



House of Commons  
Business and Enterprise  
Committee

---

**After the Network  
Change Programme  
and Post Office  
finance: Responses to  
the Committee's Sixth  
and Tenth Reports of  
Session 2007–08**

---

**Ninth Special Report of Session  
2007–08**

*Ordered by The House of Commons  
to be printed 14 October 2008*

**HC 1091**  
Published on 17 October 2008  
by authority of the House of Commons  
London: The Stationery Office Limited  
£0.00

## 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*)  
Mr Brian Binley MP (*Conservative, Northampton South*)  
Mr Michael Clapham MP (*Labour, Barnsley West and Penistone*)  
Mr Lindsay Hoyle MP (*Labour, Chorley*)  
Miss Julie Kirkbride MP (*Conservative, Bromsgrove*)  
Anne Moffat MP (*Labour, East Lothian*)  
Mr Mark Oaten MP (*Liberal Democrat, Winchester*)  
Mr Mike Weir MP (*Scottish National Party, Angus*)  
Mr Anthony Wright MP (*Labour, Great Yarmouth*)

### Powers

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](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](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 (Committee Assistant), Lorna Horton (Committee Secretary) and Jim Hudson (Senior Office Clerk).

### Contacts

All correspondence should be addressed to the Clerks of the Business and Enterprise 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 [becom@parliament.uk](mailto:becom@parliament.uk)

# Ninth Special Report

---

1. The Business and Enterprise Committee published its Sixth Report of Session 2007-08, *After the Network Change Programme: the future of the post office network*, on 2 June 2008. It published its Tenth Report of the Session, *Post Office finance: matters arising from evidence taken on 10 June 2008*, on 25 July 2008. Responses from the Government to both Reports and from Postwatch to the Sixth Report are appended to this Report.

2. During the network change post office closure programme, Postwatch has been submitting regular progress reports on the closure programme to the Committee. These were previously made public by Postwatch itself. Now that Postwatch has been subsumed into the new body, Consumer Focus, the Committee has decided to place copies of the progress reports in the Library of the House of Commons and the Record Office, and on the Committee's web pages to ensure that they remain available.

## Government responses

---

**Government reply to Business and Enterprise Committee's report '*After the Network Change Programme: the future of the post office network*' Sixth Report of Session 2007-08 published on 2 June 2008**

### Introduction

1. The Government welcomes the Committee's further report on the Network Change Programme and consideration of the future of the network after the change programme is completed. It is useful to have the Committee's developing views on the future nature and role of the post office network.

### Responses to conclusions and recommendations

2. The Government's responses to the Committee's conclusions and recommendations are set out below. We have listed the conclusions and recommendations in the order followed in the report. Our response is set out below each of them.

### Conclusions and recommendations

#### Timeliness

**The relative slowness of the Government and Post Office Ltd replies would have been easier to understand if they had been final statements of the position. In fact, there have been further developments since then. We regret that the Government and Post Office Ltd responses were neither speedy nor definitive. (Paragraph 4)**

3. The Government and Post Office Ltd responses to the Select Committee report were submitted within the normal two month period allowed.

## Local Authority and MP involvement

Since the Government and Post Office Ltd responded to our report on 3 April, Post Office Ltd has announced that in future it will engage with MPs “10 days before the start of the public consultation in their constituencies in relation to the current Network Change Programme, rather than a few days before the consultation begins as at present”. While this is welcome, we do not understand why it did not form part of the response to our report, and consider it disappointing that the Post Office took no steps to inform us, or seek to revise its response. (Paragraph 7)

4. Post Office Ltd was keen to link the announcement of the earlier engagement with MPs and the announcement of trials of an urban outreach model, as both had been issues raised by MPs more widely, but was not in a position to finalise this by 3 April. It was therefore decided not to delay the response to the Committee further.

**We note that successful dialogue requires both parties to engage properly, and urge local authorities and Post Office Ltd to work together as the programme continues. (Paragraph 8)**

5. Post Office Ltd’s working relationships with local authorities have continued to develop positively as the programme has progressed. To the end of June, Post Office Ltd had attended 262 meetings with local authorities and 250 other engagements with stakeholder groups which often included local authority representatives. In addition, Post Office Ltd participated in a recent Local Government Association conference workshop to launch the draft guidelines for local funding of continuing retail and other service provision after the closure of a sub post office. Post Office Ltd has sent these guidelines all local authorities who have expressed an interest in such funding. The guidelines are also available on the Local Government Association website.

## Sustaining the Network

**We accept that the Government has no desire to see the network shrink below 11,500 outlets between now and 2011. Indeed, it is investing £1.7 billion to safeguard the network. However, there is no guarantee that there will not be further closures after the Network Change Programme as a result of individual postmasters’ and postmistresses’ decisions. We note that Post Office Ltd itself does not believe “it is possible or desirable to set a minimum number of fixed outlets.” We expect Post Office Ltd to share the Government’s commitment to maintenance of the network. (Paragraph 10)**

6. In additional oral evidence given to the Committee on 10 June, Alan Cook, Managing Director of Post Office Ltd, confirmed the company’s strong desire to maintain a national network of around 11,500 post office outlets to 2011 after completion of the network change programme. He also confirmed that the company’s business plan is predicated on that size of network.

## Access Criteria

**The Government has asked Post Office Ltd to work with Postwatch to “develop a new code of practice covering ‘business as usual’ network changes to reflect the current**

policy and lessons learned from the Network Change Programme,” and Post Office Ltd told us that it looks forward to working with Postwatch and its successor body, the National Consumer Council, to draw up such a code. In successive Reports we have expressed our concern about the transfer of responsibility from Postwatch to the NCC at such a critical time in the Network Change Programme. We recognise that Postwatch is currently heavily burdened by the need to monitor the Network Change Programme itself. However, we think it is important that the Code of Practice is drawn up speedily, and that the transfer of responsibility does not cause delay. We urge Postwatch and Post Office Ltd to start work immediately. (Paragraph 12)

The future shape of the network is a matter of direct political concern and will be determined by the Code of Practice. We wish to see a draft of the code before the summer recess. Ultimately, Government, as sole owner of Royal Mail Group, cannot duck responsibility for the shape of the network. While we do not expect it to replicate other parties’ monitoring, we expect it to use those monitoring returns to ensure its considerable subsidies are being used to secure a network which meets the public’s needs. (Paragraph 13)

7. The need to have a new code of practice in place for business as usual changes after completion of the Network Change Programme in the autumn is clearly recognised by Post Office Ltd, Postwatch and the Government. Agreement in principle on the form and structure of a new code has been reached between Post Office Ltd and Postwatch. This includes a framework document setting out the relationship with the new National Consumer Council, the successor body to Postwatch from 1 October.

8. The Government is contributing up to £150 million a year to 2011 to maintain a national network by support around 7,500 non-commercial offices. It will monitor compliance with the access criteria by close scrutiny of the monitoring returns from both Post Office Ltd and the new National Consumer Council.

## Outreach

Although Post Office Ltd has told Postwatch they believe relatively few customers will be affected by the inability of some outreach services to handle packets weighing more than 2kg, it will mean considerable inconvenience for those who need to send large packages, and could have an impact on local businesses. We note that the universal service obligation extends to packages of up to 20 kg. We consider that all Outreach services should be able to handle packages of up to 20 kg. (Paragraph 16)

9. A key element in the rationale for an outreach service is that it enables Post Office Ltd significantly to reduce its costs in continuing to provide service at that location and therefore allows service to be maintained there to an extent which would not otherwise be viable. The business model for outreach service requires significant cost savings to be achieved. Following detailed discussions with Postwatch and consideration of current and prospective usage levels and storage capacity, Post Office Ltd has agreed that all outreach outlets will offer service for packages up to 6 kg. Post Office Ltd calculates that currently 70% of post offices in the network are able to accept packages up to 20 kg. It also calculates that across a sample of smaller offices (up to 900 customer sessions per week) on average only one parcel between 6 and 20 kg is handled.

## Closure of profitable branches

**The post office network is a social as well as a commercial asset; as Postwatch says “profitable offices are likely to be heavily used, and closures would therefore affect many customers”. We continue to believe there should be a presumption against their closure. (Paragraph 18)**

10. Post Office Ltd has confirmed that all individual office closures will improve the overall profitability of the network. In determining which post offices should close, Post Office Ltd seeks to strengthen the sustainability of remaining offices nearby. They also seek to minimise the impact on customers and so, for reasons of accessibility and ensuring adequate capacity for migrated business at remaining offices, there will, on very rare occasions, be a closure of a profitable office.

**Post Office Ltd’s own figures leave significant uncertainty as to where £57 million of savings will come from. It is not surprising there are fears that as offices are closed, overheads per office will increase, and decline will continue. (Paragraph 21)**

11. Post Office Ltd’s business plan for 2006–11 is predicated on cost savings of £270 million a year being achieved over the five year period. As Alan Cook, Post Office Ltd’s Managing Director, confirmed to the Committee in oral evidence on 10 June, £270 million of cost savings will be achieved. In addition, the company has also confirmed that the remaining £7 million of operational savings to be directly derived from closing offices under the Network Change Programme has been identified and is on course to deliver the £45 million of savings from the closures as required by the business case.

**Given the lack of transparency about Post Office Ltd’s finances, and the reported deficiencies in Royal Mail Group’s financial systems, it is impossible to be sure that the allocation of costs to individual post offices is rigorous. Post Office Ltd is a publicly owned monopoly, which provides many of its services on behalf of the Government and receives substantial taxpayer support; there should be far more clarity about such matters. (Paragraph 23)**

12. The Government notes the Committee’s concerns but also notes that Post Office Ltd operates in a commercially competitive market. A balance needs to be struck to protect the company’s own competitive position in bidding for work and contracts. Commercially confidential information relating to subpostmaster’s remuneration and transaction volumes also needs to be protected. Government has encouraged more transparency on costs and Post Office Ltd has, within these constraints, provided information about the average level of savings achieved from post office closures under the Network Change Programme and, on a confidential basis, to share with MPs the annual savings to be achieved from individual offices proposed for closure in their constituencies.

## Closure Decisions

**We understand why the Government is reluctant to become directly involved in decisions on the closure of particular offices. Closure proposals rest on a great deal of detailed local and commercial knowledge, which central Government cannot replicate.**

**Nonetheless, it is not satisfactory that Royal Mail Group is left to be the sole arbiter of the network. (Paragraph 28)**

13. We welcome the Committee's acceptance that Ministers do not have a role in deciding individual closures. We note the Committee's view on the review process involving Postwatch and Post Office Ltd but understand that, to date, there have been only 2 cases referred to the Chairman of Royal Mail Group for a final decision at the fourth and final stage of the review process. In one case (Micklegate, York) his decision was that the closure should not proceed; in the other, the Chairman modified the proposal for Podsmead, Gloucester by deciding that the closure should be mitigated by establishing an outreach service. All other cases referred for review by Postwatch have been resolved bilaterally at earlier stages in the process. To date, 59 closure proposals have been withdrawn in the light of public consultation responses and the review process.

## The statutory framework

**We would be concerned if regulators and consumer bodies were not using their powers to the full. We are likely to return to this in the autumn. (Paragraph 35)**

14. We note the Committee's comments and the likely further consideration they propose to give to this matter later in the year. We understand that Postwatch has confirmed that it would use its statutory powers, if necessary.

## Wider responsibility

**There appears to be little or no co-ordination between regulators, between regulators and Government, or between government departments about the social effects of withdrawing payment services from the post office network. Given the grounds on which state aid was granted, and the current tender for the new Post Office Card Account, the loss of which could devastate the network, we believe this needs further consideration. (Paragraph 36)**

15. The Committee's comments are noted but, as its report recognises, there is a growing trend for consumers to be given a choice in how they access Government services. These channels are proving highly popular. It is also a legal requirement that Government and other public sector bodies and authorities put all contracts out to competitive tender in accordance with public procurement law. They cannot simply award contracts to Post Office Ltd.

## The reviews

**We do not think it is reasonable or prudent to conduct reviews of mail services without looking at the relationship between Royal Mail Group and Post Office Ltd. Given the lack of clarity about the finances of the network, and the apparent disjunction between the Government's desire for a network of 11,500 offices, and Post Office Ltd's much more nuanced response, we recommend that Postcomm and the Postal Services Review include a thorough examination of Post Office Ltd as part of their work. There should be as much clarity as possible about the operational and financial relationship between the post office network and the universal service provider, and about the potential**

**effects of changes in postal services on the post office network. We intend to examine output from those reviews in the autumn. One thing is clear—history has given us a network which remains among the largest in Europe. The Government and the European Commission accept the network provides a valuable service: all Government departments should bear that in mind when they consider how to provide their services. (Paragraph 39)**

16. The Government agrees that it is important and relevant for both Postcomm and the independent Panel reviewing the postal market to look at the relationship between Royal Mail Group and Post Office Limited. The post office network plays a crucial role in the postal market providing access to postal services including the provision and maintenance of the universal postal service. This is Postcomm's primary duty and at the heart of the Review.

29 September 2008

Government reply to Business and Enterprise Committee's report '*Post Office finance: matters arising from the evidence taken on 10 June 2008*' Tenth Report of Session 2007–08 published on 25 July 2008

## Introduction

1. The Government welcomes the Committee's further report on its inquiry into the Network Change Programme following the hearing held on 10 June. While the Committee's two recommendations are not directed towards Government both issues are central to our objective of a sustainable, national network with reasonable access to post office products and services.

## Responses to conclusions and recommendations

2. The Government's responses to the Committee's conclusions and recommendations are set out below.

## Financial Transparency

**We repeat our earlier conclusion that it is neither reasonable nor prudent to conduct the reviews of mail services without considering the relationship between Royal Mail Group and Post Office Ltd and urge those currently conducting reviews to take this fully into account. Moreover, Royal Mail Group and Post Office Ltd should provide clear information on: what services Royal Mail Group expects Post Office Ltd to deliver for it; how Royal Mail Group determines the price it pays for these services; and how much it actually currently costs Post Office Ltd to deliver them. (Paragraph 4)**

3. The Government notes the Committee's call for greater transparency. While the Government understands the Committee's concerns, a balance needs to be struck to protect the Post Office's ability to operate in a competitive market. We will consider whether any further steps are necessary to address the Committee's concerns in the autumn, taking into account any relevant recommendations from the Hooper review of the postal services sector.

## Outreach

**We remain concerned that the funding provided for Outreach services may be inadequate. If this is the case, Outreach services will fail and the network will be diminished. We note that the adequacy of Outreach funding has been raised by witnesses from several different parts of the country. However, we are not the appropriate body to look at the detailed financial arrangements for outreach, which will involve many different contracts. A significant amount of public funding is provided to sustain the network; we need to be confident the public receives the services this is meant to secure. We recommend that the National Audit Office investigate the financial arrangements for Outreach services. (Paragraph 9)**

4. The Government notes the Committee's concerns about the viability of the business model for Outreach services. Outreach is a key element of Post Office Ltd's overall programme to put the post office network on a sustainable footing and to ensure that there

is reasonable access to post offices services across the country. We agree that it is important, therefore, that the business model for Outreach is robust.

5. The Government also notes that the Outreach models are not new. The four models have been in development by Post Office Ltd since 2004. In particular, Post Office Ltd piloted outreach at 73 locations in 2005. The results of the pilots were reviewed and assessed in the Rural Pilot Activity report (available at: <http://www.news.royalmailgroup.com/news/Rural%20Report.pdf>)

Using these and similar models, Post Office Ltd was already providing services at over 400 locations before the start of the Network Change Programme.

6. We understand that the National Audit Office will consider the financial arrangements for the Outreach model as part of its current value for money investigation into the Post Office Network Change Programme. We look forward to receiving their report in due course.

24 September 2008











