



House of Commons
Business and Enterprise

Post Office Card Account: successor arrangements

Twelfth Report of Session 2007–08

Report, together with formal minutes

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The Business and Enterprise Committee

The Business and Enterprise Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for Business, Enterprise & Regulatory Reform.

Current membership

Peter Luff MP (*Conservative, Mid Worcestershire*) (Chairman)
Mr Adrian Bailey MP (*Labour, West Bromwich West*)
Roger Berry MP (*Labour, Kingswood*)
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The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the Internet via http://www.parliament.uk/parliamentary_committees/parliamentary_committees

Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at http://www.parliament.uk/parliamentary_committees/berr.cfm

Committee staff

The current staff of the Committee are: Eve Samson (Clerk), Emma Berry (Second Clerk), Robert Cope (Committee Specialist), Louise Whitley (Inquiry Manager), Anita Fuki (Senior Committee Assistant), Lorna Horton (Committee Assistant) and Jim Hudson (Senior Office Clerk).

Contacts

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1 Post Office Card Account: successor arrangements

Introduction

1. This Report should be read as a whole. It contains no separately emboldened conclusions or recommendations. We expect the Government to respond to it in its entirety.

Background

2. On 4 May 1999 the Government announced that benefit payments and state pensions would in future be delivered by the direct payments system. Between April 2003 and March 2005 the intention was that the majority of benefits and state pensions should have migrated to a bank-based system, from the old system of order books and girocheque. As part of this change, a Post Office Card Account (POCA) was introduced. It was developed by Post Office Ltd to act as a simple vehicle where customers could obtain benefits if they could not, or would not, use any other kind of bank account. Post Office Ltd describes the account as follows:

The Post Office™ card account is an ultra simple account that can only be used to receive benefit, state pensions and tax credit payments. No other payments, such as Housing Benefit, occupational pensions, or wages can be paid into it. You can only collect payments over the counter at a Post Office™ branch. This account may suit you if you want a simple account that won't let you go overdrawn or incur any charges. No credit checks will be carried out when you open this account.¹

Post Office Ltd receives funding from the Department for Work and Pensions which is linked to the number of people who choose to open and use card accounts.²

3. The Trade and Industry Committee, the precursors to this Committee, reported on the impact of “direct payment” on post offices and their customers in July 2003. It concluded that although DWP had put forward arguments for the change based on reduction of benefit fraud, boosting financial inclusion and modernisation, the most compelling was the expected saving in public expenditure made by changing from girocheques and order books to far cheaper bank transfers. The Committee noted “it is difficult to disagree with the conclusion of the National Consumer Council that the introduction of Direct Payment was driven by the objective of reducing expenditure rather than meeting the basic financial needs of consumers.”³

1 <http://www.postoffice.co.uk/portal/po/content1?catId=19100189&mediaId=19200177>

2 In addition, banks contributed £180 million at an early stage, HC Library, *Post Office Card Account (POCA)*, SN/EP/3913, 29 October 2008

3 Eleventh Report from the Trade and Industry Committee, Session 2002-03, *People, Pensions and Post Offices: the impact of 'Direct Payment' on post offices and their customers*, HC718

4. At that time, the Government was funding the urban reinvention project, which was designed to reduce the number of post offices in urban areas, while leaving 95% of people in urban areas no further than a mile from their nearest Post Office branch. On 17 May 2007, the Government announced that it would provide funding of up to £1.7 billion over the period to 2011 to support changes to the entire post office network, and to provide continuing support for maintaining the network beyond its commercially optimum size, to ensure it met the needs of the community. As part of those changes, the network would be reduced by about 2,500 branches. That reduction would take place in a framework of access criteria designed to ensure that the network was spread across the country. The Committee, and the Trade and Industry Committee before it, undertook a number of inquiries examining the network change programme.⁴

5. The access criteria were changed in response to consultation, and ultimately specified a proportion of the population which should be within a set distance of a Post Office branch:

- 99% of the population within 3 miles;
- 90% of the population within 1 mile;
- 95% in urban areas within 1 mile;⁵
- 99% in the 15% most deprived urban areas within 1 mile; and
- 95% within 3 miles in rural areas; also
- 95% within 6 miles within every postcode district.

EU State Aid clearance was granted for the financial support for this programme, and for the £150 million per year paid to support the social network, on the grounds that the Post Office Network provides services of general economic importance, namely:

- a) processing of social benefit and tax payments;
- b) processing of national identity and licensing schemes;
- c) universal cash payments for public utility services;
- d) universal access to basic cash and banking facilities and Government savings instruments, especially for rural customers and those on social benefits; and
- e) access to universal postal services.

The Government must consider the implication of the state aid decision which notes:

Certain of the SGEIs [services of general economic interest] entrusted to POL (in particular those listed at sub-paragraphs (a) and (d)...above) involve the provision by

4 See Trade and Industry Committee, Third Report of Session 2006-07, *Stamp of Approval? Restructuring the Post Office Network*, HC 276, Eighth Report of Session 2006-07, *Restructuring the Post Office Network*, HC 593, Business, Enterprise and Regulatory Reform Committee/Business and Enterprise Committee, Third Report of Session 2007-08, *Post Office Closure Programme*, HC 292, Sixth Report of Session 2007-08, *After the Network Change Programme: the future of the post office network*, HC 577, and Tenth Report of Session 2007- 08 *Post Office finance: matters arising from evidence taken on 10 June 2008*, HC 662

5 Settlements of 10,000 people or more

POL of the Post Office Card Account (POCA) as a means of facilitating the payment of benefits by certain UK Government Departments.⁶

The current tender process

6. The first contract for the Post Office Card Account expires early in 2010. On 16 May 2007 the Government issued a tender in the Official Journal of the European Community for “provision of simple card based customer owned bank accounts similar to existing card accounts. Also associated encashment services to allow access to cash at ATMs and a national network of personal teller outlets”. In a more detailed section, the document specified that ATMs and personal teller outlets should be “located throughout the UK”, and indicated that DWP was considering becoming a member of LINK, the system which allows customers of one bank to withdraw cash from the outlets of other banks participating in the scheme.

7. It is widely recognised that a decision to award the contract to an organisation other than Post Office Limited would have grave effects on the Post Office network. Even after the network change programme, more sub-post offices would almost certainly close. The General Secretary of the National Federation of SubPostmasters has said “Losing POCA will deal a body blow to every subpostmaster and I have no doubt it will directly result in the unmanaged closure of at least 3,000 post offices”.⁷ In our work on the network change programme itself we felt it was inappropriate to comment on the tender process since the Government had said it hoped to sign contracts in early 2008,⁸ Moreover, we had confidence that the Government would consider all relevant criteria in making a decision. Several months on, no decision has been announced. Moreover, there is speculation that the contract could be split between Post Office Ltd and another provider. This situation is destabilising for the Post Office network, and we are disturbed that the Government has allowed it to continue.

8. We accordingly sought an urgent meeting with the Secretary of State for Work and Pensions to discuss these issues. He was unwilling to meet us before a decision was taken, since he felt constrained from commenting until the outcome of the bid was known. Such a meeting would have allowed us to explore the context of the bid, and to explore the Government’s thinking about the need to meet the needs of those who currently use POCA. Since we have no opportunity to be sure that the Government has taken full account of those groups, we have decided to set out our views in this Report. We do not believe that doing so will undermine the integrity of the tendering process. There have been many representations about matters that should be taken into account in that decision, and indeed it would be impossible to prevent such representations being made. The decision must be made by the Secretary of State, and we are confident that he will be able to weigh the points put to him appropriately.

6 European Commission C(2007) 5623 final, State Aid N388/2007—United Kingdom Post Office Ltd (POL) transformation programme, para 65

7 Letter to the Prime Minister, 17 October 2008

8 HC Deb, 17 May 2007, c52 WS

9. Although we recognise that the Secretary of State has to take the decision about the successor to POCA, we wish to put on record the matters we believe he should consider when he is taking that decision. The Trade and Industry Committee recognised that Direct Payment had reduced government expenditure: we believe the focus should now be on meeting the basic financial needs of consumers. The DWP has been clear about its preference for customers to use basic bank accounts. Indeed, we have been given examples of cases in which DWP communications either do not mention the availability of the POCA, or imply it will be withdrawn in 2010 without indicating that there will be a successor. Despite this, significant numbers of benefit claimants and pensioners choose to use a POCA. Their needs should be paramount.

10. The Treasury Committee's Report on *Banking the unbanked* concluded "that those without access to a bank account are likely to be on a low-income, the long-term inactive or unemployed, the elderly, lone parents and council and housing association tenants."⁹ A system of basic bank accounts was introduced to help those without access to banking services. Basic bank accounts allow a wider range of services than the POCA. As the Treasury Committee said, there is no single model, since the accounts offered by various banks differ, but

Basic bank accounts enable people to pay in cash and cheques, receive their wages or benefit payments, make cash withdrawals and pay their bills by direct debit. Basic bank accounts have no overdraft facility and there are no charges for day-to-day banking, although some banks levy significant charges if there is insufficient money in the account to pay a direct debit.¹⁰

It noted that some customers found it difficult to open such an account.¹¹

11. Despite the availability of basic bank accounts, the Treasury Committee report noted take up for the POCA was far higher than expected, "4.3 million people [are] currently using the POCA to receive benefits, including 2.3 million pensioners. This appears to reflect both the difficulties in opening basic bank accounts and the perceived advantages amongst benefit claimants of using the Post Office".¹²

12. In other words, the POCA caters for precisely the people who do not want to, or cannot, use conventional bank accounts: in the very nature of things, they are disproportionately likely to be poor or elderly. Similarly, they are likely to live in rural or deprived urban areas. They are less likely to have access to private transport, and less able to afford the cost of public transport. They need access not just to the underlying finance provided by benefits, but to those benefits in cash form. The OJEC announcement specifies both 10,000 outlets and that they should be "located throughout the UK". The needs of this group mean that the second criterion—that services should be located "throughout the UK"—is vital. The government criteria for access to Post Office services were a welcome

9 Treasury Committee, Thirteenth Report of Session 2005-06, "*Banking the unbanked*": banking services, the Post Office Card Account, and financial inclusion, HC 1717, para 7

10 *Ibid.*, para 9

11 *Ibid.*, paras 31-52

12 *Ibid.*, para 99

step in safeguarding access to services for groups across the United Kingdom. They provide a baseline against which any tender should be measured.

13. A tender which offered far more teller outlets than the 10,000 specified, but could do so only in urban or relatively densely populated areas would not, in our view, meet the needs of POCA users. As the Communication Workers Union told the Trade and Industry Committee:

customers living in a village or a more rural area are less likely to withdraw their benefits from a cashpoint or a bank or building society and they are more likely to withdraw their cash over the counter at Post Offices. The stats are that just 4% of rural areas have a bank, whereas 60% of rural areas have a Post Office, so it is a given that people in rural communities will draw their money at the Post Office.¹³

At the end of December 2007 the UK banking system network contained almost 12,500 branches, including non-converted building society branches.¹⁴ At the same date the comparable number of Post Offices was 14,219.¹⁵ The banking network will contain several branches of different providers in one area, whereas Post Offices are geographically dispersed. Obviously both networks will change over time, but, given recent mergers in the banking system, it is likely the banking network will also shrink.

14. Even the LINK ATM network of free to use machines as it currently exists would not meet the criterion that there should be access throughout the UK. Despite attempts to increase the network of free ATMs, many urban deprived areas lack access to such facilities. There are no geographical criteria for access to free ATMs in rural areas. The LINK ATM locator shows there are many villages where access to cash is provided by a Post Office but the nearest free ATM (apart from any provided by the Post Office) is several miles away.¹⁶

15. Moreover, the new service will have to provide *reliable* access to cash for those using the card account. No tender should be accepted if it cannot demonstrate that it can meet this need, at the branch most convenient for users. It is unreasonable to expect a disadvantaged customer to have to travel to access cash, and possibly also to pay for such travel, without the certainty that cash indeed will be available. The Government cannot rely on the assumption that the LINK network as a whole provides access to cash. Firstly, there is no guarantee that an ATM will have cash available at a particular time. Secondly, it would be imprudent to judge the viability of a bid on the existence of facilities provided by third parties which may be withdrawn for reasons beyond the bidder's control. If the successor to the POCA is not awarded to Post Office Ltd there can be no guarantee that the Post Offices currently providing access to free ATMs will remain viable.

16. We are naturally concerned about the effects of the possible loss of the contract on Post Office Ltd, and, indirectly, on the taxpayer who may end up having to pay an increased subsidy to maintain a national network of post offices, while simultaneously supporting the

13 Trade and Industry Committee, Ninth Report of Session 2005-06, *Royal Mail Group*, HC 1556-II, q18

14 British Bankers Association, *Annual Abstract of Banking Statistics 2008*, Table 5.02

15 *Ibid.*

16 See <http://locator.link.co.uk/map/>

commercial providers of the DWP card account. Despite the rumours of solutions which would split the tender, our advice is that this would only be possible with the agreement of both parties involved. Moreover, it is perfectly legitimate for the Government to take into account the extent to which any compromise agreement would undermine the financial viability of the organisation providing services.

17. In its Report the Treasury Committee said:

The Post Office's customer base, extensive branch network and trusted role in the local community mean that the Post Office can play a lead role in promoting financial inclusion. The Government is not maximising the potential of the Post Office in this area. The loss of the contract for the Post Office Card Account, whether these customers are eventually transferred to basic bank accounts or to an alternative Post Office product, is likely to result in a loss of income to the Post Office. If this income cannot be replaced by alternative services or products, then either Post Offices will close or Government spending on the social network payment will need to increase. This would result in a saving to the DWP but a corresponding increase in expenditure by the DTI. The Government needs to ensure a joined-up approach by the DWP, DTI and the Treasury to funding and providing services through the Post Office network.¹⁷

We are concerned that there is still little sign of such a joined-up approach. The contract has been advertised on the basis of the most economically advantageous tender. This allows the Government to take a wide range of criteria into consideration. It must do so, to ensure that easy and reliable access to cash and access to benefits remains possible for those who currently use the Post Office Card Account.

18. Although our primary concern is for those who need access to benefits, we are also concerned that the delays are destabilising Post Office Ltd, and for communities in rural and deprived urban areas which rely on the Post Office for access to basic services. The European Commission, the Government and we are all agreed in believing the Post Office network provides services of general economic importance, and plays a vital social role. The longer uncertainty continues, the harder it is for the Post Office to develop its long-term plans. The current contract expires in April 2010. Whoever wins the contract, existing POCA customers will need to be transferred to a successor account. There is very little time for the Secretary of State to come to a decision, but when he does so he must take the needs of POCA users, and of the community as a whole, fully into account.

Formal Minutes

Wednesday 5 November 2008

Members present:

Peter Luff, in the Chair

Mr Adrian Bailey
Mr Brian Binley

Anne Moffat

1. Post Office card account

Draft Report (*Post Office card account: successor arrangements*), proposed by the Chairman, brought up and read.

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

Paragraphs 1 to 18 read and agreed to.

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

Ordered, That the Chairman make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Tuesday 11 November at 10.00 am

List of Reports from the Committee during the current Parliament

Session 2007–08

First Report	The work of the Committee in 2007	HC 233
Second Report	Jobs for the Girls: Two Years On	HC 291
Third Report	Post Office Closure Programme	HC 292
Fourth Report	Funding the Nuclear Decommissioning Authority	HC 394
Fifth Report	Waking up to India: Developments in UK-India economic relations	HC 209
Sixth Report	After the Network Change Programme: the future of the post office network	HC 577
Seventh Report	Keeping the door wide open: Turkey and EU accession	HC 367
Eighth Report (First Joint Report of Committee's on Arms Export Controls)	Scrutiny of Arms Export Controls (2008): UK Strategic Export Controls Annual Report 2006, Quarterly Reports for 2007, licensing policy and review of export control legislation	HC 254
Ninth Report	Construction matters	HC 127
Tenth Report	Post Office finance: matters arising from evidence taken on 10 June 2008	HC 662
Eleventh Report	Energy prices, fuel poverty and Ofgem	HC 293