the European Commission to provide POL with funding to compensate sub-postmasters whose offices are closed under the Programme for the loss of the value of their asset (the post office business). The terms of the package of support on which the Government received clearance are clear that the funding for compensated closures is to be used for the purpose of reducing the overall number of outlets to a level better suited to the custom currently available. The calculation of compensation for sub-postmasters whose offices close under the Urban Network Reinvention Programme builds on long-standing arrangements between POL and the NFSP with payments equating to 28 months remuneration.

The Committee suggests that the Government has been remiss in not envisaging alternative scenarios whereby public money might be used to facilitate transfers of sub-post offices between sub-postmasters on a ‘one-for-one’ basis. The Committee also voiced a
concern that compensation payments encourage sub-postmasters to seek compensated closure ahead of a commercial sale of their business. There have been suggestions made that sub-postmasters are unwilling to sell their business on a commercial basis for less than the amount they might otherwise receive should their office close under the Programme with compensation based on 28 months remuneration, and that a solution would be for the Government to ‘top-up’ any shortfall from a commercial sale to ensure that the sub-postmaster receives the equivalent of 28 months remuneration whilst the office continues to operate with a new owner.

Commercial sale is invariably the means by which sub-post offices change hands. Irrespective of European Commission guidelines, the Government believes that it would be an inappropriate use of public money to subsidise or otherwise interfere in the commercial market for post offices or to allow compensated closure of one post office branch for it to then be replaced in close proximity by another on a one-for-one basis. To do so would distort the market. It would also undermine the goal of aligning supply and demand where the result was to keep a post office open for which there was insufficient demand for its long-term viability. Sub-postmasters of remaining offices would not have the prospect of increasing their own viability by taking on new business resulting from a closure or be in a position to commit to improvements to their premises. Instead they would face renewed competition with no reduction in outlets competing for customers.

To offer to top-up the amounts received by sub-postmasters after a commercial sale would also heavily undermine the market with the likely result that the commercial value of many offices would plummet. It is difficult to contemplate that a potential partner would be prepared to offer a fair price for a sub-post office if they believe that the Government will top-up their bid to the equivalent of 28 months of the existing sub-postmaster’s remuneration. Neither would there be any incentive for sub-postmasters to ensure that their businesses were sold for a fair price if they know that the Government would use public money to provide a safety net for their ‘commercial’ sale. For these reasons the Government cannot accept the Committee’s finding on this. Restructuring will only work effectively by closures reducing over-capacity, thus increasing the viability and value of the remaining outlets to existing and potential sub-postmasters by virtue of the migration of custom from nearby closures.

Early indicators suggest that changes under the Programme are resulting in increased vitality in the commercial market for urban sub-post offices as supply is realigned with demand. Over 685 urban offices have changed hands in the twelve months to June 2004, an increase in absolute numbers of over 10% on the previous year against the background of an overall reduction in the size of the urban network.

POL has paid particular attention to establishing and understanding customer habits to determine whether, following closures, they would be likely to migrate to alternative ‘receiving’ branches be they at existing or new locations. It has been suggested that a closure should not go ahead if there is a willing buyer for the franchise prepared to offer an alternative, more attractive site. Though that type of arrangement might appear to offer a useful compromise, in the majority of cases that would not help increase the viability of the overall network in a given area as it would deprive receiving offices of additional custom that they would be expecting to help increase the viability of their offices and therefore would not produce any overall benefit to the network or its customers.
“It is regrettable that the allocation of investment grants and the subsequent upgrades to receiving post offices has not kept pace with post office closures. It is essential that such upgrades are implemented quickly to reduce the impact on customers whose local post office branch is closed.” (TIC Conclusion 6, paragraph 63)

Undoubtedly, post offices that have struggled to survive have had little capacity to invest and many lag well behind the standards we expect in other retail and banking outlets. The Government recognised that, in parallel with the rationalisation under the Urban Network Reinvention Programme, the standards of facilities and services provided by many of the remaining urban offices would need to be improved.

The £30 million we have provided for investment grants for modernising and adapting offices the funding for investment grants goes beyond the recommendations of the PIU report. Though the Committee has been critical of the Government’s interpretation of the EC State Aids clearance as to how this funding can be applied—we have always sought to be as flexible as possible within the terms of the clearance to ensure that this money is utilised. As was accepted by the Committee—it is difficult to perceive of any other business where the owner might expect to receive a Government contribution of 50 per cent for improvements to his premises.

It was always anticipated that there would be some time lag between closure decisions being announced and take up of investment grant funding. We would accept that the funding needs to be better promoted and the Committee was shown a promotional video newly produced by POL which, combined with the company’s efforts to dedicate additional staffing and resources, will help convince sub-postmasters that they should take up the money where it is available. We understand that POL is now beginning to see take up of this funding increase and expects further increases as the restructuring of the network continues and sub-postmasters become more confident about their future prospects.

Ideally, work to improve offices that receive additional custom because of a nearby closure will be undertaken in a timely fashion and with regard for the need to minimise inconvenience to customers. In many cases POL has delayed closures until necessary work is completed in alternative offices. However, circumstances will vary widely—dependent on the nature of the work to be carried out and, for example, whether any planning consents are required. The requirement for specific design/security features and difficulties in securing specialist equipment or labour to make the necessary changes can also contribute to the time lag in upgrades. Nonetheless, the Government would expect POL and Postwatch to pay close attention to such issues, including queuing times, and where necessary to propose solutions.

“Post Office Ltd and Postwatch paid insufficient attention to the need to ensure that adequate consultation procedures were in place before the network reinvention programme began. Although improvements have subsequently been made, and while we understand that sub-postmasters could appreciate a speedy conclusion to consultations over the future of their branches, we think that it is vital that all stakeholders should be given the time and opportunity to present their views on closure proposals. A twelve week consultation period would have satisfied this requirement. It was inconsistent of the Government to allow a company of which it is the sole
shareholder to ignore guidelines for consultation which it encourages other organisations to follow. We find it unacceptable that Post Office Ltd has not attempted to involve local authorities, Postwatch and other stakeholders in drawing up its Area Plans before closure proposals are put forward and we recommend that the company does so when drawing up the remaining Area Plans.” (TIC Conclusion 7, paragraph 74)

In its report the Committee acknowledges that the consultation procedures adopted for the implementation of the Urban Network Reinvention Programme were based on those set out in the existing Code of Practice on post office closures and relocations. The Committee has also accepted that it was perhaps inevitable that some elements have needed to be amended in the light of experience.

When the Programme began the period of consultation was set at four weeks based on the arrangements in the Code of Practice. There were post office closures before this Programme and four weeks consultation had proved sufficient in the past. The Government does not believe that POL and Postwatch were wrong to have adopted those same arrangements for considering proposals at the beginning of the Urban Network Reinvention Programme. However, we would have been greatly concerned if the process had remained unchanged in the light of lessons learnt as the Programme progressed.

POL and Postwatch have continued to work together to refine procedures and as the Programme has continued, the consultation processes have evolved significantly. In September 2003 POL moved to producing proposals for change based on Parliamentary constituencies or groupings of them, whilst increasing public consultation from four to six weeks. As a result of further changes agreed in February 2004, POL now also routinely extends public consultation to allow for public holidays and has increased, by two weeks, the period of public consultation on all proposals put forward during the Summer recess. To further increase the length of time for consultation on proposals across the board would cause considerable disruption to the Programme and only prolong the uncertainty for sub-postmasters and customers alike.

The Government’s advice on timescales for consultation is helpful in ensuring that organisations consider how changes in policy might impact on their obligations to the communities in which they are located and serve, but it is clear that it would not be appropriate to suggest that these guidelines apply to POL’s proposals under its Urban Network Reinvention Programme. The Committee is aware that operational issues, decisions on individual branch openings and closures among them, are a matter for the Post Office management. Indeed that has been the case since 1969 when the Post Office became a public corporation. Requiring a twelve-week period of consultation on these individual instances of network change would not recognise that the Programme is a commercial one, concerning the company’s operational decisions and the privately owned businesses of sub-postmasters.

It must be remembered that with the existing arrangements, the vast majority of the POL’s proposals have been accepted without controversy and that as predicted by POL; nine out of ten customers of offices that have closed have migrated to alternative offices which are benefiting from an increase in custom, improving their viability.
“We were told of a number of cases where Post Office Ltd’s employees either did not seem to have followed the company’s procedures or had made errors in doing so. We were not able to establish how typical such errors are of the process as a whole, but they should not occur at all if Post Office Ltd’s assessment procedures are being followed properly and consistently.” (TIC Conclusion 8, paragraph 77)

The implementation of the Urban Network Reinvention Programme has been a massive undertaking. On the whole, it has been handled effectively and efficiently.

However, it is clear that POL has not always handled consultation with sufficient sensitivity. An over-reliance on the use of standardised correspondence has often resulted in the company failing to respond to specific concerns. This has undoubtedly led to a damaging perception that those concerns were not being considered. Accordingly, the Government asked POL and Postwatch to review the arrangements for the consultation. As a result a number of further changes to the consultation processes were announced in a written statement to the House of Commons on 5 February 2004. These additional changes should ensure greater transparency of POL’s proposals and decisions so that confidence in the processes is maintained.

Even in many cases where there has been a high level of concern, the company’s proposals and decisions can be explained with sound reasoning and the Government welcomes POL’s efforts to be more open and to improve how it explains its processes. Though the company has done much to improve its performance in this respect and eliminate errors, in a minority of cases, there is still some room for improvement.

“When Postwatch scrutinises proposals from Post Office Ltd for branch closures it does not have any real power to change those proposals. It can only rely on its powers of persuasion. From the information available to us it would seem that public opinion is a more powerful weapon than anything Postwatch can bring to bear, given its terms of reference.” (TIC Conclusion 9, paragraph 82)

The Government believes that Postwatch has played an important and effective role in the Urban Network Reinvention Programme and has ensured that the interests of customers are at the forefront of POL’s considerations.

POL provides Postwatch with two weeks’ advance notification of intended proposals. This allows Postwatch to work with POL to highlight any factual errors or omissions in proposals before they are put to the public. If Postwatch finds the information is incorrect or incomplete it asks POL to reconsider the proposals before it puts them before customers. This is an important element of the process, ahead of the wider public consultation, which ensures that only the most robust proposals have been put forward into public consultation.

Postwatch continues to receive and co-ordinate public opinion on proposals during the period of wider public consultation. It is only at the end of public consultation that Postwatch will take a decision on whether to formally oppose a closure proposal—hence invoking the agreed ‘escalation’ procedure for reviewing disputed proposals.

The escalation process has worked extremely well, with the vast majority of cases where Postwatch has opposed closure being resolved early and at lower levels of POL and
Postwatch—well before the need to continue all the way ‘up the line’ to Chief Executive level. In total, Postwatch’s assessments and representations have resulted in POL modifying or withdrawing nearly 400 proposals, representing 16 per cent of the closures proposed under the Programme to 7 September 2004.

There may be a perception in some quarters that Postwatch might have been overly compliant with POL’s plans or that it is in some way in dereliction of its duties as a consumer watchdog by not automatically opposing all closure proposals. That is a mistaken view. Postwatch accepts the findings of the PIU report that changes to the urban network are required to achieve economic viability and to bring about “bigger, better, brighter” post offices. Postwatch also recognises that with or without the Urban Network Reinvention Programme, sub-postmasters will leave the network and so regards taking an active role in a process of managed change as a chance to look at an area and its post office provision in a systematic, logical and analytical way and an opportunity for POL to concentrate on taking poorly located and under-performing branches out of the network.

POL is fully committed to public consultation on each and every closure proposal in order to highlight any errors or omissions in their proposals and Postwatch represents the views of customers throughout the consultation process. However, consultation does not amount to a referendum, the ultimate decision whether to close or retain an individual branch remains with POL and it is true that the company’s management has many hard choices to make to ensure the viability of the post office network as a whole.

“Early research shows that most customers are adapting to post office closures in their area and are continuing to use the network. The changes are costing them time and money, however, and it remains to be seen how this will affect post office usage in the long term.” (TIC Conclusion 10, paragraph 89)

It is POL’s intention that the Urban Network Reinvention Programme will achieve the necessary restructuring to create a stable, sustainable future urban network. We have no evidence to suggest that that aim will not be achieved. However, POL is customer-led and no commercial business can give absolute future guarantees or categorically rule out individual instances of network change in the future.
Appendix 2

Postwatch Response to the Committee’s Seventh Report of Session 2003-04

Long term support for urban post offices

Postwatch welcomes the recommendation of the report that government should consider extending long-term support to urban post offices that serve deprived areas.

The government has rightly ensured that, in view of their social role, urban deprived post offices without another post office within half a mile have been protected during the urban reinvention programme. Except in the most exceptional circumstances Post Office Ltd has generally not sought to close these offices.

Many sub-postmasters applied for grants and have invested significant amounts of money on capital works in their post offices. These post offices will be more attractive to customers and Postwatch congratulates the sub-postmasters and wishes them every success.

However, despite that investment, the changes to the payment of pensions and other benefits is a challenge to the viability of post offices throughout the network and whilst some 2,500 will have already closed, we have concerns that there could be still further unplanned closures as a result of falling revenues. Post Office Ltd offers no guarantees to sub-postmasters on revenue, and if a sub-postmaster cannot make a living and closes his/her business there is no requirement on Post Office Ltd to ensure the continuation of post office services in that area. This would cause particular hardship to customers in urban deprived areas who depend on post offices to access postal and government services, bill payment and cash.

Postwatch is willing to work with Post Office Ltd and government to establish minimum levels of access to post offices in urban deprived areas. This level of access must be based on social criteria and may need to be underpinned by financial support from government.

Investment in post offices

Post Office Ltd has now established an investment team and has told Postwatch it is becoming more successful in promoting investment in sub-postoffices. Postwatch is hopeful that all of the £30 million investment fund will be spent on making post offices more attractive to customers.

Moreover, based on current levels of compensation paid to date to sub-postmasters who close their businesses Postwatch estimates that £20 million of the £180 compensation fund will remain unspent at the end of the urban reinvention programme.

Postwatch calls on Post Office Ltd and government to ensure that this underspend becomes available to sub-postmasters to make further improvements to their post offices.
The consultation process

The Trade and Industry Committee acknowledges that, given the unprecedented size and scope of the urban reinvention programme, “it was perhaps inevitable” that changes would need to be made to the processes once the programme had begun. Postwatch did not get everything right at the start but by listening to criticism and reviewing our approach, we have worked hard to improve the process to get a better outcome for post office customers.

Postwatch agrees that it would have been advantageous if Post Office Ltd had consulted Postwatch, MPs and local authorities prior to drawing up the area plans. We made similar recommendations to Post Office Ltd and government. Unfortunately the backing of the Committee on this issue comes too late as Post Office Ltd finished drawing the area plans some months ago and is due to submit its last plan to Postwatch at the beginning of October. Post Office Ltd has told Postwatch it is not willing to consider such a change in its procedures at this late stage.

Postwatch would like to correct a misinterpretation of its procedures in the report. The report states that during public consultation Postwatch’s role is to monitor the consultation. In fact, during this phase Postwatch continues to analyse the proposals, visit post offices and meet with local people. Postwatch then makes a decision on whether to oppose a closure or seek modifications to Post Office Ltd’s proposals.

Postwatch effectiveness

As noted in the report, Postwatch has no formal power to overturn Post Office Ltd’s proposals to close post offices. Postwatch has to rely instead on analysis and argument, working with customers and stakeholders to influence Post office Ltd to make changes. To date Postwatch has opposed all 70 of the closure proposals that have been permanently withdrawn to date from the closure programme.

So far as Postwatch is aware, there has not been one case where Post Office Ltd has withdrawn or significantly modified a closure proposal without the intervention of Postwatch.

To date Postwatch has persuaded POL to:

— withdraw 58 proposals and modify 129 proposals before public consultation; and

— withdraw 70 post offices from the closure programme and modify or defer a decision on over 140 other closure proposals.

— Despite these successes there have been occasions when our influence has not been enough. Post Office Ltd has the final decision and has closed post offices that Postwatch believes should have stayed open. We believe this has been to the detriment of customers and the frustration of Postwatch and stakeholders such as MPs and local authorities.

Postwatch intends to review the consultation procedures for post office closure, relocation and conversion to strengthen their effectiveness. Postwatch calls on the government to ensure that there is a mechanism to resolve disputes over closures of post offices. The final decision on contested closures should not rest with Post Office Ltd—particularly as urban
reinvention closures have been publicly funded. It is important that this mechanism is in place before the beginning of any rural or directly managed network change.

**Directly Managed ("Crown") post offices**

There is much uncertainty over the future of the 550 directly managed ("Crown") post offices. Overall the directly managed network operates at a loss and Postwatch recognises that Post Office Ltd has been asked to act commercially. However, most Crown post offices are busy, and well located and it is difficult to see how Post Office Ltd could close any without causing major disruption to customers. Queues in the ones that remain may only get worse.

These larger, often centrally located branches have absorbed a high proportion of the extra custom generated by urban reinvention closures. Postwatch agrees that it is regrettable that Post Office Ltd did not conduct its review of the Crown post office network in tandem with urban reinvention. Customers who have already faced disruption following the closure of their local subpostoffice now face further upheaval and inconvenience.

Postwatch Greater London is currently contesting the closure of a Crown post office in Notting Hill. The local community, the MP, the local authority and Postwatch all oppose the closure. It is clear that if the closure goes ahead, the business community, people working at home and others will be severely inconvenienced.

Many Postwatch regions have reported back to Postwatch Council that Post Office Ltd does not enter consultations on Crown office closures with an open mind. Postwatch can not find one example of a consultation on a Crown Post Office closure where Post Office Ltd has changed its mind or even significantly modified the proposal as a result of opposition by Postwatch, stakeholders or the general public during the consultation period.

**Postwatch wishes to review the Code of Practice on Post Office closures, relocations and conversions with Post Office Ltd before agreeing to participate in any further consultations on Crown office closures.** The review of the Code must include a mechanism for resolving disputed closures and the final decision should not rest with Post Office Ltd.

Postwatch calls on Post Office Ltd to avoid closures wherever possible. Where a post office cannot be kept within the Crown post office network Postwatch calls on Post Office Ltd to enter into franchise arrangements with alternative retail partners to keep a post office open in the area.