



House of Commons
Trade and Industry Committee

Restructuring the Post Office Network

Eighth Report of Session 2006–07

Report, together with formal minutes

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The Trade and Industry Committee

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The current staff of the Committee are Elizabeth Flood (Clerk), David Slater (Second Clerk), Robert Cope (Committee Specialist), Ian Townsend (Inquiry Manager), Anita Fuki (Committee Assistant), Jim Hudson (Senior Office Clerk) and John Staples (Secretary).

Contacts

All correspondence should be addressed to the Clerks of the Trade and Industry Committee, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general enquiries is 020 7219 5777; the Committee's email address is tradeindcom@parliament.uk.

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1 Report

1. On 6 March 2007, we published a short Report commenting on the Government's proposals for reducing and reshaping the post office network so that post offices would be better able to meet the challenges of falling levels of use and declining incomes from their traditional business.¹ We recognised that the current situation of increasing financial losses and haphazard closures of branches was undermining the entire network, and we reluctantly accepted that a thorough review of the network with a limited number of planned closures was sensible, provided that the social as well as the commercial aspects of post offices were fully taken into account.

2. On 17 May, the Government responded to our Report at the same time as the Secretary of State for Trade and Industry made a Statement to the House of Commons on the result of the public consultation on its proposals. The Government's response is appended to this Report. We are satisfied with some key aspects of the Government's reply but were dissatisfied with others. So we decided to make this brief Report commenting on it.

3. We emphasise that overall we accept the justification for the proposed major, systematic overhaul of the post office network. For the sake of the remaining sub offices, and given both the changing nature of the market in which they operate and the substantial volumes of government business that have been lost to the network, we simply wish that this necessary action had been undertaken earlier.

4. We also welcome the Government's willingness to widen the issues that need to be taken into account when the futures of individual post offices are considered. The Government has—rightly, in our opinion—decided that fairly simple distance-based access criteria are by themselves insufficient and has agreed that Post Office Ltd will have to demonstrate that it has taken into account not only geographical obstacles to access but also factors such as the availability of public transport, alternative access to key post office services,² local demographics and the impact on local economies.³

5. We are pleased that the Government has responded to our recommendation and other representations about the need to take into account those urban areas which, though deprived, fall just outside the definition of the 10% most deprived and therefore failed to qualify for the extra protection which the Government proposed. The Government has decided to extend this protection to the 15% most deprived areas.⁴

6. However, a number of our recommendations have not been fully addressed by the Government or have been rejected. We are particularly concerned about three issues: the public consultation process, and the associated question of the future of Postwatch, the consumer body for postal services; how sub postmasters will be helped to adapt their

¹ *Stamp of approval? Restructuring the Post Office Network*, Fourth Report of Session 2006–07, HC 276

² Which we take to mean, for example, the availability or otherwise of other cash withdrawal services in the locality.

³ See Government's response, p7 below.

⁴ *Ibid.*

businesses to improve their commercial competitiveness; and how the Post Office will ensure the continuance of adequate geographical coverage when—as they surely will—sub-post offices close in future.

7. The experience of the Post Office's Urban Reinvention programme led us to suggest that six weeks was insufficient for public consultation on local area plans for the post office network. We suggested a standard twelve week period, as set out in the Cabinet Office guidelines for public consultations. The Government has made welcome efforts to ensure the greater involvement of Postwatch and the local authorities in drawing up the local area plans this time. Nevertheless, the Government has resisted the extension of the period of formal public consultation. Their justification is that six weeks is enough when the earlier discussions with local authorities and Postwatch are taken into account, and that any extension would increase the period of uncertainty for sub postmasters and customers. We welcome provisions to ensure that Post Office Ltd consults Postwatch and the relevant local authorities before issuing local area plans for public consultation.

8. We are still of the view that six weeks' consultation is not sufficient for customers and others, especially local councils, to formulate and express their views, because: (a) the Post Office's proposals in respect of each post office will quite rightly have to be based on a complex variety of factors (access criteria, social and business needs, commercial potential, etc), and each area plan will cover a large number of post offices; (b) some councils meet only once every six weeks or even every two months; and (c) we reject the Government's argument that a further six weeks' delay (i.e. twelve weeks' consultation—per the guidelines—instead of six) would add significantly to the uncertainty faced by sub postmasters and their customers. The examination of local area plans is set to take at least 18 months, the restructuring process having started in December last year; and considerable uncertainty over the future of the network has existed at the very least since May 1999, when the programme for the migration of benefits payments from order books was first proposed. In this context, an extra six weeks is negligible. Indeed, given the importance of this restructuring programme, a slightly longer consultation period should help to ensure that the resulting new network structures are genuinely durable.

9. We are also disappointed that the Government was unable to reassure us that the timetable for the merger of Postwatch into the new National Consumer Council would not hinder Postwatch in its role as consumer representative in the preparation of the local area plans over the next 18 months. We understand that such matters have to be negotiated, but more progress should have been made in the two months since our Report was published. Postwatch is a substantially improved organisation with a lot to contribute to the consultation process. It should not be subject to so much uncertainty at such a sensitive time.

10. We seek a commercially viable network, not one permanently dependent on subsidy. We also note that the Network Subsidy Scheme⁵ will not be increased but will now be shared between the urban and rural network. Our major concerns, which centre on the need to improve the business prospects of the remaining sub postmasters by

⁵ Formerly the Social Network Payment

encouraging and enabling them to provide more varied and higher value services, have thus become more urgent. The Government's response sidesteps this issue by placing responsibility on Post Office Ltd, the very body that has consistently failed to show sufficient imagination or entrepreneurial flair in developing services so far, or properly to understand the realities of managing a network of often very small businesses. When coupled with the restrictions on individual postmasters that prevent them from innovating, it is difficult to see how the profitability of the network can be significantly improved in future. Under its new management, Post Office Ltd seems to be awakening from its lethargy, but we think that the Government, as sole shareholder and representative of the taxpayer, has a responsibility to ensure that Royal Mail Group as a whole gives proper attention to increasing the competitiveness of the network rather than just managing its decline.

11. In this context, the future of the Post Office Card Account is vital. We note that the Department for Work and Pensions has already put a notice in the Official Journal of the European Union seeking tenders for a 'POCA Mark 2'. **It is clearly too late to influence the specifications for POCA Mark 2, but we are disappointed that the Government thinks it both undesirable and too difficult to extend the functions of this account to simple matters like making cash deposits. Without such changes, all too often even the correction of mistakes by cashiers is impossible. We accept that this would increase its similarity to basic bank accounts, and we believe that many people who are suspicious of banks might be attracted to the dependable Post Office brand instead if the functions were similar—thus undermining the laudable hard work the Government has done in inducing banks to offer basic accounts in the first place. However, we are still of the view that it is absurd that holders of POCA accounts cannot deposit cash into their accounts; and we do not understand why Financial Services Authority rules should "require a greater degree of scrutiny and ID checking" of customers in this case.**

12. **Frustratingly, it is still totally unclear what will happen when uncompensated closures occur, now or in the future, that leave geographic gaps in the leaner but still comprehensive network that the restructuring programme is intended to produce. In its response, the Government baldly asserts: "Unplanned closures will be counterbalanced by replacements if the access criteria would be no longer met. Access criteria will replace the 'no avoidable closure' policy and ensure that a national network of post offices is maintained", without explaining how this will be effected.⁶ It is of no use simply to hope that replacement sub postmasters will spontaneously appear in all cases. Both Post Office Ltd and the Government must soon announce how they will cajole or induce providers to fill such gaps, and what will happen if such inducements fail. For example, would they be prepared to open a new Crown Office if an area were left with inadequate provision which failed the Government's access criteria? Unless they give proper consideration to the maintenance of the network after restructuring, it is sadly likely that the issue of closures will return to the agenda—sooner rather than later.**

13. We do not wish to appear negative about the efforts to restructure the post office network. Overall, in the face of the loss of so much business, the programme is necessary. We welcome the fact that the Government has learned lessons from previous

⁶ See Government's response, p7 below

problems. However, we think the issues we have outlined above are too important to be ignored. We expect the Government to give us more substantive answers on these matters than it has done so far.

2 Government Response

Introduction

The Government welcomes the Committee's report on the Post Office Network. The report covers important issues relating to the Government's future strategy for the network and it has been useful to have the Committee's views alongside the large number of responses to the public consultation to help with the development of Government policy in these areas.

Responses to Conclusions and Recommendations

Below we have set out our responses to the Committee's conclusions and recommendations directed at Government to which it is appropriate for Government to respond. We have listed the conclusions and recommendations in the order in which they appear in the report. Our response is set out below on each of them.

Conclusions and recommendations

1. While, in our previous Report we accepted that the Post Office network was unsustainable, we did so only with reluctance and while stressing the role of government policies in contributing to the network's recent losses. The Government has clearly stated its view, with which we agree, that post offices are not simply commercial enterprises, but also play a vital role in many communities, especially rural and deprived urban ones. We also agree with the Secretary of State that, because of this vital social role for both individuals and small businesses, the network deserves to be supported by the Government.

The Government recognises that post offices play an important social and economic role and remains committed to maintaining a post office network with national coverage. Subject to EC state aid clearance, the Government will provide funding of up to £1.7 billion over the period to 2011 to support the necessary changes to the network to put it on a more stable footing and to provide continuing support for the social network.

2. The Government should provide more detail on the exact composition of the £1.7 billion support package. This must make clear how much of the package will be contributions toward the pension deficit, whether any money will be made available for improvements to remaining branches, and what proportion of this £1.7 billion package has not been previously announced. We share the Government's hopes that the requisite European Union state aid approval will be given, but note with concern that there is no 'plan B' should this be refused, particularly given the fact that the European Commission has announced that it is investigating past UK Government aid to Royal Mail Group (although we accept that previous support for the network of post offices is not currently under investigation).

The Government's investment of £1.7 billion covers the period to March 2011. Two instalments of the Social Network Payment have been made in addition to payments of £376 million to cover losses. Up to £450 million of the funding package will cover the⁷ Network Subsidy Payments from 2008-09 to 2010-11. The Social/Network Subsidy Payments will not be used to fund compensation to sub-postmasters leaving the business. None of this funding package will be a contribution towards the pension deficit.

A more detailed breakdown will not be available until Post Office Ltd has developed its detailed proposals for reshaping the network at local level. Post Office Ltd is planning to establish a small fund to encourage new investment in core and outreach facilities and in branches facing access and capacity issues as a result of reshaping of the network.

The Government believes that this funding package is the best way to put the network on a stable footing. We are confident that the European Commission will approve this support on the grounds that it enables the continued provision of services of general economic interest through the network.

3. The network subsidy is called the 'Social Network Payment'. It is currently £150 million per annum. We have previously recommended that it be extended beyond 2008. We are pleased to see our recommendation realised in the Government's new commitment to maintain this £150 million annual payment, now to be known as the Network Subsidy Scheme, until 2011 and its commitment in principle to a subsidy beyond 2011. We note, however, the ambiguity over whether the Social Network Payment will continue, as now, to be exclusively for the rural network, or whether it will be extended to the urban network. We also note that there is at present no commitment to index-link the subsidy. The net result could be a declining sum being spent on a broader range of post offices. We expect clarification of how the Government intends to maintain the network in these circumstances to be included in its response to the consultation.

The Government has decided that from April 2008, the Network Subsidy Scheme should support non-commercial offices across the entire network. Our overriding priority is to maintain a national network with national coverage underpinned by access criteria. This will require support for non-commercial outlets in urban as well as in rural areas. Post Office Ltd will be making further significant savings through reductions in central costs and overheads, combined with more cost effective delivery of services and the strategically planned closure of up to 2,500 offices. In future, the network subsidy will therefore be sufficient to underpin the whole of the non-commercial network without adverse impact on the support available for the rural part of that network. We have worked closely with Post Office Ltd to ensure that the level of annual subsidy covers the costs required to maintain the non-commercial network.

4. It is not clear whether the suspiciously round figure of 2,500 closures was derived from a proper analysis of what was needed to provide a national network, or simply represents the maximum number that could be funded from the resources provided by HM Treasury. However, it is clear that the network of "about 12,000" post offices

⁷ Network Subsidy Payment replaces the Social Network Payment from April 2008.

referred to by the Secretary of State takes into account only compensated closures: the Government's proposals set no numerical limit on uncompensated ones.

The spiralling losses suffered by the Post Office could not continue to be sustained. The Department worked closely with Post Office Ltd in considering what actions needed to be taken to address the losses to get the network back on a stable footing and to ensure the continuation of a national network. The minimum number of closures required to enable those objectives to be met was 2,500 alongside the introduction of around 500 new Outreach sites. We have set Post Office the task of turning the business around within the framework of the new access criteria and a maximum of 2,500 compensated closures.

5. The Urban Reinvention Programme was intended to create a robust network. Clearly, it failed, otherwise the Government would not now be considering further urban post office closures. It is essential that the proposed restructuring does result in a sustainable network such that no further significant restructuring will be necessary for many years, with the network maintained even as sub-postmasters retire or resign in the future. We are concerned that there are presently no clear means to ensure this, and that the proposed access criteria may not prevent further unplanned shrinkage of the network (as discussed in more detail below). We do, however, welcome the fact that Crown and sub-post office closures will be considered together, rather than separately as previously.

The Government recognises that there will inevitably be future closures in addition to compensated closures under the programme - for example if a subpostmaster decides to retire or move on and new premises or a replacement subpostmaster cannot be found. Neither the Government nor Post Office Ltd can prevent that. The Government's access criteria will however establish a minimum level of coverage that Post Office Ltd will be required to maintain. Unplanned closures will be counterbalanced by replacements if the access criteria would no longer be met. Access criteria will replace the "no avoidable closure" policy and ensure that a national network of post offices is maintained.

6. Clarification of the balance of closures between urban and rural post offices is needed as part of the Government's response to the consultation.

The strategy is to get the right service in the right area to ensure the access criteria are met and national coverage is maintained. Post Office Ltd will make compulsory closures to ensure these objectives are met but the balance of closures between urban and rural offices will not be precisely determined until the end of the programme. However, we expect that Post Office Ltd will be making roughly similar numbers of closures in rural and urban areas. We also expect that when developing detailed area plans Post Office Ltd will reflect the principle that no country within the UK and no group of inhabitants at the area plan level should be significantly more adversely affected than any other.

7. We are also interested to know what criteria will be used to define a sub-Post Office. Many rural sub offices already open for limited hours, which inevitably limits access by customers to these offices. Any further restrictions on hours, to reduce network costs, could lead to further loss of custom and consequent loss of financial viability for individual offices. We believe that the 11,600 offices envisaged as part of

the core network should open for a defined minimum number of hours while outreach offices would understandably offer more limited hours.

The Government has noted the Committee's views but considers that decisions about individual branch opening hours are a matter for Post Office Ltd and individual subpostmasters, reflecting the needs and level of demand in local communities. We do not believe it is appropriate for the Government to seek to set national standards for matters which are best considered at local level.

8. While we accept that the Government may have changed its mind on numerical access criteria it is not clear how the proposed criteria were determined. Therefore we would like to know whether any alternatives were considered, and on what basis the Government made its decision. We would welcome an updated analysis following that of the 2000 Performance and Innovation Unit report which would inform us of the resultant size of the network if the proposed criteria were strictly applied without limitations on closures (as Postwatch has also requested). We believe that this could be much smaller than the suggested level of around 12,000 outlets.

The Urban Reinvention programme established accessibility on a numerical criterion basis with 95% of the urban population required to be within 1 mile of their nearest post office. We have now extended this principle to all parts of the network and have sought to add protections to vulnerable deprived urban and remote rural communities. In arriving at this decision a number of factors needed to be taken into account including the growing losses being sustained by Post Office Ltd, the growth of alternative ways of doing business and its knock on effect in the number of people using post offices regularly and the very real need to balance the need to retain post offices for the important social role they play with the huge cost to the taxpayer of doing so.

The access criteria being introduced will maintain a national network. They are intended to be responsive to future population trends with particular reference to areas of population growth. We believe that the distances we have set when considered alongside the additional protections for deprived urban and remote rural areas, are reasonable. In relation to the minimum network required if the criteria were applied strictly, it should be noted that the criteria set minimum levels of coverage and need to be viewed as such. It should also be noted that no calculation has been made as to the minimum network nor would it be helpful to do so. Given the scale of the network, there is a multiplicity of ways in which the network could be shaped within the access criteria. It is therefore misleading and unhelpful to suggest that there is an absolute minimum figure in this regard.

9. The Government's ceiling of 2,500 *compensated* closures and the safeguards implicit in the criteria for deprived urban and remote areas may limit the potential losses, and we welcome the assurance that the broader urban and rural criteria would be applied in each local area, rather than on a national or regional basis which could lead to undesirable variations across the UK. However, we note the potential for a significant number of future closures without breaching the access criteria. We are unconvinced that distance criteria are sufficient, in an unrefined form, to maintain a network with a social, as well as economic, purpose.

With the national set of access criteria, the Government has set a policy framework in which Post Office Ltd can now take the strategic decisions necessary to ensure that the network remains viable and accessible to all. There is always the possibility of unplanned closures. Indeed, there were around 150 closures each year for the duration of the policy of preventing avoidable closures in rural areas. However, with the access criteria, Post Office Ltd will be required to maintain a network that is based around the distance to the population that it is there to serve.

10. Local area plans are intended to attempt to match those sub-postmasters who wish to continue the business with locations that are viable and thereby ensure the distance criteria are maintained. It is not clear what Post Office Limited will do if too many sub-postmasters want to leave the network in a given area, and/or remaining sub-postmasters are in the wrong places. Managing the network to this degree of detail would appear to require further incentives and/or direct employment of sub-postmasters to ensure coverage is maintained. We would welcome further clarification of what Post Office Limited intends to do to ensure that coverage is maintained.

It is important to recognise that this will be a compulsory closure programme. It will be for Post Office Ltd to strategically plan a network that addresses the losses while continuing to provide coverage within our specified criteria. In the event that there are more sub-postmasters volunteering to leave a local area than there are planned to be closures, some may have to be turned down. It will be for the company to take the right decision for the good of the network within the framework set by the Government.

11. The Secretary of State has confirmed that these remote areas will be exempt from “compulsory closures” under the restructuring programme. He also suggested that the effects of recent closures in such areas could potentially be addressed by rapid roll-out of Outreach services. We welcome these statements, while noting the concerns of the National Federation of Sub-Postmasters over the viability of the sub-postmasters’ businesses in these areas, particularly given the absence of the option of a compensated exit. We also note the concerns of Postwatch that because these areas have been left outside the programme, Post Office Limited will have no duty to address service provision gaps that may occur there when sub-postmasters leave in the future. We believe that the Government should consider specific measures for the 38 excluded postcode districts to allay these concerns, and to ensure that similar service levels are maintained in the event of unplanned closures.

We have reflected on the comments received from the Committee and more widely in the consultation and concluded that no postcode district should be exempt from meeting the criterion requiring that 95% of the population in every postcode district is within 6 miles of their nearest post office outlet. In implementing local area plans, following local consultation, Post Office Ltd will therefore be required to ensure that every postcode district provides that coverage. Post Offices in the 38 postcode districts that currently fail the criterion will not be compulsorily closed during the transformation programme and Post Office Ltd will look to fill the gaps in coverage at the time that they develop local area plans so that by the end of each implementation plan, every postcode district in the local area plan, without exception, will be required to ensure that 95% of the population is within 6 miles of the nearest post office outlet.

12. The stability of the reduced network is essential, and while we welcome the recognition of the inevitability of natural exits, we remain concerned that the access criteria could continue to be met even if key post offices closed. Therefore there needs to be provision to replace post offices in some instances. It is essential that a proper network is maintained and this will require not only incentives for sub-postmasters to move to offices where the need is greater. It will also require the opening of new post offices because significant changes in settlement patterns will result from large volumes of new house-building around the country. This strengthens the case for a clearly defined policy on the opening of new post offices.

The access criteria are intended to be responsive to future population trends with particular reference to areas of population growth. Postwatch will be given responsibility for periodically monitoring and reviewing compliance with access criteria.

13. We see it as vital that the proposed criteria should not be applied in an inflexible way.

14. As Postwatch note, “distance and topography are good starting points”. We believe that other natural and social barriers should also be taken into account. These might explicitly allow for other factors affecting actual accessibility, rather than raw distance alone, including practical travel or walking distances (rather than an ‘as the crow flies’ measure as proposed), e.g. steep hills, the availability of public transport (in rural areas in particular), and socio-economic elements, such as an intervening high crime area. Also, quality of outlet should be taken into account—the services offered, the number of customers, dependency of local businesses on post office services for such things as cash deposits and mail services. The Secretary of State has said that the profitability or otherwise of post offices will be a consideration when drawing up area plans. We believe that decisions should also take deprivation and local needs into account, as we put it “a little bit of weighting at the margins”, beyond the additional criterion for deprived urban areas which covers the 10% most deprived alone.

15. Whilst we accept the Secretary of State’s argument that too many and “overly complex” criteria could prevent “any changes whatsoever”, we recommend the factors listed above as some which should be taken into account alongside mere distance criteria.

We agree that there needs to be flexibility and a common sense approach in applying the access criteria. Post Office Ltd will be required to take into account obstacles such as rivers, mountains and valleys, motorways and sea crossings to islands to avoid undue hardship and will also consider other factors including the availability of public transport and alternative access to key post office services, local demographics and the impact on local economies - when drawing up area plans. The company will demonstrate how these factors have been considered in arriving at their plans in each local consultation document.

The introduction of specific protection for deprived urban areas further safeguards these communities. Initially, we proposed that the protection would apply to the 10%

most deprived urban areas but, in light of responses to consultation, have decided to extend this to the 15% most deprived urban areas.

16. We believe that a strategic approach to restructuring the network should be an improvement on the experience of the Urban Reinvention Programme. However, we regret the time taken to arrive at this point, considerable uncertainty having been created for sub-post offices in the interim.

The Government intends that measures that will help to reduce damaging uncertainty over future service provision for customers and subpostmasters should be taken forward as soon as possible. The strategically focused programme of compulsory closures together with the introduction of Outreach will be a priority.

17. We welcome the Government's frank admission of the deficiencies of the Urban Reinvention Programme, and are pleased that the Government and the Post Office are learning from that experience. We reiterate the crucial need for genuine consultation on the local area proposals, to avoid any accusations of a sham exercise. One test of the reality of consultation will be how many opposed proposals are modified as a result.

The arrangements to be put in place for local consultation draw on experience of the Urban Reinvention Programme. In the pre-public consultation phase, Postwatch will provide input and advice on how best to meet the area criteria in ways sensitive to customer needs whilst implementing Government policy requirements and minimising adverse impact on customers enabling Post Office Ltd to develop a practical area plan for a sustainable network to put to public consultation. During each public consultation, Postwatch will ensure that the right people are being consulted, that the consultation process is being properly observed and that issues raised are promptly shared with Post Office Ltd. After public consultation, Postwatch will consider the responses and discuss the specific issues raised with Post Office Ltd. There is also provision for Postwatch to nominate individual branches for further discussion and joint review by Postwatch and Post Office Ltd before final decisions are reached.

18. The restructuring programme is scheduled to take place over 18 months, running from summer 2007 to around the end of 2008. This timetable is shorter than under the Urban Reinvention Programme, and we agree with Postwatch and Age Concern that this timetable is too demanding to ensure that the process is better than under that programme, where the planning was too rushed to engender public confidence that the views of the wider community had been taken into account. We also believe that it is important that the Government's considered response to the current national consultation process is published rapidly, but we do not see how proper account of representations can be taken if, as the Secretary of State has suggested, this would be in March 2007. A date of 30 April 2007 appears to strike the right balance between proper consideration and ending uncertainty.

Post Office Ltd considers that implementation of the changes, including the introduction of new outreach services, within an 18 month period is deliverable. The Government sees merit in aiming to complete the programme within that period, having regard to the concerns expressed about ending uncertainty as soon as possible.

The national consultation generated over 2,500 responses and a large proportion was received in the closing days of the consultation period. In order to ensure all responses received full consideration, the Government's response was published on 17 May 2007.

19. We agree with Postwatch that “finally agreed principles must be robust and not open to perverse interpretation by Post Office Limited”, and that the process could benefit from being “trialled before the programme starts”, for example in one region.

The role of Postwatch and local authorities in the development of proposals for, and local consultation on closures and other changes in service provision is set out in a Memorandum of Understanding signed by Post Office Ltd and Postwatch. In drawing up this Memorandum of Understanding, Post Office Ltd and Postwatch have drawn extensively on the lessons learned from the Urban Reinvention programme.

20. We agree that “the Post Office needs to do its homework” in drawing up the local plans, and we expect local councils to be involved, if only informally, in the process of drawing up these plans. We urge Post Office Limited to supply information to parties affected by each local plan as soon as is practicable. All area proposals should be sufficiently visible locally, be specifically lodged with all tiers of local government from the county to unitary, borough, district, town and parish councils where applicable, and be available on the internet. They should include the maximum amount of information possible, such as footfall and usage information, and whether sub-postmasters wish to leave the network.

Post Office Ltd will develop its area plans within the framework of the access criteria and of the wider factors which they will be required to take into account or consider in developing proposals for closures and other changes in service provision. In the first stage this will require extensive analysis of the data showing characteristics, usage and financial performance of the existing network on an office by office basis to identify and assess options for change. The second stage will be to seek information and input from relevant parties, including Postwatch, subpostmasters and local authorities, as area plan proposals are developed for public consultation.

21. We reiterate our call for the local consultation period to be doubled from six to twelve weeks, in line with Government best practice and the period for the national consultation on the network currently underway.

22. While twelve-week consultations may prolong uncertainty, as the Secretary of State noted, we believe the longer period is essential if there is to be fair consultation, including with elected representatives. We also believe that there is a need to ensure oversight on a national basis of progress on local area plans across the UK to prevent, as much as possible, variation in practice across the country.

The Government notes the Committee's arguments but has decided to confirm its decision for a six week local public consultation period. That reflects the approach followed during the latter stages of the urban reinvention programme. The early stages of the local process will involve detailed plan development discussions with Postwatch and the involvement of local authorities in advance of formal public consultation. When combined with the subsequent six weeks of public consultation, the Government

believes that this will enable sufficiently robust consultations to take place at a local area level. We are also aware that the organisation representing subpostmasters has argued for a speedy local consultation to minimise uncertainty for subpostmasters and customers.

23. We welcome the fact that the Secretary of State is “reflecting upon” the likely timetable for the moving of Postwatch’s functions into the proposed single consumer body, and urge him to reflect quickly in order to prevent unnecessary uncertainty within Postwatch.

We are working directly with Postwatch and the other consumer bodies on how to establish the new National Consumer Council. This includes the timetable for bringing the new body into existence and for transferring functions as appropriate.

24. We welcome the Government’s change of heart over the future of the Post Office Card Account (‘POCA’) and its new commitment to a basic account, with the same eligibility and coverage, beyond the end of the current contract with the Department for Work and Pensions (DWP) in 2010.

25. We would welcome early clarification of the features of a ‘POCA2’. The existing card is very limited in its functions. Post offices would gain significantly if its replacement were to offer users a better service, including, for example, the possibility of making cash deposits into the account.

The Department for Work and Pensions has today initiated the first stage of the tendering process for the successor product to the Post Office Card Account (POCa) by submitting a notice to the Official Journal of the European Union inviting expressions of interest. The scope for introducing new functions in the replacement product has been considered by the Department for Work and Pensions as part of the product design and tendering process. It has been decided that customers using the new product should be able to access their cash at an ATM as well as personal teller outlets (across a counter) located throughout the UK. But it has to be recognised that one of the attractions of the existing POca is its simplicity and it is not the Government’s intention to simply create a basic bank account by another name when there are already many such accounts on the market which can be used at the Post Office. Furthermore, providing a facility to make cash deposits as suggested by the Committee would, under Financial Services Authority rules, require a greater degree of scrutiny and ID checking at the point of application potentially causing difficulties for new applicants.

26. Given the vulnerability of many of its users, we believe that the move to ‘POCA2’ from POCA must be as seamless as possible, and that accessibility should be a core stipulation in the ‘POCA2’ contract. The tendering process for ‘POCA2’ is a critical matter, as it raises the possibility that Post Office Limited may not ultimately succeed in winning the contract. We join the Secretary of State in hoping that the Post Office wins the ‘POCA2’ contract under the procurement process necessitated by EU rules, but we believe it is vital properly to consider the implications if this does not happen. We are concerned that failure to win the ‘POCA2’ contract will put further pressures on the Post Office network, and possibly necessitate more closures unless there was further extra sizeable financial support. More importantly, perhaps,

no rival network offers anything like the coverage of post offices. The consequences of failure for remote and deprived communities could be severe. We will maintain a watching brief on this matter as the tender process develops.

The notice placed in the Official Journal of the European Union will make it clear that any migration of existing Post Office card account customers to the new service will need to be completed by March 2010 and that any migration needs to be done in a seamless way for existing customers. The notice also sets out that the size of the personal teller network is expected to be at least 10,000 outlets. We note the Committee's intention to maintain a watching brief.

27. We welcome attempts to offer services that allow post offices to expand their business in relation to mail order and internet retailers, find the information received on recent trials interesting, and await future developments with interest. We note that, by increasing footfall, such services can enhance the overall viability of the business in which the post office is located.

Clearly this is a developing market sector, and we will encourage the Post Office to follow up new opportunities when these arise. Realistically, however, we think it unlikely that any commercial deals between Post Office Ltd and other mail providers would create significant volumes of new business and revenues for subpostmasters because it is likely to be a substitute for Royal Mail business.

28. We believe that it is time for the Government to revisit the concept of the post office as a shop front for government services, along the lines of the 'Your Guide' pilot schemes, with any necessary adaptations and with marketing, as the previous Committee recommended.

The suggestion that post offices become 'one stop shops' for Government services has been raised on numerous occasions. This is an area which the Government looked at in 2002 when we provided £25m for the "Your Guide" pilot to test the concept of post offices as a one-stop shop for advice on Government services. The impact of the "Your Guide" pilot was limited with 85% of customers commenting that they would have found the information they obtained elsewhere. The pilot showed that the costs of rolling out a publicly funded national scheme would be excessive and would not represent value for money given the size of the likely customer base that would use and benefit from it.

29. We are concerned that at present sub-postmasters may be constrained unnecessarily in their entrepreneurship by existing contracts. It is not clear whether they are appropriately rewarded for their part in delivering Government services and information (such as handing out official documents relating, for example, to the Budget). We are also concerned about the levels of remuneration and commission for centrally-controlled aspects of the service, like foreign exchange and lottery ticket sales.

The contractual restrictions on subpostmasters cover only the key products and services that generate income for the network. Post Office Ltd believes these are necessary to preserve its ability to negotiate new business on behalf of the network as a whole. Without them, potential suppliers could cherry pick branches to sell their products or

services, making it impossible for Post Office Limited to negotiate national agreements for all branches. Though some individual sub-postmasters would benefit from such arrangements, the majority, particularly smaller branches, would be excluded from offering such products or services.

There is no restriction on sub-postmasters having a PayPoint terminal on the retail side of their premises provided the terminal is not used for products and services offered on the Post Office side of the business.

We note the Committee's concern about the levels of remuneration and commission received by subpostmasters for certain products and services but it has to be recognised that Post Office Ltd is bidding for contracts in a competitive commercial market. It should also be recognised that the company is bidding for the good of the entire network and the terms on which it successfully bids will necessarily influence the level of remuneration or commission it can pay to subpostmasters.

30. While we welcome a greater role for local people, we do not believe that this devolution is compatible with ensuring that the shrunken network still provides a socially and geographically adequate network of post offices, nor with the Government's responsibility as shareholder. It could simply be a device for transferring financial responsibility from the Exchequer to council taxpayers and the devolved administrations.

The Government will be working with the relevant organisations and administrations on the scope for devolving greater responsibility in the longer term for decisions on post office service provision to local authorities and devolved administrations and for providing greater flexibility for local funding decisions. Any net additional costs which fall to local authorities as a result of any changed responsibilities placed on them or expectations created through this devolved decision making process will be fully funded by the Government in line with the New Burdens rules. This requires the Department with responsibility for introducing the changes to provide the funding to meet these costs. It is not a burden that will be picked up by Council Tax payers. Similar mechanisms exist for funding the Devolved Administrations should greater responsibility be given to them. The involvement of local authorities in the forthcoming network change programme will provide an opportunity to explore ways in which local councils can work with Post Office Ltd to help mitigate potential gaps in service and the potential role that local authorities could play in future local decisions.

31. We welcome the fact that the Government has finally made a decision on the financing of Royal Mail Group, but note the continuing uncertainty following the European Commission's decision to investigate Government support. We are pleased that the Government has listened to the advice from this Committee and other interested parties. We note other aspects may prove controversial—such as the proposed closure of the final salary scheme to new employees—and we will await the result of consultations on those matters with interest, and may return to them in the future.

The Government has committed to financing Royal Mail and has received advice that the new finance framework for Royal Mail is commercial and meets the requirements of

the EC's Market Economy Investor Principle. Royal Mail's decision to consult about possible changes to the employees' pension fund is part of the management's response to the business challenges it now faces, including the pension fund deficit, and the need to address the impact on the business of the prospect of falling postal volumes and increasing competition.

Formal minutes

Tuesday 5 June 2007

Members present:

Mr Peter Luff, in the Chair

Roger Berry

Mr Brian Binley

Mr. Peter Bone

Mr. Michael Clapham

Mr. Lindsay Hoyle

Mr Mark Hunter

Judy Mallaber

Rob Marris

Mr Mike Weir

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

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

Paragraphs 1-13 read and agreed to.

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

[Adjourned till Monday 11 June at 3.30pm]