House of Commons
Scottish Affairs Committee

Postal Services in Scotland

First Report of Session 2010–11


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The Scottish Affairs Committee

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Summary

The Government published the Postal Services Bill 2010–11 on 13 October 2010. The Bill received its second reading on 27 October and the proceedings in Public Bill Committee concluded on 9 December. The remaining stages of the Bill in the Commons will be taken on the floor of the House on Wednesday 12 January 2011. We launched our inquiry into Postal Services in Scotland on 28 October 2010. The purpose of our inquiry was not to comment on the broad parameters of the Bill, but to consider the potential impact and consequences of the provisions in the Bill for postal services in Scotland.

Postal services and the postal network are the life blood of many rural, remote and island communities throughout Scotland. There are 1,446 Post Offices in Scotland (12% of the UK wide network), making the Post Office Limited Scotland’s largest retail chain. 70% of Post Office branches are located in rural areas, and 171 branches are in the 20% most deprived wards in Scotland. Many rural branches are not financially viable, and receive a subsidy from other parts of the network. Despite a proposed increase in funding for the network during the Comprehensive Spending Review 2010 period, the Post Office network in Scotland is in a precarious position. Many Post Offices in Scotland remain vulnerable to closure and customers face the threat of a demise in the provision of postal services. It is not clear at present how the Bill will protect consumers in deprived urban, rural and remote areas of Scotland.

This Report makes a series of recommendations based on two key issues: (i) the maintenance of a universal service and, (ii) the continuation of a sustainable Post Office network across Scotland. We welcome the Ministers assurances in relation to the protections in the Bill for the Universal Service Obligation (USO). The Minister assured us that the Bill would not allow Scotland to be made exempt, as a geographic exemption, from the USO. We also recommend that further clarification is needed in relation to clause 34, which, the Minister assures us, would only allow for more than one universal service provider in the most extreme of circumstances. We support a long and robust Inter Business Agreement between the Post Office Limited and the Royal Mail in the provision of a universal service. In undertaking its review of the level of universal service, we recommend that the Bill should include a requirement for Ofcom to consult with consumers, small business and vulnerable users in remote, rural and island communities in Scotland. We also recommend that Royal Mail are enabled to negotiate sustainable terms for last mile delivery of private mail and parcels.

In terms of ensuring a sustainable Post Office network, we are concerned that the Bill neither makes provision for the number of Post Offices nor sets out the access criteria. This is of particular concern given that the Government could meet the access criteria with a network of 7,500 rather than the existing 11,500 branches — thereby presenting a potential threat to some branches in Scotland. We express concern that elements of Outreach services are not sufficiently robust or reliable to provide an adequate service, and fear the new Post Office Local risks downgrading the service further. We welcome the Government’s commitment to the provision of both government and financial services though the Post Office as a key measure to safeguard the network and create a
reliable revenue stream for the Post Office. We are concerned that there appears to be a lack of joined up thinking across Government departments in this respect and recommend a number of practical steps that the Government must take as a matter of urgency to ensure the effective delivery of this policy.
1 Introduction

1. The coalition Government published the Postal Services Bill 2010–11 on 13 October 2010. The Bill received its second reading on 27 October and the proceedings in Public Bill Committee concluded on 9 December. The remaining stages of the Bill in the Commons will be taken on the floor of the House on Wednesday 12 January 2011.

2. We launched our inquiry into Postal Services in Scotland on 28 October 2010, with a view to publishing our Report before the Bill completes its passage through the House. The purpose of our inquiry is to consider the potential impact and consequences of the provisions in the Bill on postal services in Scotland. We are particularly concerned with two key issues: (i) the maintenance of a universal service and; (ii) the continuation of a sustainable Post Office network across Scotland, as it has “a critical role to play in supporting sustainable communities in Scotland”.1 The purpose of our inquiry is not to comment on the broad parameters of the Bill. The major issues of privatisation and the pension deficit, for example, are UK wide issues, and the merits and pitfalls of these proposals have been considered widely elsewhere.

3. Scotland has a third of the landmass of the United Kingdom, but less than 9% of its population.2 Scotland is large and overwhelmingly rural. Some of the issues highlighted in this Report would apply to other parts of the United Kingdom, in particular to rural and remote communities. However, much of Scotland is remote, difficult to access and, importantly, not on a transport route to somewhere else—in particular the Highlands and Islands. These factors complicate the provision of postal services in Scotland and the provisions in the Bill may therefore have specific and far reaching consequences for Scotland. In this Report, we highlight some of those issues, and, where possible, make recommendations as to how the Bill could be changed, or future action be taken, to safeguard the provision of a universal service and maintain a sustainable Post Office network throughout Scotland.

4. We took oral evidence from: Consumer Focus Scotland and the National Federation of SubPostmasters; from Mutuo; the Communication Workers Union and Unite; from Post Office Limited and the Royal Mail Group; Postcomm; Ofcom and from Edward Davey MP, Parliamentary Under-Secretary of State, Department of Business, Innovation and Skills.

5. We travelled to Oban, in Argyll, on 6 December, where we visited the local delivery office which serves the north Argyll coast and several of the islands of the Inner Hebrides, and met with local postal service users. We also visited Dalmally Post Office, a rural Post Office/pharmacy that also acts as a base for ‘Outreach’ services in the area.3 In Glasgow we met representatives of Scottish Enterprise and the Federation of Small Businesses, and visited the Glasgow Mail Centre and Pollok Post Office — the latter being the first joint Post Office and Credit Union in the UK. We are very grateful to all of those who helped

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1 Written evidence from Consumer Focus Scotland
3 We unfortunately had to cancel our visit to Furnace Post Office because of snow.
with our inquiry, both through giving oral and written evidence, and in giving their time to meet informally with us, particularly given the very tight timeframe within which our inquiry was conducted.

6. Our Report is divided into three main sections: First, we briefly outline the background and content of the Postal Service Bill 2010–11 and outline the Comprehensive Spending Review 2010 (CSR) settlement for the Post Office network. In the second section, we examine the key provisions in the Bill and their potential impact on postal services in Scotland. We focus specifically on the provisions relating to the Universal Service Obligation (USO) and the separation of the Royal Mail Group (RMG) and the Post Office Limited (POL). In the third section we discuss in more detail the Post Office network and the provision of postal service in Scotland. We consider the steps required to ensure the continued provision of a sustainable network which meets the needs of consumers and small businesses alike.
2 Background

The Post Office in Scotland

7. There are 1,446 Post Offices in Scotland (12% of the UK wide network), making the Post Office Limited Scotland’s largest retail chain. 70% of Post Office branches are located in rural areas, and 171 branches are in the 20% most deprived wards in Scotland. A higher proportion of Post Offices in Scotland are rural than in the UK as a whole, where only 55% of Post Offices are located in rural areas.4 Since 2000, two separate programmes of closures resulted in a 28% reduction to the size of the network in Scotland. Despite this, it still “far exceeds” other networks such as the Royal Bank of Scotland (with around 320 branches).5 The National Federation of SubPostmasters (NFSP) noted that the strength of the Post Office lies in its depth and reach — it remains bigger than all the bank and building society branches together.6

8. This reduction in the size of the network has occurred alongside a reduction in the volume of mail. The Royal Mail Group (RMG) noted that a decline in the market, along with increased use of email and texting by large mailers, means that by 2015 Royal Mail’s end–to–end delivery volumes are forecast to have shrunk by 75% in just over a decade.7 However, the Communication Workers Union (CWU) claimed that while mail volumes have “fallen steadily since 2005”,8 46% of customers in Scotland state that the amount of mail they receive is increasing (compared to 35% of consumers in England), and that the balance of mail volumes is shifting, with parcel and packet volumes growing and forecast to continue increasing in the coming years.9 Consumer Focus Scotland (CFS) research indicates that 49% of consumers in Scotland send mail every week, with the same proportion of consumers visiting Post Offices at least once a week.10 It is, they argue, “important to recognise the continuing strong demand for postal services in Scotland”.11

9. The National Federation of SubPostmasters (NFSP) reported that Post Office use is highest amongst people living in rural areas — 58% of those living in accessible rural areas and 67% in remote rural areas visit a Post Office once a week or more. Postal Services in Scotland are “highly valued” by both business and consumers.12 CFS found that 80% of consumers in Scotland feel the Post Office plays an important role in their local community,13 and argued that Post Offices have a critical role to play in “supporting

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4 Scottish Government, The Scottish Government Urban/Rural Classification 2009-10, August 2010
5 Written evidence from the Communication Workers Union
6 Written evidence from the National Federation of SubPostmasters
7 Written evidence from Royal Mail Group
8 Consumer Focus Scotland note that the number of letters sent fell by 7.3% in 2008-09.
9 In its evidence to the BIS Select Committee Report into Post Offices in 2009, Postcomm reported that Royal Mail was forecasting packet volumes to grow by around 25% from 2007 to 2017.
10 Consumer Focus, June 2010, Scottish Postal Services: Consumer Survey 2010
11 Written evidence from Communication Workers Union
12 Ibid.
13 Consumer Focus, June 2010, Scottish Postal Services: Consumer Survey 2010
sustainable communities in Scotland’s remote and rural areas, and in its deprived urban communities”. They said:

While Post Offices fulfil this role in many areas across the UK, the remoteness of many rural locations, and the nature and concentration of urban deprivation in areas of the Central Belt and elsewhere, makes the viability of the Post Office network of particular importance to consumers in Scotland.14

The necessity for legislation: the Hooper Review

10. Successive governments have acknowledged the importance of the Royal Mail and the Post Office network to communities across the UK, and have made a series of attempts to reform and modernise the service. In December 2007, the previous Government commissioned Richard Hooper, former deputy chairman of Ofcom, to undertake an independent review of postal services in the UK. The Review, published in December 2008, identified a lack of investment which had restricted modernisation and inhibited the ability of Royal Mail to compete.15 The Review recommended a package of measures in order to modernise Royal Mail and to sustain the universal service. These were:

- a strategic partnership between RMG and one or more private sector companies with demonstrable experience of transforming a major business and ideally a major network business;
- the transfer of historic pension liabilities from RMG to government to enable the company to reap the benefits of modernisation; and
- a new regulatory regime to place postal regulation within the broader context of the communications market through the transfer of responsibility for regulating the postal services market from Postcomm to Ofcom.16

11. The previous Government proposed legislation to implement these recommendations in the Postal Services Bill 2008–09. However, although passed by the House of Lords, the Bill did not have a second reading in the House of Commons. The reason given for this was that the Government had been unable, because of unfavourable market conditions, to find an appropriate partner for Royal Mail, and that it would return to the issue when conditions changed.17

12. The new Government asked Richard Hooper to update his Review. The update was published in September 2010.18 Hooper identified a further deterioration in postal services in the 18 month interim between his two Reports: the decline in total number of letters being delivered was greater than had been forecast in his 2008 report, and was continuing

14 Written evidence from Consumer Focus Scotland
15 Department for Business, Innovation & Skills, Modernise or Decline: Policies to maintain the universal postal service in the United Kingdom, December 2008. Known as the Hooper Review
16 The House of Commons Library Research paper on the Bill, Postal Services Bill (Bill 78 of 2010-11), RP 10/76
17 Ibid.
18 Department for Business Innovation & Skills, Saving the Royal Mail’s Universal Postal Service in the Digital Age, Cm 7937, September 2010
to decline (with worldwide falls in the next five years expected to be in the region of between 25%–40%). Hooper also identified a reduction in Royal Mail’s share of the market, a condition he attributed to an incomplete modernisation programme and the £8 billion pension deficit. The update recommended:

- a less burdensome regulatory framework;
- a Government takeover of Royal Mail’s £8 billion pension deficit; and
- the injection of private sector capital through a sale or flotation.¹⁹

The Postal Services Bill 2010–11

13. The *Postal Services Bill 2010–11* is based on Hooper’s conclusions and recommendations. The Bill includes several key proposals:

- to enable the sale of shares in Royal Mail to private buyers (up to 90%), with a possible employee share scheme (at least 10%);
- to separate Royal Mail from the Post Office, which will remain in public ownership;
- to transfer Royal Mail’s pension deficit to Government;
- to change the regulatory responsibility from Postcomm to Ofcom; and
- to create an administration that enables the continuation of the universal postal service in the event of a privately owned Royal Mail entering insolvency.²⁰

14. Introducing the Bill, Mr Vince Cable MP, the Secretary of State for Business, Innovation and Skills (BIS), said:

> Royal Mail is in a difficult position — there is no hiding from the facts: mail volumes falling; a multi billion pound pension deficit; less efficiency than its competitors and an urgent need for more capital at a time when there are huge constraints on the public purse [...] This is an important package. It will secure the services that consumers and businesses rely on. It will give employees a stable company to work for, shares in the future of the business and the secure pension they deserve. It will remove the risk to taxpayers of an expensive bail out.²¹

Mr Edward Davey MP, Parliamentary Under Secretary of State, (BIS), emphasised the need for legislation, and told us that last year, Royal Mail had a “cash flow negative position of £500 million [...] its pension deficit is £8.3 billion [...] its core business fell by 7%”. He concluded that Royal Mail is “under–invested. It is inefficient. It needs to change”.²²

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¹⁹ Department for Business Innovation & Skills, “Government publishes Hooper Royal Mail update,” 10 September 2010

²⁰ Postal Services Bill As introduced [Bill 78 (2010/11)]

²¹ Department for Business Innovation & Skill, “Safeguarding the future of Royal Mail and the Post Office”, 13 October 2010

²² Q 328
However, Mr Cable emphasised:

The Post Office is a separate business. It is not for sale and there will be no further programme of closures. We will break the cycle of declining visitor numbers through new ideas and new services to win back customers.  

**The Comprehensive Spending Review and Post Office Funding**

15. The Government further demonstrated its commitment to the Post Office network in the CSR 2010. Last year Post Office Limited (POL) made an operating loss of £80 million before a Government subsidy of £150 million to compensate it for maintaining unprofitable branches. This year POL expects to make an operating loss of around £130 million before subsidy.24 The Chief Executive of POL has stated that only 4,000 branches, from a network of just fewer than 12,000, are currently commercially viable.25 POL’s figures show that less than 23% of rural branches generate over £40,000 per annum in remuneration, compared to 69% of urban and 65% of urban deprived branches.26 Post Office Limited’s financial position is a particular issue for Scotland, given that 70% of branches are in rural areas, where revenues are significantly lower than average.

16. Following the October 2010 Comprehensive Spending Review, the coalition Government has committed £1.34 billion of funding to the Post Office over a four year period. This includes £180 million in 2010–11, and £410 million, £415 million and £330 million in each of the three following financial years to 2015. Almost half (48%) of the funding is earmarked as the ‘network subsidy’ (i.e. £196.8 million in 2011–12, £199.2 million in 2012–13 and £158.4 million in 2014–15). Just over a third (37%) of the funding package is dedicated to modernising the Post Office network. This includes making ‘significant investments’ in about 4,000 main Post Offices based in town and city centres. These would have the “full suite of post office services, including all the mail services, the full suite of Government and financial services and everything the Post Office does”.27 In addition, the Post Office is to convert around 2,000 sub offices to the new ‘Post Office Local’ model.28 Mr Davey told us that this package of investment was put in place to “secure the 11,500 Post Offices”.29 He explained that as part of this funding arrangement, "Post Office Limited has to deliver a Post Office network over the four years of our contract with them that is as least 11,500".30

17. The funding was welcomed by Mr George Thomson, General Secretary of the NFSP who said that this financial commitment “means there is a desire to make sure the Post

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23 Department for Business Innovation & Skills, “Safeguarding the future of Royal Mail and the Post Office”, 13 October 2010
24 Written evidence from the Communication Workers Union
25 Oral evidence before the Postal Services Public Bill Committee, 9 November 2010, Paula Vennells, Chief Executive of Post Office Limited
27 Q 222 [Vennells]
28 Department for Business Innovation & Skills, Securing The Post Office Network In the Digital Age, November 2010
29 Q 373
30 Q 366
Office network has a viable future”. He added that the funding would allow for the restructuring of the network “both by modernising the branches that are there and investing in the infrastructure and physical appearance”.

18. In addition to the coalition Government’s package of funding, many Post Offices in Scotland have also benefitted from the Scottish Government’s Diversification Fund. The Fund of £1 million in 2010/11 has been used to help sustain and develop the small businesses which are built around Post Offices, with a view to improving their financial sustainability. The scheme closed for applications in September and awards of up to £25,000 were made to 49 Post Offices based in Scotland. A range of projects from setting up an internet café to selling local produce, were funded. The NFSP notes that evaluations of other Post Office grant schemes, for example, in Wales, show they have resulted in increases in customer numbers and increased sales turnover.

19. However, despite the increase in funding for the Post Office network, concerns were raised by Members of the House during the second reading debate, that the Bill provides no mechanism to secure the long term future of the Post Office network, in particular the number of Post Offices in non-profitable areas and the consequent ability of the Royal Mail to provide a universal service across the UK – and Scotland in particular. In reality, much of the network in rural Scotland is funded through a subsidy from the more profitable urban network across the UK. In this context, it is not clear how the Bill, or the increase in funding, will protect consumers over the long term, in deprived urban, rural and remote areas of Scotland.

20. We welcome the coalition Government’s commitment to the continued provision of postal services and the future of the Post Office network as signified in the Postal Services Bill 2010–11 and in the Comprehensive Spending Review 2010. We particularly welcome the financial commitment to the Post Office of £1.34 billion over the four years of the Comprehensive Spending Review period, and the fact that this package of funding is designed to secure the network of Post Offices across the UK at its current level (11,500). Nevertheless, the network in Scotland is in a precarious position financially, with rural branches typically being less well remunerated and less economically viable — thereby many Post Offices in Scotland remain vulnerable to closure and customers face the threat of a demise in the provision of postal services. We recommend that the Government take note of the position of large parts of the network in Scotland, as highlighted in this Report, and take the appropriate measures required to secure a viable and sustainable network, equipped to deliver a range of postal services in Scotland.
Universal Postal Service

Universal Service Obligation

21. The Universal Service Obligation (USO) sets the minimum standards of service that Royal Mail must keep. It has been described by Billy Hayes, General Secretary (Postal) of the Communication Workers Union (CWU), as the "glue that binds the nation together". The USO means:

- that customers pay the same price regardless of where they are sending a letter to within the UK; and
- that Royal Mail have to be able to collect and deliver mail once every working day to every address in the UK.

22. Ian McKay, Director of Scottish Affairs, Royal Mail Group, said the USO was of fundamental importance:

As far as the USO and its importance to the group and to Scotland are concerned, the USO operates right across the UK. The great advantage of the USO is that it evens out in that way the demographics, geography and other natural things which are there giving an organisation such as ours difficulties [...] From our point of view, the USO is absolutely central to what we do presently [...] The USO is the absolute base rock for everything else that we do. It is through the USO that our network is able to function and to provide a service, not just in Scotland, but generally.

23. CFS told us that, at present, Scottish Consumers receive a broadly similar level of postal services to elsewhere in the UK. Royal Mail’s licence requires the next day delivery of 93% of first class mail, and 91.5% in each postcode area. This requirement applies to 13 of Scotland’s 16 postcode areas, the exceptions being ZE (Shetland) KW (Orkney), and HS (Western Isles). In certain exceptional circumstances, Postcomm exempts Royal Mail from making daily deliveries to a property — for example, because the address is difficult to access, or because of a health and safety risk to Royal Mail staff. Around half of these exceptions are in Scotland (1,400).

The Bill

24. The Postal Services Bill will implement EU Directive 2008/6/EC which provides that EU Member States must ensure the provision of the universal service is guaranteed and must include certain minimum requirements. These requirements include:

- one collection from appropriate access points every working day;

36  Q 112
37  Q 183
38  Q 280
Postal Services in Scotland

• one delivery to all addresses every working day;
• to include postal items and packages up to 20 kilograms; plus
• a service for registered items and insured items.\(^{40}\)

25. Clauses 28 to 45 of the Bill cover the provision of the universal postal service. Clause 30 sets out the services that must, as a minimum, be included in a universal postal service.\(^{41}\) Mr Davey told us that the EU Postal Directive requirement to deliver five days a week, is “significantly less than we have in clause 30” of the Bill which “sets out in the law minimum requirements that the UK Government have decided”.\(^{42}\) By designating Saturday as a working day, a six day a week collection and delivery is provided in the UK. He said that the coalition Government (like the previous Government) had therefore “gold-plated the European Directive”.\(^{43}\)

26. Mr Davey explained that, in addition to the EU Directive and the minimum set out in the Bill, there is also a Universal Postal Service Order.\(^{44}\) The order mirrors the current framework from the Postal Services Act 2000, under which the Royal Mail is designated as the universal service provider. Mr Davey pointed out that these three separate tiers of provision in the Bill strengthen the protection of the USO. He said: “to change the postal directive, there would have to be a new postal directive in Europe; and to change the minimum service requirements set out in clause 30 there would have to be measures in Parliament”.\(^{45}\) The Chair asked: “you can understand our anxieties, which reflect those of people who have been to see us. If I may, I will run through some of those things, just to be absolutely clear. To change from collecting letters six days a week, with one price for everywhere, the clause specifies that the matter has to come back to Parliament and has to be the subject of an order that is voted upon in both Houses, so there is no way of slipping out of that”. The Minister answered “yes”.\(^{46}\)

27. The Minister further explained:

Clause 33, entitled “Review of minimum requirements”, basically sets out three safeguards. The first is that Ofcom would have to do a review of users’ needs and make recommendations. The Secretary of State would have to accept those recommendations and decide that he wants to change the minimum service requirements. The Secretary of State would then have to come to Parliament with an order, which would have to be agreed by both Houses. But that order, if a Secretary of State were so minded after an Ofcom review, would not be allowed to change the uniformity of price and service. So unless there was another Act of Parliament, under

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\(^{40}\) <www.consumerfocus.org.uk/policy-research/post/background-briefings/universal-postal-service>

\(^{41}\) Postal Services Bill Clause 30 [Bill 120 (2010/11) As Amended in Public Bill Committee]

\(^{42}\) Q 320

\(^{43}\) Q 320

\(^{44}\) Postal Services Bill Clause 29 [Bill 120 (2010/11) As Amended in Public Bill Committee]

\(^{45}\) Q 320

\(^{46}\) Q 222
clause 33, even if an order was made, which I don’t think is likely, it couldn’t change the universal service in respect of the uniformity of price and service.\(^{47}\)

28. Part Three of the Postal Services Bill provides for the transfer of Postcomm’s regulatory responsibility for the postal sector and its staff to Ofcom. The Bill requires Ofcom to carry out its postal services functions in a way that it considers will secure the provision of a universal postal service. In doing so, Ofcom will be required to have regard to the need for the universal postal service to be financially sustainable and efficient.\(^{48}\)

29. Mr Douglas White, Senior Policy Advocate, Consumer Focus Scotland, told us that the Bill “recognises some key and very important components of the Universal Service Obligation: the need for collection and delivery of mail six days a week and the uniform tariff across the United Kingdom, which is clearly extremely important for consumers in Scotland”.\(^{49}\) However, CFS noted that “adequate safeguards needs to be in place to protect the provision of the USO and, more generally, the consumer interest,” and registered “serious concerns” over the range of clauses contained in the Bill that “provide opportunities to reduce the scope of the USO”.\(^{50}\) Mr Billy Hayes, General Secretary (Postal) CWU, considered that there are “15 clauses in the Bill that undermine the USO”.\(^{51}\)

30. These concerns were shared by the Federation of Small Businesses (FSB), who stated that the Bill was “not clear” about what defines the universal postal service, and that there appeared to be “several clauses which allow for a withdrawal of what is currently understood to define the universal service”. They expressed concern that “any step back from current expectations would further disadvantage small businesses, especially in rural and remote areas where geographical location, population and other factors already exert pressures”.\(^{52}\) The CWU warned that each possible reduction to the USO puts mail services in Scotland at particular risk.\(^{53}\)

**The ‘break-up’ of the USO?**

31. Royal Mail Group has argued that the current regulatory regime grants unfair advantage to its competitors who are unburdened by the universal service obligation.\(^{54}\) They predict that the cost of providing the USO is likely to increase as mail volumes decline as these lower volumes are not matched by falling costs. They noted:

Royal Mail believes that unrestricted competition undermines the ability for it to provide a viable universal service. This is particularly the case where cherry picking

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\(^{47}\) Q 321  
\(^{48}\) In addition the Bill will replace the existing licensing regime for providers of postal services with a general authorisation system, subject to regulatory conditions imposed by Ofcom, as already applies to communications providers. The responsibilities being transferred are entirely related to the regulation of letters, parcels and packets. The Post Office network will not fall within Ofcom’s remit. Responsibility for Postcomm’s annual advisory report to the Secretary of State will be transferred to Post Office Limited  
\(^{49}\) Q 3  
\(^{50}\) Written evidence from Consumer Focus Scotland  
\(^{51}\) Q 170  
\(^{52}\) Written evidence from the Federation of Small Businesses  
\(^{53}\) Written evidence from the Communication Workers Union  
\(^{54}\) “Royal Mail in regulation plea over sell off” The Financial Times, 24 October, 2010
by Royal Mail competitors would leave the universal service provider with a significant amount of unprofitable business. In short, Royal Mail needs a clear regulatory direction that provides confidence to stakeholders regarding the viability of the universal service and the future of the business.55

32. The CWU fear that a privately owned Royal Mail will necessarily seek to reduce the scope of the USO in line with its commercial interests; a trend which has been seen in the Netherlands where, a year after full liberalisation of the mail market took place, the private USO provider labelled the obligation “a kind of Jurassic Park [which] we should get rid of”,56 because they had wanted “to move away from mail services being provided as one delivery, one collection, five days a week, as set out in the European directive”.57

Exceptional Conditions?

33. In referring to clause 32(2)(b) of the Bill, Mr John Brown, Regional Secretary (Postal) CWU, said that: “Ofcom can waive the requirement for the universal service obligation if there are “geographical or other” operational conditions that it deems to be exceptional, and that Scotland could be deemed to be “exceptional, therefore universal service could be reduced”.58 The FSB also noted a concern in relation to “efficiency and financial sustainability”. They argue that this suggests that were it less efficient and less financially viable to provide a service to a particularly remote area, the service might be suspended, thereby negating its ‘universality’.59

34. Subsection 32(2)(b) of the Bill allows Ofcom to exempt Royal Mail from making daily deliveries to a property in certain exceptional circumstances, for example because the address is difficult to access or because of a health and safety risk to Royal Mail staff. Under current similar provisions, 1,400 of these exceptions are in Scotland.60 The Minster argued: "It is not some sort of get–out clause; it is for exceptions only for health and safety, geography and weather".61 Mr Tim Brown, Chief Executive, Postcomm, told us that these exemptions account for only 0.01% of all deliveries and only six complaints had been received in seven years.62 Mr Jonathan Thompson, Director of Strategy, Ofcom, told the Committee “our approach will be consistent with how Postcomm has applied it to date”.63

35. We presented these concerns to the Minister—particularly in relation to clause 32 (2)(b) which refers to waiving the requirements of the USO if it considers “geographical or other conditions to be exceptional”. We sought assurances that this provision was neither intended for, nor would ever be applied to, a whole area of the country—either for geographical reasons or, particularly, for economic reasons. Mr Davey gave “total

55 Written evidence from the Royal Mail Group
56 Written evidence from the Communication Workers Union
57 Q 112
58 Q 127
59 Written evidence from the Federation of Small Businesses
60 Q 280
61 Q 323
62 Q 280 and Q 281
63 Ibid.
assurances” that this would not be the case and that this was not “some kind of get-out clause”. 64

‘Cherry picking’?

36. Clause 34 provides for Ofcom to designate more than one Universal Service Provider. 65 Mr Dave Ward, Deputy General Secretary (Postal) CWU, expressed a concern that the Bill may “lead to the break–up of the USO and of Royal Mail being the sole provider of that”. 66 Mr Brian Scott, Assistant National Secretary, Unite, argued that if Ofcom allowed more than one Universal Service Provider, this could open the door for other companies to go “cherry picking” 67 the most profitable parts of the business. Andrea Henderson, Secretary, Furnace Community Council, Argyll, agreed that private companies “cherry pick” and are not interested in “more remote places which will not be profitable”. 68 CFS pointed out the potential consequences of this: “even if Royal Mail continued to use the Post Office in rural areas only, the ability of the network to cross–subsidise from its profitable urban branches would be lost. The future of many Post Offices, particularly the 981 largely loss–making post offices in rural areas, would therefore be in doubt”. 69 We were particularly struck by comments that the Royal Mail can only provide the USO at present, because the profitable parts of the network subsidise the non–profitable parts of the network. 70

37. However, Ian McKay from Royal Mail claimed:

we are very proud operators of the USO, we wish to continue to operate the USO, we have no plans to change the USO, and we don’t have any wish to see the terms of the USO change [...] I think that someone said [the USO is] the jewel in the crown, and we certainly regard it in that way. It is central to our operation, and it’s central to our future operation too. 71

38. We sought further assurances that the Universal Service would not be broken up and shared amongst a range of providers, thereby allowing companies to “cherry pick” the most profitable part of the network. The Minister again offered his total reassurance that this was not the case, and that the USO would not be broken up. He said: “the core policy objective behind the Bill and our overall policy is to protect the universal postal service to make sure that it is financially viable”. 72 Tim Brown, Chief Executive of Postcomm, explained that the new Bill therefore contains mechanisms to strengthen the potential for the universal service in Scotland if necessary through compensatory arrangements or the use of another provider:

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64 Q 323
65 Postal Services Bill Clause 34(1) [Bill 120 (2010/11) As Amended in Public Bill Committee]
66 Q 126
67 Q 127
68 Written evidence from Andrea Henderson
69 Written evidence from Consumer Focus Scotland
70 Q 202
71 Q 200
72 Q 328
If Royal Mail cannot provide it efficiently or economically, for whatever reason, and cannot make money out of it and therefore requires some form of subsidy or intervention. There are various measures in the Bill, but there is a back-stop, and the third postal services directive allows this. Before, there are three mechanisms: one is compensation from the industry; compensation from the state; and the third option is what’s called a procurement option; that is, you go out and look for someone else to provide it in those circumstances.\textsuperscript{73}

39. The Minister made it clear that in these circumstances, there could be more than one provider—but these provisions were intended as “safety nets” for the USO rather than as threats to it.\textsuperscript{74} He concluded that “the chances of getting to a point where there is more than one universal service provider are very, very limited and very, very unlikely”.\textsuperscript{75} CFS concluded that the “USO appears sustainable for the immediate future”.\textsuperscript{76}

40. The Universal Service Obligation (USO) is the cornerstone of mail and postal services in the UK. The six day a week delivery and collection service, and the universal tariff are fundamental to the future of postal services and the Post Office network in Scotland, and consequently, to ensuring the financial sustainability and viability of many remote and rural communities throughout Scotland. We therefore strongly resist any potential diminution of the USO.

41. We were particularly concerned with two clauses in the Bill. First, clause 32 (2)(b), which allows Ofcom to waive the USO if there are “geographical or other” conditions which it deemed to be “exceptional”. Given its unique geography and the financial position of much of the existing network, we fear this has the potential to allow the regulator to categorise large areas of Scotland as “exceptional”. We note that this wording is the same as the current legislation and welcome the Minister’s assurances and his explanation that this, and other similar clauses in the Bill, do not mean that the USO is no longer applicable to parts of Scotland—either on the grounds of geography or economics. We recommend that clarification be included on the face of the Bill that this clause should only ever be applied to a very small number of addresses, similar in order to the current number.

42. Clause 34 allows Ofcom to designate more than one universal service provider. If this clause were used to allow the cherry picking of the most profitable parts of the network, this would impact the USO and be detrimental for Scotland. We welcome the Minister’s assurance that this is not the Government’s intention. We welcome the safeguards in the Bill which protect the USO, and which provide for more than one USO provider only in the most extreme circumstances, e.g. the bankruptcy of the existing USO provider. However, we recommend that the Government provide further clarity to that effect during the passage of the Bill.

\textsuperscript{73} Q 287 and Q 293
\textsuperscript{74} Q 328
\textsuperscript{75} Q 328
\textsuperscript{76} Written evidence from Consumer Focus Scotland
**Ofcom Review**

43. The *Postal Service Bill* requires Ofcom to review the minimum requirements of the universal service obligation within eighteen months, a point of concern for some witnesses such as the CWU, who warned such a review could lead to the erosion of the universal service.\(^77\) Jonathan Thompson said that Ofcom’s role would be only to review the universal service and make recommendations to the Secretary of State, while “any decision beyond that to reduce the USO is ultimately a decision for Parliament and not for the regulator”.\(^78\)

44. The FSB expressed concerns in relation to Ofcom’s duty to carry out its functions in such a way that it considers “will meet the needs of users of the universal postal service”.\(^79\) The wording of the clause leaves Ofcom to decide what consumers should want or need. The FSB believes that Ofcom should be required to consult business customers—particularly small businesses—to determine what constitutes reasonable needs of users. CFS would also like to see the Bill require Ofcom to consult with representatives of residential and SME customers, especially vulnerable customers, when conducting such a review. In undertaking such a review, the needs of rural users require particular attention, because the introduction of zonal pricing tariffs, reducing the number of days when mail is delivered or collected, or loosening the criteria through which Royal Mail could exempt properties from receiving daily deliveries of mail would “each hit rural Scotland disproportionately hard”.\(^80\)

45. However, we also note the need for flexibility in this respect. The residents of the Isle of Mull told us that they would rather receive 80% of their post early in the day, and receive the remaining 20% the following day, as this would result in an earlier delivery time for the post. However, the regulator does not allow the Royal Mail to do this. If exceptions are at the request of local residents, the regulatory framework should be sufficiently flexible to meet the needs of customers.

46. **We note the importance of Ofcom in providing safeguards to the USO, but are concerned about the Bill’s requirement for Ofcom to review the minimum requirements for the USO within 18 months. We fear this may be seen as an opportunity to decrease the requirements of the USO. While we appreciate the need to review the service, as customer needs may change, we recommend that further safeguards be put in place to guarantee that the needs of customers and small businesses who live and work in remote, rural or island communities, are met. Any change to the USO would have a disproportionate impact on these communities. We recommend that Ofcom not merely consult with stakeholders, but undertake assessments of the social and economic impact of proposed changes before making any recommendations. We recommend that the Bill include a requirement for Ofcom to consult with representatives of key groups in these communities, including residential, small business and vulnerable users, before they make any recommendations to change the existing USO.**

\(^77\) Q 171
\(^78\) Q 266
\(^79\) Written evidence from the Federation of Small Businesses
\(^80\) Ibid.
Access to the network

47. The network that Royal Mail manage is far bigger than any of its competitors. When Postcomm allowed competitors access to the downstream market, it allowed companies such as TNT and Business Post to cherry-pick large volumes of bulk mail, such as circulars from supermarkets or statements from banks, and put them into the Royal Mail network. We heard evidence that the price Royal Mail charges for the access to its network is too low, but that Royal Mail was unable to determine the price. The CWU said the price was negotiated by the then Chief Executive, Adam Crozier, at a rate he thought profitable rather than one he feared Postcomm would impose upon Royal Mail. Royal Mail was now in the position where it delivered the competition’s mail at a loss.81 We asked Royal Mail whether there was anything they could do about this. Mr McKay told us:

If someone is coming into the market and only taking bulk orders from a big mailer and then passing them to us for the final delivery, which is by and large what happens—in fact, it happens in something like 60% of all bulk mail; that is where we now are—the regulator establishes the price of that transaction.82 [...] The difficulty we have is that the price that was established actually ended up with our losing something like 2½p on every item. When I say to you that that is 60% of all the bulk mail and 40% of all addressed mail in the whole system, it means that it costs us something like £160 million a year.83

The CWU said that if the competition wants to use the network, then Royal Mail should be allowed to negotiate freely with it.84 Tim Brown, Chief Executive of the current Regulator Postcomm told us:

We also announced at the beginning of last month a decision, supported by Royal Mail, to increase the price of access to a level which is closer to cost [...] Royal Mail has made a proposal to us, and we go out to consult on what customers’ views are and so on, but we have what we call a mind to accept that decision [...] So, it is actually beginning to turn the playing field back towards Royal Mail. One reason that it is now and not earlier is that we have actually had two Hooper reviews, two Bills and an election, and that has really slowed things down. As of April 2010, we should have had a new regulatory framework, so there has been some delay. We recognise that the regulatory framework we have now is not appropriate for the marketplace we have now, which is why we are very keen to change it, and why the way that things are transferred to Ofcom is very important in order to make sure that that doesn’t stop.85

48. Private firms are making profit off the work of Royal Mail and the Post Office network in parts of the county that are unprofitable. If Royal Mail is going to provide this service at a loss in the unprofitable and difficult parts of Scotland, they should be
able to charge the private companies a higher price. Royal Mail need to be able to negotiate sustainable terms for last mile delivery of private mail and parcels.

Separation of Royal Mail and the Post Office

49. Currently, Post Office Limited and Royal Mail are both part of Royal Mail Group, which is owned by the Government. The Bill proposes to separate the Royal Mail (which provides the postal service) from the Post Office (which provides the Post Office network). Royal Mail will be sold to private buyers to up to 90% of its shares with a possible employee share scheme of at least 10%; the Post Office will remain in Government ownership but with the possibility of a move to a mutual ownership structure by the end of the current Parliament. The National Federation of SubPostmasters (NFSP) identified this as the issue within the Bill “of most significance to the Post Office network, and of most concern to the NFSP”.86 The NFSP pointed out that “there is no known international precedent for separating a mail company from its retail arm”.87 Ian McKay, Director Royal Mail Scotland, said:

To make it very clear, think of the range that we need to deliver the USO. It’s 28 million addresses everywhere, up hill and down dale. To do that and to service that, we need a network of a size to be able to do so. The Post Office Network is bigger than all the supermarket branches put together; it is bigger than all the banks and all the building societies put together. Here in our most natural of partners, we have the most natural of partners for that, too. That is why, from our point of view, it is literally an unthinkable separation.88

While it might seem unthinkable to some that Royal Mail ceases to use the Post Office network, there is absolutely nothing in the legislation to prevent the unthinkable from coming to pass, with significant adverse implications for rural Scotland.

The Inter Business Agreement (IBA)

50. The Inter Business Agreement (IBA) is the contract through which Royal Mail uses the Post Office network as the access point to its mail services. This contract accounts for one third of Post Office Limited’s turnover, some £343 million of its revenue in 2009–10, and one third of SubPostmasters’ pay (which the NFSP estimates at £240m in 2009/10). Of this, around 60% is variable income based on the levels of transactions undertaken, while 40% is fixed income, based on Post Offices providing bricks and mortar access points for the public to use postal services. The CWU pointed out that Royal Mail business and mail account for just under 37% of turnover and generate around 50% of business conducted in Post Office branches. They argued that if the Royal Mail were to be privatised, subsequent contracts would require a competitive tender process “with no guarantee that Post Office would retain the contract”.89

86 Written evidence from the National Federation of SubPostmasters
87 Ibid.
88 Q 236
89 Written evidence from the Communication Workers Union
51. In their written evidence to the Committee, the NFSP registered their concern about the Government’s proposal to separate Post Office Limited from Royal Mail because they feared that “this unprecedented separation” may “adversely impact on the Post Office network”. The CWU agree and wrote that “the proposed separation of the Post Office from Royal Mail fundamentally threatens the future of the Post Office network. The survival of the Post Office, in anything like its current state, is dependent on its relationship with Royal Mail”. It further highlighted that the rural branch network is likely to be at “particular risk” should the relationship with Royal Mail weaken.

52. The NFSP have therefore called for a minimum 10 year IBA which would guarantee that Post Office Limited (POL) will continue to act as Royal Mail’s exclusive retail outlet: and that customers could continue to access Royal Mail services at Post Offices. They added that this would “allow time to stabilise the network” and, if necessary, to “seek alternative revenue streams to ensure both POL and the network are less reliant on Royal Mail income”. Mr Scott, Assistant National Secretary, Unite, also said that an 8–10 year plan would “give a degree of certainty” and “allow people to get on with providing a service”, while Mr Ward queried whether Royal Mail would be willing to make the necessary investment if they were unsure the IBA would extend beyond 10 years.

53. We found broad consensus that a long and robust IBA between the Post Office Limited and the Royal Mail is the most desired outcome. Donald Brydon, Chairman of Royal Mail Group, told the Public Bill Committee that, when Royal Mail comes to be sold, the agreement between the Post Office and Royal Mail will be enshrined in the prospectus. He also pointed out that RMG, POL and NFSP “all want that agreement to be as long as is legally possible”. However, Mr Thomson, NFSP, said that trying to get an agreement signed was “like wading through treacle”.

54. The NFSP reported to us suggestions that a 10 year contract would breach EU or UK procurement or competition law. They said that, based on the legal advice they had received, any such suggestion was “erroneous”. They continued, “we believe that this is more a question of political will on the part of ministers to permit this”. Mr Davey told us that while the IBA was a commercial arrangement between the Royal Mail and Post Office Limited, the coalition Government were “putting nothing in the way” of such an agreement.

55. Some witnesses commented that there should be provision in the legislation for an agreement between the POL and RMG. However, rather than having this “enshrined in legislation,” Mr Mervyn Jones, Commercial Director, NFSP, said that the Post Office

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90 Written evidence from the National Federation of SubPostmasters
91 Written evidence from the Communication Workers Union
92 Written evidence from the National Federation of SubPostmasters
93 Q 117
94 Ibid.
95 Oral evidence before the Public Bill Committee, 9 November 2010, Q 49 [Brydon]
96 Q 52
97 Written evidence from the National Federation of SubPostmasters
98 Q 385
network should be “made as attractive as possible”, so that, as Mr George Thomson, General Secretary, NFSP, said, it is a “no–brainer” that the Royal Mail will use the Post Office network in the future.\footnote{99}

56. The separation of Royal Mail Group and Post Office Limited, and the future ownership of both organisations has been the subject of much political debate. Regardless of the ownership of Royal Mail, we see considerable advantages to a long, stable and robust relationship between Royal Mail Group and Post Office Limited, not least to facilitate proper business and financial planning. We recognise that the Inter Business Agreement (IBA) is a commercial agreement and we welcome the Minister’s commitment not to put anything in the way of such an agreement. However, we recommend the Government take a more proactive approach to facilitating a long and robust IBA, through removing any obstacles: practical, legal or otherwise that may exist. Ideally, a ten year agreement should be reached prior to any sale of Royal Mail. We understand that this may affect the marketability of Royal Mail, but it is essential to the sustainability of postal services in Scotland. It is in everyone’s interest, not least that of the consumers, that such an agreement is reached as soon as possible.
4 A Sustainable Post Office Network?

The Network in Scotland

57. The NFSP highlighted the key role of the Post Office in rural, remote and urban deprived communities in Scotland. First, they noted the important social role of the Post Office, in offering regular and reliable contact with every household, including with vulnerable people. The NFSB suggested that Post Offices are used most by the more vulnerable members of society, for example, 63% of people over 65, and 63% of disabled people in Scotland, visit a Post Office once a week or more often. People on low incomes are also frequent users—54% in socioeconomic group ‘DE’ visit a Post Office at least once a week, as do 61% of those with incomes of less than £15,000 a year.

58. Furthermore, CFS noted that broadband penetration in Scotland is less well developed than elsewhere in the UK, and consequently there is a greater reliance on mail services. Government figures show that 35% of all households have no internet connection, and it is predicted that the proportion of digitally excluded adults in the UK will be 31% in 2015, with the highest proportions among older people and low income groups.

59. In rural and remote communities, Post Offices play a significant role in providing face-to-face interface with government. Again, this function is particularly valued by the more vulnerable members of society. For instance Age Concern (now Age UK) described a sense that the Post Office is the “local representative and link to wider civic society”. Research finds 54% of UK households use a Post Office for picking up forms or leaflets, 50% for paying car tax, 27% to apply for a passport, driving licence, European Health Insurance Card or fishing licence.

60. Post Offices are also key providers of access to cash and banking. In the UK £86 billion of cash passes through the Post Office every year. For every £1 transacted in the UK, 14p is handled through the Post Office network. Royal Mail Holdings, Report and Accounts Year Ended 29/3/09 UK, shows that Post Offices make £24 billion of benefits payments every year, and in Scotland 32% of consumers used the post office in the last year to pay bills. A rural survey revealed 43% of older people use Post Offices to access cash.

61. Post Offices are important providers of local shopping facilities. Eight in ten post offices are run alongside a shop. These shops are often the only shop in the area—an estimated 57% of rural SubPostmasters provide the only retail outlet in their village. These shops are very much co-located with the Post Office part of the business; research by the NFSP

100 Written evidence from Consumer Focus Scotland
101 Department for Communities and Local Government, Understanding Digital Exclusion, October 2008
102 Age Concern, Stamped Out? – Let’s make rural post offices work for older people, September 2006
103 Postcomm, The Social Value of the Post Office Network, August 2009
104 Age Concern, Stamped Out? – Let’s make rural post offices work for older people, September 2006
found that, in Scotland, two thirds of attached businesses would be unlikely to remain open if the Post Office part of the business closed.\footnote{106}

62. Finally, Post Offices are also sources of informal advice and support, in a “trusted local environment”.\footnote{107} Postcomm estimate that two thirds of rural SubPostmasters “keep an eye on” more vulnerable residents.\footnote{108} Post Offices have been described by Help the Aged (now part of Age UK) as “crucial outreach points” helping older people to go on managing their own affairs.\footnote{109}

63. The NFSB indicated that research carried out for the regulator Postcomm in 2009 calculated that Post Offices therefore have a ‘social value’ of up to £10 billion, and concluded that the network “provides a major social net benefit to the UK population”.\footnote{110} They argued that the social role of Post Offices displaces some of the cost to government — as a “key institution in the local community encouraging social interaction, [it] can help reduce social care and health care costs, enabling people to live independently for longer”.\footnote{111}

**Access Criteria**

64. In its report, *Securing the Post Office Network in the Digital Age*, the coalition Government has set out its criteria for access to the Post Office network as follows:

- 99% of the UK population will be within three miles of their nearest Post Office outlet;
- 90% of the population to be within one mile of their nearest Post Office outlet;
- 99% of the total population in deprived urban areas across the UK will be within one mile of their nearest Post Office outlet;
- 95% of the total urban population across the UK to be within one mile of their nearest Post Office outlet;
- 95% of the total rural population across the UK to be within three miles of their nearest Post Office outlet; and,
- 95% of the population of every postcode district to be within six miles of their nearest Post Office outlet.\footnote{112}

65. The current access criteria could be met by 7,500 Post Offices, but the Government has made a commitment to preserve the network of 11,500 Post Offices.\footnote{113} There is significant

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106 National Federation of SubPostmasters, *Subpostmaster Income Survey 2009, July 2009*

107 Written evidence from the National Federation of SubPostmasters

108 Postcomm, *Serving the Community*, 2001


110 Written evidence from the National Federation of SubPostmasters


112 Department for Business Innovation & Skills, *Securing the Post Office Network in the Digital Age*, November 2010
scope for closures in the current network, while still allowing the Government to meet the access criteria. This could lead to many closures in Scotland. Mr Davey told us that the access criteria ensure the geographical dispersion of the network, “so that communities, including remote, rural communities in Scotland, have to have Post Offices that meet those access criteria”. He explained, “we want 11,500 [Post Offices] and we have given them [Post Office Limited] the money, but they need to make sure that the Post Offices are geographically dispersed, to meet the access criteria”.

66. However, when asked if he could guarantee that there will be no further closures of Post Offices, Mr Edward Davey, the Minister for Postal Affairs told the Postal Services Public Bill Committee:

We have made it clear that there will be no repeat of the closure programmes [...] I think you will believe it is reasonable for me to say, because every other Postal Affairs Minister before me will have had to say, that I cannot guarantee that a Post Office in any particular village or town will not close at any time. That is for this reason—97% of sub–post offices are privately owned, and people may die, retire, move away or a range of things may happen that we cannot control, which is important to recognise. However, we have made a legal agreement with Post Office Limited and provided the funds so that, over the next four years, there will be 11,500 post offices in the United Kingdom, which is a pretty big step forward compared with what we have been used to in recent years.

Mr Davey repeated to us that the policy of the coalition Government is “no closure programme for [the] Post Office”. While he described this as a “very strong policy”, he said that the Government cannot “prevent an individual Post Office from closing or a postmaster from trying to sell. It is impossible to do that”.

67. The National Federation of SubPostmasters (NFSP) warned, however, that we should “be conscious of the financial risk to many existing branches”. They said that there was no guarantee in the Postal Services Bill to keep the network at its current size or that there will be any duty to sustain the network in the future. It is likely therefore that Post Office closures will continue as SubPostmasters leave and are not replaced.

68. We welcome the Government’s ‘access criteria’ which guarantee the geographic dispersal of the Post Office network, which are crucial in maintaining the network across the whole of Scotland. However, we are concerned that the Bill neither makes provision for the number of Post Offices nor sets out access criteria. This is of particular concern given that the Government could meet its current access criteria with a network of 7,500, but has stated that it is committed to preserving a network of 11,500 branches. We recommend that the Government give assurances to this effect during the passage of the Bill.

113 Q 353
114 Q 358
115 Oral evidence before the Postal Services Public Bill Committee, 11 November 2010, Q 266 [Davey]
116 Q 351
117 Written evidence from the NFSP
69. The distinction between a closure programme and a readiness to let unviable post offices cease to trade may be a genuine difference of policy but it may result in similar or worse effects. After all, the closure programmes were undertaken with the declared intention of supporting the viability of the remaining offices. If the policy is instead to let offices close in an unstructured way, it is not necessarily any sort of improvement, nor does it offer much hope of sustaining the post office network in Scotland. A policy of “no closure programme” is only a cause for optimism if it is backed by a policy of support for the remaining network.

**Outreach Services**

70. As part of the most recent closure programme, 102 Post Office branches in rural and remote parts of Scotland were closed and replaced with Outreach Post Offices. Outreach services are primarily designed for rural areas, where the importance of a Post Office was clear, but where low transaction levels led Post Office Limited to conclude that a full time conventional Post Office was not sustainable. Out of a total of 1,446 Post Offices in Scotland, 140 (10%) are now provided by Outreach services—a particularly high proportion reflecting Scotland’s large rural area. The NFSP explained that these services are run by a visiting SubPostmaster, typically on a part–time basis, in premises such as village shops and community halls, or using specially adapted mobile vans. The 140 includes 39 mobile services and 71 ‘hosted services’. 19 of these are ‘partner services’, where a local business runs a Post Office from their premises, under the supervision of a nearby Post Office, and 11 are home delivery services, where a SubPostmaster offers a limited service to registered customers, delivering to their door.118

71. Research shows that customer satisfaction with Outreach services is “generally positive” and that “consumers have adapted well to the new arrangements”.119 CFS further reported that the public is “broadly satisfied” with Outreach formats, although 33% of outreach users say they use Post Offices less since their traditional Post Office closed.

72. The main reported drawback of Outreach services is the restricted hours and days of opening. A reduction from five and a half days a week with the former Post Office, to three part days per week at the ‘Outreach’ is typical. Mr Graham Neal wrote: “We were promised a mobile unit which would replace the Post Office which would have all the facilities including waiting space for a number of customers. In reality, we have a small LDV van for a very limited number of hours and with no waiting space which affords any privacy for customer’s transactions. Waiting outside the van for service in winter in north east Scotland is no joke”.120

73. CFS claimed that the Post Office has failed to promote Outreaches effectively: one third of consumers were unaware that an Outreach Post Office actually operated in their village. They also noted that improvements to the reliability and robustness of Outreach services were “urgently required”. They registered “increasing concern” that the long–term viability

118 Written evidence from the National Federation of SubPostmasters (PS 04)
119 Written evidence from Consumer Focus Scotland
120 Written evidence from Graham Neal, Aberdeenshire (PS 02)
of many Outreach services might be compromised unless Post Office Limited supports its Outreach locations and commits to building their viability.  

74. The Minister made clear, that in relation to mobile services, “our policy is not about massively expanding this service [...] it’s the last resort”,  

122 He said: “our strategy isn’t built on turning the Post Office Network into one big Outreach Service”.  

123 While he acknowledged that a van stopping at five locations in one day could be counted as five different “access points,” he denied this was a way of enabling Government to “somehow meet our access criteria by the back door”.  

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75. We note the high number of Outreach services in Scotland. While this is better than no service at all, it is not a long term solution. We are deeply concerned about the reliability and quality of the service currently being provided by Outreach services. Long waiting times, unreliable arrival times and failures in the technology severely compromise the value of such a service. Significant improvements are required to make Outreach services sufficiently robust in order to provide a reliable and satisfactory service. We recommend that the Government impress upon the Post Office Limited and on the regulator the need to ensure that such improvements are delivered as a matter of urgency.

76. We are also concerned about reports that the drop in the number of services provided by Outreach services lead to a drop in the number of Post Office customers, as consumers are forced to take their business elsewhere, for example, to a bank or travel agent. We fear that this will become a vicious circle, whereby the reduction in the Post Office’s footfall further threatens the financial viability of the service. This could lead to further Post Office closures, thereby increasing the need for Outreach services. If this cycle continues, the short term solution provided by Outreach services could, in the longer term, lead to a downgrading of the network and the level of service provision across Scotland.

Post Office Local

77. In the last two years, Post Office Limited has been conducting pilot trials of a new type of service, ‘Post Office Local’, where Post Office businesses reinvest their surpluses in the organisation or community.  

125 There are now over 50 pilots across the UK and 8 in Scotland. The Royal Mail Group explained that model reduces the cost of operating a Post Office, because it enables the “integration of both space and staff resource in store, between the Post Office and retail business”.  

126 Extended opening hours are a key element of the

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121 Written evidence from Consumer Focus Scotland  
122 Q 376  
123 Q 374  
124 Q 380  
125 Post Office Local, sometimes referred to as ‘Post Office Essentials’, are where services are typically operated in retail premises offering post office services over the counter of the shop that hosts them rather than at a dedicated post office counter.  
126 Written evidence from the Royal Mail
Postal Services in Scotland

Post Office Local model. Where Post Office Local has replaced a standard sub Post Office in the pilots, the opening times have, on average, increased by 45 hours per week.127

78. Paula Vennells, Managing Director, Post Office Limited, explained the advantages of Post Office Local “is that it enables them to offer Post Office services for longer”. She illustrated that her local Budgens:

currently has two Post Office counters [...] behind the fortress glass, so it is a typical sub–post office. The local shop is open from 6.30 in the morning until 10.00 at night and the Post Office is open from 9 until 5.30. In the two shoulder periods, there are no post office services available to the customers and no possibility for the sub–postmaster to earn off the back of that. If they convert to a Post Office Essentials, we dismantle those one or two Post Office counters [...] They put the Post Office Essentials offer on their main counter. That is then open from 6.30 till 10.00 in the evening. The big saving for the Sub–Postmaster in that is on staff. Previously, they were employing two additional members of staff to work on the dedicated Post Office counters, who could not work in any other part of the shop because they are frozen off by the fortress glass.128

79. The coalition Government has suggested that the new model will play a critical role in securing the long term future of the network. In a letter to the Committee, the Department for Business, Innovation & Skills wrote:

The Post Office Local model is designed with the consumer in mind and is able to offer longer opening hours and quicker service. The Government believe that this model is particularly appropriate for many smaller sub–post offices across suburban and rural Britain. Initial findings from the pilot locations show that, on average, post office services provided through a 'Local' branch have been available for more than six hours extra per day than previously. However, this does not mean a significant reduction in services offered: 86% of Post Office services are available through Post Office Local, including all core products such as posting letters and parcels, paying bills and collecting pensions and pre–ordered travel money.129

80. However, the NSFP expressed concerns over the coalition Government’s plans to “transform 2,000 sub–post offices into ‘essentials’ or ‘local’ post offices by 2014”.130 They are particularly concerned that this “slimmed down” and “limited service” will be “a blueprint for the future and heralds a significant downgrading of the network”. Paula Vennells told us that the point about Post Office Essentials is that it deals with “95% of customer visit requirements and 85% of all the products and services that we offer”. However, she conceded “you are quite right that there will be some things that cannot be

127 Written evidence from the Royal Mail
128 Q 241
129 Department for Business, Innovation & Skills, Letter to the Chair of the Scottish Affairs Committee, 23 November, 2010.
130 Department for Business Innovation & Skills, Securing the Post Office Network in the Digital Age, November 2010
done in Post Office Essentials, but in the vast majority of instances those products and services are available”.

81. We welcome the Minister’s assertion that Outreach services are not part of the coalition Government’s overall strategy for the network. However, we fear that ‘Post Office Local’ or ‘Essentials’, which are the Government’s preferred option, may also represent a diminution in service, as while they meet 95% of customer visit requirements, they provide only 85% of Post Office services. While we welcome the potential for extended opening hours and for cost savings to be made, we fear that the trade off—a slimmed down and limited service—could lead to a significant downgrading of the network and the service to consumers. This has particularly severe consequences in remote areas, where travelling times and distances to a main Post Office may be prohibitively difficult and expensive. We recommend that in expanding the pilot, or in rolling out Post Office local—the Government take the necessary steps to provide a full range of services at all branches.

**Post Office and Postal Services**

**Small businesses**

82. Postal services are crucial for small businesses in Scotland. The NFSP noted that small businesses are “extensive users” of postal services. Postcomm note that 91% of SMEs in the UK use a Post Office, and 59% of all small businesses using a Post Office use it once a week or more often. The Federation of Small Businesses (FSB) reported that 98% of their members use mail services on a weekly basis. The FSB comments that although there is a common perception that generally all things postal have gone electronic, this is not the case in the small business sector. Around 11% of Scottish FSB members did not use the internet at all in 2009, thereby indicating that there are some Scottish small business owners who “appreciate access to hard copy forms or obtain assistance in submitting information electronically”.

83. In depth studies carried out in 2006 confirm the essential role Post Offices and postal services play in supporting local businesses in the most remote parts of rural Scotland. The CFS confirmed that many rural businesses conduct a significant amount of trade by mail order. Mr Don Dennis, Director of International Flower Essence Repertoire illustrated this point. He moved his business from Hampshire to the Isle of Gigha, and said that one of the key elements which enabled him to do so “was the existence of the daily services of the Royal Mail and Parcel Force on the island.” He noted that should these services be curtailed, he would have to re-locate his business to the mainland. He noted that he sends approximately 12,000 small parcels a year, 96% of which are sent via the Royal Mail. In their written evidence to the Committee, RMG noted:

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131 Q 217
132 Written evidence from the National Federation of SubPostmasters
134 Written evidence from the Federation of Small Businesses
135 Written evidence from International Flower Essence Repertoire
Postal Services in Scotland

Royal Mail is the only provider of a universal parcel service, while Parcelforce Worldwide operates in a purely commercial market place. Over 12 main parcel operators serve Scotland. In many rural areas and on the Scottish islands, it will be Royal Mail which delivers Parcelforce Worldwide parcels.

In 2005, Parcelforce Worldwide introduced a Scotland Intra rate; this means that if you post from Glasgow to Inverness only one charge applies. Extra charges do apply to the Islands given the distances involved and the transport methods which need to be used. Parcelforce believes that it offers competitive rates for these parcels, given the distance they travel. Other Operators use a zonal system across mainland Scotland. Parcelforce doesn’t charge a southbound charge for parcels from Scottish based locations, assisting Scottish Businesses to trade with the rest of the UK.

84. The FSB told us that a level playing field for all Scottish businesses, regardless of their location, is key, and continuation of the Parcelforce service and standard pricing structure is crucial to the delivery of a level playing field. Charging higher tariffs for delivery to, and collection from, remote and rural areas disadvantages rural businesses in comparison to their urban counterparts.

85. The FSB said that proposed changes to the postal services, particularly the universal service obligation, cause concern amongst its Scottish members, who were “only too aware of the significant impact delays in receipt or dispatch of payment can have on small businesses with limited cash–flow”. They explained that the impact is proportionally more adverse than for large business and in Scotland where 93% of the private sector is made up of small businesses with fewer than 10 employees.

Businesses in remote areas in many ways represent the lifeblood of those areas and have a proportionally larger impact on community and economic resilience than similar businesses in more urban settings. Improvement in efficiency of the postal service should facilitate — not present an obstacle to — commerce in remoter areas. There are opportunities to maximise the positive effects the postal services can have on small rural businesses as outlined above, but a further withdrawal and contraction of the service’s reach could contribute to disastrous outcomes for these same businesses, and could ultimately lead to greater community dependence on the public purse, thereby negating any efficiencies gained by the reduction of service.

86. Small businesses are the life blood of small, remote communities in Scotland, both on the mainland and in the islands. The Post Office network and the provision of postal services are vital in enabling small businesses to exist and operate from these locations, and therefore also crucial for the viability and sustainability of the communities of which they are part. The Government should ensure that the Bill does not jeopardise the USO, that customers pay the same price regardless of where they are sending the letter to and from within the UK, and that Royal Mail collect and deliver once every working day to every address.

136 Written evidence from Royal Mail
137 Scottish Corporate Sector Statistics 2010
138 Written evidence from the Federation of Small Businesses
**Parcel Delivery**

87. CFS noted that the growth in online retailing and parcel delivery offers significant benefits for consumers in more remote and rural areas, providing them with access to goods and services they might otherwise be unable to access. It also offers opportunities for small businesses who wish to locate to rural or more remote parts of Scotland. There are two issues here: (i) the cost and convenience for consumers of receiving parcels; and, (ii) the cost and efficiency by which small businesses can despatch parcels.

88. Douglas White, Senior Policy Advocate, Consumer Focus Scotland, identified four main issues of concern to consumers. The first is the issue around being able to have a parcel delivered to you in a cost–effective and timely way. Consumers living in rural areas in particular often find that a surcharge is applied to a parcel that is delivered to them, or they face a longer delivery time, or even that simply a parcel will not be delivered to their particular postcode.

89. Second, there is an issue around clarity for consumers who purchase things online and want them to be posted to them. That clarity concerns the stage in the transaction when you find out that a surcharge or longer delivery time may be applied. These restrictions vary depending on which parcel operator is used. Furthermore, many online retailers do not offer a choice of which parcel operator to use to make a delivery.

90. The third issue is around choice. When you buy an item online and want it sent to you, very rarely do you have the option to have it delivered within a certain time scale for a certain cost and posted to you at a certain place so that you can pick it up, compared with two or three other options. Research undertaken by Consumer Focus suggests that many consumers would be willing to pay for delivery of parcels at a specified time or at weekends. The fourth issue is around fulfilment and getting hold of the parcel once it has been posted to you. Often people have to travel. If they are not in when it is delivered they have to travel to a depot, which is time–consuming and costly for them.\(^{139}\)

91. Online retailing is an expanding market which should provide a major source of revenue. Evidence suggests the customer would like to choose the method of delivery according to the standard of service as well as price. In particular this includes the time of delivery and the ease of pick up from a depot if the parcel is undelivered. The Government and the regulator should do all they can to encourage retailers to offer the online shopper the choice of which company delivers their parcel and to make it clear on their website that Royal Mail is an option.

92. Transparency of price is crucial for the parcels market in Scotland. Online retailers should make it clear if a surcharge will be added to remote areas at an early stage in the purchase transaction, and provide a comparison with the service offered by Royal Mail.

\(^{139}\) Qq 40 and 41
New Services

93. The coalition Government’s reports *Delivering for the Future: A Universal Mail Service and Community Post Offices in a Digital Age*, published in October 2010, and *Securing the Post Office Network in the Digital Age*, published in November 2010, set out specific plans for the future of the Post Office network. The coalition Government identifies two areas of business with “real growth potential”: (i) increasing the number of government services offered at post offices, with the Post Office acting as a “genuine front office for government”; and (ii) boosting the number of financial services provided at Post Offices.

94. In these reports, the coalition Government describes Post Offices as a “natural place for citizens to access government services face–to–face”, and also in having an important role in “supporting the growth of e–government for those without internet access at home”. Mr Davey highlighted three particular services that the Post Office could provide for government: identity verification, document processing and “pay out” whereby and individual receives a bar–coded letter, which, when taken to the Post Office, authorises the SubPostmaster to release cash. The Minister mentioned two current pilots of such services: a DWP pilot on processing pensions credit applications and the “print on demand” of Government forms.

95. During the course of our inquiry, we found near unanimity amongst our witnesses in identifying the potential for the Post Office to “significantly extend” its range of products. The CWU said that this was “essential to safeguard the network going forward”, while CFS warned that unless there was more significant expansion of both government and financial services, the long–term future for the network was “not secure.” The NFSP also supported these plans, describing the Post Office as a “local and trusted environment for citizens to interact with the state”, while CFS said that the Post Office was “well placed” to be the front office of Government at all tiers, not least in bridging “the digital divide”.

A genuine front office for government?

96. However, the NFSP is concerned that previous trials of government services at Post Offices, such as Your Guide (in 2002), have delivered strong results but have not been followed up. They argued that such schemes need to be developed “beyond trial status and the Government must ensure that funding is earmarked to allow the nationwide roll–out of these services across the country on a permanent basis”.

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141 Department for Business Innovation & Skills, *Securing the Post Office Network in the Digital Age*, November 2010
142 Ibid.
143 Q 382
144 Ibid.
145 Written evidence from Consumer Focus Scotland
146 Written evidence from the Communication Workers Union
147 Q 9
148 Written evidence from the National Federation of SubPostmasters
97. The CWU stated that the provision of new government services through the Post Office was “largely dependent upon Government will”. Mr Billy Hayes described the Government as being as “joined up as spaghetti” in this respect, with different Government departments each adopting a different approach.\(^\text{149}\) For example, the CWU expressed serious concern over media reports which have suggested that Post Office Limited may lose out on the contract for ‘Green Giro’ benefit payments to PayPal.\(^\text{150}\) The contract itself is worth around £70 million over five years, involving a potential 400,000 transactions a week and generating significant footfall for the network. The CWU argued that, “given the extent of Government subsidy to Post Office Limited and the professed strategy to turn it into the ‘front office for government’, we believe that removing this business from the Post Office would make little sense and would further weaken the network”.\(^\text{151}\) Mr George Thomson believed that the Government could “put down a significant marker” of its intent and commitment to the provision of government services through the Post Office, by “awarding the Green Giro exceptions contract to the Post Office”.\(^\text{152}\)

98. The Minister conceded that the Post Office might not win the contract, which has been put out to tender because of EU procurement rules.\(^\text{153}\) He said, however, that “part of the strategy in the modernisation of the network is aimed at putting the Post Office network in a position that is likelier to win contracts in the future”.\(^\text{154}\)

99. CFS noted that it was not just UK Government services that could be provided through the Post Office, but that it was for “service providers in Scotland [...] to decide whether and how the Post Office network can help to support the delivery of services under their respective jurisdiction”.\(^\text{155}\) Many services are provided through devolved government or local authorities. A representative from Argyll and Bute told us that it was particularly keen to invest in Post Offices in this way. This should not be used as a means of reducing local authority service provision.

100. The NFSP “strongly support” proposals to encourage local authorities to make far greater use of Post Offices. They outlined their vision as follows:

We believe all relevant council payments, information and services should be accessible through every local Post Office. This would allow residents to pay for and access council information and services in their local area; would free up administration for local authorities, particularly regarding residents who need or wish to make very frequent low value payments; and would provide vital income and custom for post offices. A very wide range of services could be paid for at Post Offices including council tax, council house rents, Social Service bills, leisure centre passes, school meals and music lessons, parking fines and permits, local travel tickets, court fines. Council information available at post offices could range from public

\(^{149}\) Q 112

\(^{150}\) “Post Office Close to Losing Benefits Contract.” The Guardian, 5th November 2010

\(^{151}\) Written evidence from the Communication Workers Union

\(^{152}\) Q 69

\(^{153}\) Q 384

\(^{154}\) Q 384

\(^{155}\) Written evidence from Consumer Focus Scotland
consultations, planning applications, the Electoral Roll to tourist information and details of local events.156

101. We welcome the coalition Government’s plans to use the Post Office network as a “genuine front office for government”. This is an example of a step change of the type that is required to guarantee the sustainability and viability of the network. However, we are concerned that there appears to be a lack of joined up thinking across Government in this respect. In the past it has often been too tempting for a Government Department to save money from its budget by awarding a contract to a company which has submitted a lower bid than the Post Office, but which cannot deliver as high a quality of service throughout rural Scotland as the Post Office. In order for the Government’s stated policy to be delivered effectively, the key service delivery departments in Whitehall and other public bodies need to be committed to the policy—and to implement it through their tendering, procurement and contracting processes.

102. The provision of reliable and long term contracts between the Government and Post Office Limited are essential for the long term planning required to secure the network, and this policy needs to take immediate effect. If tangible benefits are not delivered soon, the risk of closure of many Scottish Post Offices remains. We were surprised to hear that successful pilots already undertaken had not been rolled out in a timely and effective way across the network, if at all. We recommend that the Government take urgent action to remedy this.

103. We also share the concerns of our witnesses that contracts for services which could be given to the Post Office are being awarded elsewhere. We understand the Government’s commitment to the modernisation of the Post Office, and its desire to improve the competitiveness of the Post Office through this process. However, we recommend a series of interim measures be put in place to enable the immediate increase in the number of government services provided through the network. These include the provision and timely rollout of essential technology and the removal of any financial, legal or other obstacles which may prevent the network from providing a service.

104. We note that many government services in Scotland are provided by the Scottish Executive and local government. We urge the UK Government to work closely with all tiers of government in order both to facilitate, and remove any practical obstacles to, the provision of devolved and local government services through the Post Office network.

Financial Services and Banking

105. The Post Office currently offers a wide range of financial services including personal loans, credit cards, insurance and savings products. At present, Post Office financial services may bring in a considerable proportion of the Post Office Limited’s revenue and

156 Written evidence from the National Federation of SubPostmasters
are “essential to the company’s viability”. However, research shows that these financial services can contribute relatively little to many SubPostmasters’ income. For example in March 2009, NFSP found that amongst Scottish SubPostmasters: 96% earned nothing at all from Post Office credit cards; 93% earned nothing from Post Office home insurance; 86% earned nothing from Post Office vehicle insurance; and 99% earned nothing from Post Office life assurance.

106. The NFSP therefore supports plans to increase the banking facilities available at Post Offices, especially given that Bank branches have “long been in retreat, particularly in rural and deprived urban communities.” The NFSP stated that the Post Office’s unrivalled network provides “enormous and currently massively underused potential to put local banking back into the heart of communities”, and pointed out that SubPostmasters and their staff are “already well accustomed to handling high volumes of cash, undertaking financial transactions, dealing with confidential matters and helping vulnerable customers”.

107. Richard Bates, Head of Community and Public Services Team, Consumer Focus Scotland, pointed that there is significant potential for the Post Office to grow in the area of provision of financial services and “to build on its trusted brand, its local nature, the opportunity to be a neighbourhood banking centre and generate a viable revenue stream”. The Association of British Credit Union Limited (ABCUL) claimed that the provision of such services would be “best achieved through a partnership with the credit union sector”. We visited Pollok Post Office and Credit Union in Glasgow, the first joint venture of this kind anywhere in the UK. The venture was a success, and had led to an increase in custom for both the Post Office and Credit Union, and an enhanced service for consumers. It is estimated that for a cost of approximately £15 million, the Post Office Limited could install the technology required for Post Office counters to accept deposits to credit union accounts. It was pointed out to us that such an operation would not work in all circumstances. Nevertheless, the experiences in Pollok should be considered as a case study if further joint operations were to be considered elsewhere in the country. We support links between the Post Office and the Credit Unions and would urge the Post Office to be more proactive in co–operating with the Credit Unions and other financial service providers to increase throughput.

108. The coalition Government has also said there will be increased access to high street bank accounts through the network. At present, the Royal Bank of Scotland (RBS), including NatWest, is to allow its customers to access current accounts at Post Offices. This means that almost 80% of UK current accounts will allow free cash withdrawals at Post Offices, with only Santander and HSBC still refusing to allow access. However, the NFSP remains concerned that the banks do not offer access to all types of transactions for all

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157 Written evidence from the National federation of SubPostmasters
158 Ibid.
159 Ibid.
160 Q 13
161 Written evidence from the Association of British Credit Unions Limited (ABCUL).
162 The previous Scottish Affairs Committee’s Report, Credit Unions in Scotland, Second report of Session 2008-09, HC 218, was published on 6 May 2009.
types of accounts, and that the types of transactions available at Post Office counters vary from bank to bank. They wrote: “currently the banks do not advertise their Post Office accessibility; and the restrictions on the number of accessible accounts and the range of transactions make it a difficult message for POL to promote. The NFSP believes a comprehensive range of transactions through all high street bank accounts should be available at Post Offices”.163

**Mutualisation and the future of the Post Office?**

109. The Postal Services Bill signals the Government’s intention to privatisate up to 90% of Royal Mail, with the Post Office kept in public ownership.164 However, the Government has proposed that the ownership of the Post Office could be converted to a mutualised structure by the end of the current Parliament. In such a structure, the ownership and running of the Post Office would be handed over to employees, SubPostmasters and local communities. Ministers have hinted mutualisation could work in a similar way to the John Lewis Partnership or the Co-operative Group.165

110. Peter Hunt, Chief Executive, Mutuo, told the Committee that the proposal could help to secure the future of the Post Office for the public benefit, is a valid way of maintaining public interest in public services, and that the type of business Post Office Limited is “is ideally suited to a mutual structure”.166 Mervyn Jones, Commercial Director of the National Federation of SubPostmasters, agreed that a restructured, profitable Post Office is “something SubPostmasters will want to buy into”.167 Mutualisation would have the potential to alleviate the conflict of interest that currently exists between the profit targets of Post Office Limited and the commission levels of SubPostmasters.

111. However, the CWU expressed concern that the Bill lacks specific detail as to what form a mutualised Post Office would take, making it difficult to assess the impact a mutualised Post Office may have. Paula Vennells said: “the work is currently under way, and we haven’t got close enough to the detail of that at the moment to say what it would be [...] The work has just kicked off. The plan is, I believe, that roughly by Easter next year, there will be various options available for us to look at, which will then go to public consultation in early summer”.168

112. Mr Hunt admitted that a mutual structure would not guarantee that all Post Offices would remain open.169 However, he argued that a mutual would be better placed to meet the universal requirement than alternatives, for example if the Post Office were turned into a private company, an issue particularly resonant in the rural communities of Scotland. A mutual structure would be “better placed to hear the argument for different

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163 Written Evidence from the National Federation of SubPostmasters
164 The Government has asked Ed Mayo, Secretary General of Co-operatives UK, to explore options on the mutualisation of the Post Office.
165 Department for Business, Innovation & Skills, Press notice - Post Office could be mutualised, 13 October 2010
166 Q 71
167 Q 53
168 Q 244
169 Q 77
Postal Services in Scotland

Types of service provision in different areas, and to make sure that the business overall reflects that need, rather than simply having a one–size–fits–all approach”. He cited the example of the Co–op as a “business that operates and maintains outlets that other retailers would simply not bother to keep open”. He said:

These outlets are not as financially viable; they’re much more difficult to service—particularly in the islands. Yet they choose, because of their structure, to keep them open, and they choose to continue to keep this broader service available. They can do that because they’re not focused solely on one line of profit—they’re focused on a whole range of different issues. Ultimately this comes back to the original purpose of the business [...] to provide a service. It’s not to serve the individuals within it, but to provide a service to the people it is for. The experience of remote communities is that often, the only outlet left is the co–operative or mutual business. 170

113. Similarly, George Thomson, General Secretary of the National Federation of SubPostmasters, offered reassurance that mutualisation would not have a negative impact on rural communities:

I think that, by going along the mutualisation path but with the Government still being involved, we can make sure that local communities still have their post offices. As you are aware, 97% of all outlets throughout the UK are owned by self–employed SubPostmasters. That will continue. What we are talking about is mutualisation of the central company, because really, all Post Office Limited is a central body that owns contracts and is responsible for discipline and ensuring that cash and stock come to you. The people who really are the business are SubPostmasters. So, in our opinion, as long as the Government is in for the long term, mutualisation will present no difficulties or threats to small and rural Post Offices. 171

114. However, Mr Hunt also made clear that that before Post Office Limited can be transferred to any different corporate body, it must first pass the test as a sustainable business: making an operational profit without Government subsidy. 172 Still, he noted restructuring plans are in place, with the additional subsidy and investment announced following the Comprehensive Spending Review, to have a viable Post Office business within the next three years.

115. The proposals for the mutualisation of the Post Office have appeal, because this would enable the public to have an element of ownership in the Post Office network. However, the proposals are vague at present. At the very least, the Post Office needs to be a sustainable business before any such plans could proceed. We will therefore return to a detailed consideration of this issue at a later stage.

170 Q 72
171 Q 54
172 Q 75
Conclusions and recommendations

The Comprehensive Spending Review and Post Office Funding

1. We welcome the coalition Government’s commitment to the continued provision of postal services and the future of the Post Office network as signified in the Postal Services Bill 2010–11 and in the Comprehensive Spending Review 2010. We particularly welcome the financial commitment to the Post Office of £1.34 billion over the four years of the Comprehensive Spending Review period, and the fact that this package of funding is designed to secure the network of Post Offices across the UK at its current level (11,500). Nevertheless, the network in Scotland is in a precarious position financially, with rural branches typically being less well remunerated and less economically viable – thereby many Post Offices in Scotland remain vulnerable to closure and customers face the threat of a demise in the provision of postal services. We recommend that the Government take note of the position of large parts of the network in Scotland, as highlighted in this Report, and take the appropriate measures required to secure a viable and sustainable network, equipped to deliver a range of postal services in Scotland. (Paragraph 20)

Universal Service Obligation

2. The Universal Service Obligation (USO) is the cornerstone of mail and postal services in the UK. The six day a week delivery and collection service, and the universal tariff are fundamental to the future of postal services and the Post Office network in Scotland, and consequently, to ensuring the financial sustainability and viability of many remote and rural communities throughout Scotland. We therefore strongly resist any potential diminution of the USO. (Paragraph 40)

3. We were particularly concerned with two clauses in the Bill. First, clause 32 (2)(b), which allows Ofcom to waive the USO if there are “geographical or other” conditions which it deemed to be “exceptional”. Given its unique geography and the financial position of much of the existing network, we fear this has the potential to allow the regulator to categorise large areas of Scotland as “exceptional”. We note that this wording is the same as the current legislation and welcome the Minister’s assurances and his explanation that this, and other similar clauses in the Bill, do not mean that the USO is no longer applicable to parts of Scotland—either on the grounds of geography or economics. We recommend that this clarification be included on the face of the Bill and that this clause should only ever be applied to a very small number of addresses, similar in order to the current number. (Paragraph 41)

4. Clause 34 allows Ofcom to designate more than one universal service provider. If this clause were used to allow the cherry picking of the most profitable parts of the network, this would impact the USO and be detrimental for Scotland. We welcome the Minister’s assurance that this is not the Government’s intention. We welcome the safeguards in the Bill which protect the USO, and which provide for more than one USO provider only in the most extreme circumstances, e.g. the bankruptcy of the
existing USO provider. We recommend that the Government provide further clarity to that effect during the passage of the Bill. (Paragraph 42)

5. We note the importance of Ofcom in providing safeguards to the USO, but are concerned about the Bill’s requirement for Ofcom to review the minimum requirements for the USO within 18 months. We fear this may be seen as an opportunity to decrease the requirements of the USO. While we appreciate the need to review the service, as customer needs may change, we recommend that further safeguards be put in place to guarantee that the needs of customers and small businesses who live and work in remote, rural or island communities, are met. Any change to the USO would have a disproportionate impact on these communities. We recommend that Ofcom not merely consult with stakeholders, but to undertake assessments of the social and economic impact of proposed changes before making recommendations. We therefore recommend that the Bill include a requirement for Ofcom to consult with representatives of key groups in these communities, including residential, small business and vulnerable users, before they make any recommendations to change the existing USO. (Paragraph 46)

6. Private firms are making profit off the work of Royal Mail and the Post Office network in parts of the county that are unprofitable. If Royal Mail is going to provide this service at a loss in the unprofitable and difficult parts of Scotland, they should be able to charge the private companies a higher price. Royal Mail need to be able to negotiate sustainable terms for last mile delivery of private mail and parcels. (Paragraph 48)

Separation of Royal Mail and the Post Office

7. The separation of Royal Mail Group and Post Office Limited, and the future ownership of both organisations has been the subject of much political debate. Regardless of the ownership of Royal Mail, we see considerable advantages to a long, stable and robust relationship between RMG and POL, not least to facilitate proper business and financial planning. We recognise that the Inter Business Agreement (IBA) is a commercial agreement and we welcome the Minister’s commitment not to put anything in the way of such an agreement. However, we recommend that the Government take a more proactive approach to facilitating a long and robust IBA, through removing any obstacles: practical, legal or otherwise that may exist. Ideally, a ten year agreement should be reached prior to any sale of Royal Mail. We understand that this may affect the marketability of Royal Mail, but it is essential to the sustainability of Postal Services in Scotland. It is in everyone’s interest, not least that of the consumers, that such an agreement is reached as soon as possible. (Paragraph 56)

The Network in Scotland

8. We welcome the Government’s ‘access criteria’ which guarantee the geographic dispersal of the Post Office network, which are crucial in maintaining the network across the whole of Scotland. However, we are concerned that the Bill neither makes provision for the number of Post Offices nor sets out access criteria. This is of particular concern given that the Government could meet its current access criteria
with a network of 7,500, but has stated that it is committed to preserving a network of 11,500 branches. We recommend that the Government give assurances to this effect during the passage of the Bill. (Paragraph 68)

9. The distinction between a closure programme and a readiness to let unviable post offices cease to trade may be a genuine difference of policy but it may result in similar or worse effects. After all, the closure programmes were undertaken with the declared intention of supporting the viability of the remaining offices. If the policy is instead to let offices close in an unstructured way, it is not necessarily any sort of improvement, nor does it offer much hope of sustaining the post office network in Scotland. A policy of “no closure programme” is only a cause for optimism if it is backed by a policy of support for the remaining network. (Paragraph 69)

10. We note the high number of Outreach services in Scotland. While this is better than no service at all, it is not a long term solution. We are deeply concerned about the reliability and quality of the service currently being provided by Outreach services. Long waiting times, unreliable arrival times and failures in the technology severely compromise the value of such a service. Significant improvements are required to makes Outreach services sufficiently robust in order to provide a reliable and satisfactory service. We recommend that the Government impress upon the Post Office Limited and on the regulator the need to ensure that such improvements are delivered as a matter of urgency. (Paragraph 75)

11. We are also concerned about reports that the drop in the number of services provided by Outreach services led to a drop in the number of Post Office customers, as consumers were forced to take their business elsewhere, for example, to a bank or travel agent. We fear that this will become a vicious circle, whereby the reduction in the Post Office’s footfall further threatens the financial viability of the service. This could lead to further Post Office closures, thereby increasing the need for Outreach services. If this cycle continues, the short term solution provided by Outreach services could, in the longer term, lead to a downgrading of the network and the level of service provision across Scotland. (Paragraph 76)

12. We welcome the Minister’s assertion that Outreach services are not part of the coalition Government’s overall strategy for the network. However, we fear that ‘Post Office Local’ or ‘Essentials’, which is the Governments preferred option, may also represent a diminution in service, as while they meet 95% of customer requirements, they provide only 85% of Post Office services. While we welcome the potential for extended opening hours and for cost savings to be made, we fear that the trade off — a slimmed down and limited service—could lead to a significant downgrading of the network and the service to consumers. This has particularly severe consequences in remote areas, where travelling times and distances to a main Post Office may be prohibitively difficult and expensive. We recommend that in expanding the pilot, or in rolling out Post Office local—the Government take the necessary steps to provide a full range of services at all branches. (Paragraph 81)
Post Office and Postal Services

13. Small businesses are the lifeblood of small, remote communities in Scotland, both on the mainland and in the islands. The Post Office network and the provision of postal services are vital in enabling small businesses to exist and operate from these locations, and therefore also crucial for the viability and sustainability of the communities of which they are part. The Government should ensure that the Bill does not jeopardise the USO, that customers pay the same price regardless of where they are sending the letter to and from within the UK, and that Royal Mail collect and deliver once every working day to every address. (Paragraph 86)

14. Online retailing is an expanding market which should provide a major source of revenue. Evidence suggests the customer would like to choose the method of delivery according to the standard of service as well as price. In particular this includes the time of delivery and the ease of pick up from a depot if the parcel is undelivered. The Government and the regulator should do all they can to encourage retailers to offer the online shopper the choice of which company delivers their parcel and to make it clear on their website that Royal Mail is an option. (Paragraph 91)

15. Transparency of price is crucial for the parcels market in Scotland. Online retailers should make it clear if a surcharge will be added to remote areas at an early stage in the purchase transaction, and provide a comparison with the service offered by Royal Mail. (Paragraph 92)

New Services

16. We welcome the coalition Government’s plans to use the Post Office network as a “genuine front office for government”. This is an example of a step change of the type that is required to guarantee the sustainability and viability of the network. However, we are concerned that there appears to be a lack of joined up thinking across Government in this respect. In the past it has often been too tempting for a Government Department to save money from its budget by awarding a contract to a company which has submitted a lower bid than the Post Office, but which cannot deliver as high a quality of service throughout rural Scotland as the Post Office. In order for the Government’s stated policy to be delivered effectively, the key service delivery departments in Whitehall and other public bodies need to be committed to the policy—and to implement it through their tendering, procurement and contracting processes. (Paragraph 101)

17. The provision of reliable and long term contracts between the Government and Post Office Limited is essential for the long term planning required to secure the network, and this policy needs to take immediate effect. If tangible benefits are not delivered soon, the risk of closure of many Scottish Post Offices remains. We were surprised to hear that successful pilots already undertaken had not been rolled out in a timely and effective way across the network, if at all. We recommend that the Government take urgent action to remedy this. (Paragraph 102)
18. We also share the concerns of our witnesses that contracts for services which could be given to the Post Office are being awarded elsewhere. We understand the Government’s commitment to the modernisation of the Post Office, and its desire to improve the competitiveness of the Post Office through this process. However, we recommend a series of interim measures be put in place to enable the immediate increase in the number of government services provided through the network. These include the provision and timely rollout of essential technology and the removal of any financial, legal or other obstacles which may prevent the network from providing a service. (Paragraph 103)

19. We note that many government services in Scotland are provided by the Scottish Executive and local government. We urge the UK Government to work closely with all tiers of government in order both to facilitate, and remove any practical obstacles to, the provision of devolved and local government services through the Post Office network. (Paragraph 104)

20. We support links between the Post Office and the Credit Unions and would urge the Post Office to be more proactive in co-operating with the Credit Unions and other financial service providers to increase throughput. (Paragraph 107)

**Mutualisation and the future of the Post Office**

21. The proposals for the mutualisation of the Post Office have appeal, because this would enable the public to have an element of ownership in the Post Office network. However, the proposals are vague at present. At the very least, the Post Office needs to be a sustainable business before any such plans could proceed. We will therefore return to a detailed consideration of this issue at a later stage. (Paragraph 115)
Draft Report (Postal Services in Scotland), proposed by the Chair, brought up and read.

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

Paragraphs 1 to 115 read and agreed to.

Summary agreed to.

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

Ordered, That the Chair 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.

Written evidence was ordered to be reported to the House for printing with the Report, together with written evidence reported and ordered to be published on 8 December.

[Adjourned till Wednesday 19 January 2011 at 2pm.]
Witnesses

Wednesday 8 December 2010

Adam Scorer, Director of External Relations, Richard Bates, Head of Community and Public Services Team and Douglas White, Senior Policy Advocate, Consumer Focus Scotland  
George Thomson, General Secretary and Mervyn Jones, Commercial Director, National Federation of SubPostmasters

Tuesday 14 December 2010

Peter Hunt, Chief Executive, Mutuo

John Brown, Regional Secretary (Postal) CWU, Billy Hayes, General Secretary (Postal) CWU, Dave Ward, Deputy General Secretary (Postal) CWU, and Brian Scott, Assistant National Secretary, Unite

Wednesday 15 December 2010

Ian McKay, Director of Scottish Affairs, Royal Mail Group and Paula Vennells, Managing Director, Post Office Limited

Tim Brown, Chief Executive, Postcomm and Jonathan Thompson, Director of Strategy, Ofcom

Edward Davey MP, Parliamentary Under–Secretary of State, Mike Whitehead, Assistant Director, Shareholder Executives, Department for Business, Innovation and Skills

List of printed written evidence

1 Andrea Henderson  Ev 90
2 Association of British Credit Unions Limited  Ev 84
3 Communication Workers Union  Ev 69; 101
4 Consumer Focus Scotland  Ev 86; 97
5 Department for Business, Innovation and Skills  Ev 90; 108
6 Federation of Small Businesses  Ev 73
7 Graham Neal  Ev 76
8 International Flower Essence Repertoire  Ev 69
9 James Hall  Ev 95
10 National Federation of SubPostmasters  Ev 76
11 Royal Mail Group  Ev 92; 107
Oral evidence

Taken before the Scottish Affairs Committee
on Wednesday 8 December 2010

Members present:
Mr Alan Reid (in the Chair)
Fiona Bruce
Mike Freer
Cathy Jamieson
David Mowat
Fiona O'Donnell
Simon Reevell
Lindsay Roy
Dr Eilidh Whiteford

Examination of Witnesses

Witnesses: Adam Scorer, Director of External Relations, Richard Bates, Head of Community and Public Services Team, and Douglas White, Senior Policy Advocate, Consumer Focus Scotland, gave evidence.

Q1 Chair: I want to thank Consumer Focus Scotland very much for coming along this afternoon. My name is Alan Reid; I am the Vice-Chair of the Committee. I am deputising for Ian Davidson who cannot be with us this afternoon but you want to start off by introducing yourselves and making a brief opening statement about our inquiry.

Adam Scorer: I am Adam Scorer, the Director of External Relations at Consumer Focus. I am sitting in for Douglas Sinclair, who is the Chair of Consumer Focus Scotland. He fought the snow but lost.

Chair: I think he’s not alone in that aspect.

Richard Bates: I am Richard Bates. I lead the Community & Public Services Team at Consumer Focus.

Douglas White: I am Douglas White. I am a Senior Policy Advocate with Consumer Focus Scotland, I am Douglas White. I am a Senior Policy Advocate with Consumer Focus Scotland, covering postal issues. I also fought the snow this morning and at the moment am winning, but I still have to get back to Scotland. So we’ll wait and see.

Q2 Chair: Hopefully, you’ll be fortunate. I think the thaw is on Thursday, but, hopefully, you’ll get home tonight all right. Maybe each of you wants to make a brief opening statement or perhaps one of you wants to speak on behalf of the other two.

Adam Scorer: I will just touch on a couple of things. A lot of the focus of the Bill has been around the issue of the privatisation of Royal Mail. At Consumer Focus we are reasonably neutral about that. We can see reasons why Royal Mail and a separate Post Office Ltd could be good news for consumers in a private or public world. The concern for us is that the passage of the provisions in the Bill and their implementation must start from the position of welfare gains, or at least welfare protection, for consumers. In that regard we see a number of areas where we think the Bill could be toughened up a bit and the legislation could be clearer, in particular about the transfer of regulatory powers from one regime to the other where we know the intention is to transfer over the thrust of the licence conditions, but we are a little anxious about the lack of a prescription. Notwithstanding the drive for less and lighter-touch regulation, we are a little anxious about the range of “mays” rather than “musts” in relation to the obligations on Ofcom, in particular in relation to some fundamental issues of consumer protection around complaint handling, redress arrangements and information provision to consumer organisations so that we are able to keep an eye on the performance of Royal Mail under the new arrangements. Both Richard and Douglas will be able to answer questions in greater detail on these. We are also anxious that the Bill doesn’t allow for any unforeseen consequences from the changes in the regulatory arrangements for rural, remote and urban-deprived communities. That’s a particular focus of ours and of Consumer Focus Scotland. They may not be issues right on the face of the Bill, but we want to make sure that some changes do not have those consequences.

Indeed, the last thing relates, I suppose, to Consumer Focus as an organisation which itself will be transferring its functions during the process of two fundamental transformations of both Royal Mail and the review of the Universal Service Obligation that happens a time after Royal Assent, but also in a fundamental transformation of the Post Office network. That relates particularly to the requirement that Mail has to provide information to a new consumer organisation to allow it to exercise its vigilance and scrutiny of the way it discharges its responsibility as a USO provider.

Q3 Chair: What would you like to see added in to the Bill to strengthen the consumer in relation to the new private service?

Adam Scorer: I will pass over to Douglas and Richard. One of the key issues, though, has to be a little more prescription. One of the questions is not that they are absent from the Bill but it’s just a lack of clarity about whether Ofcom will place USO obligations under an obligation to have redress powers and provide information around complaint handling, but maybe I will hand over to Douglas first of all to pick that up.

Douglas White: The Bill recognises some key and very important components of the Universal Service Obligation: the need for collection and delivery of mail six days a week and the uniform tariff across the United Kingdom, which is clearly extremely important for consumers in Scotland. Therefore, we
very much welcome the fact that the Bill recognises and places in legislation those very important points for consumers. We have some concerns, as Adam says. There are a number of issues around consumer protection where the Bill uses the term “Ofcom may undertake”.

Q4 Chair: Can you give some examples?
Douglas White: Yes. The provision of information is a key one of those. The Bill at present suggests that Ofcom may require postal operators to provide information around the operation of that service. That obligation exists at present in Royal Mail’s licence; it is required to do that. The Bill doesn’t necessarily mean that that obligation will remain in place once it goes through. As it reads at present, it will be for Ofcom to determine whether that obligation should remain. We feel it should be strengthened so that the existing obligations are carried through and that that’s on the face of the Bill to make sure that happens.

Q5 Chair: What are the existing obligations that you would want to retain?
Douglas White: There is a range of different obligations. We would be happy to write to the Committee with details of each of them, if that would be useful. The provision of information is one of them; there are others around mail integrity and consumer protection that are also important. One of the things the Bill doesn’t do at the moment is to give Ofcom a requirement to impose a regulation upon postal operators to join a redress scheme; it only says that Ofcom “may” impose that condition upon postal operators. We think the Bill should say “must” on that very important point which is absolutely fundamental to consumer interests.

Adam Scorer: It is worth picking up that particular point. Our experience as a cross-economy consumer organisation with permissive opportunities for regulators to impose requirements on complaint-handling and redress systems provides us with the opportunity to develop new revenue streams. In the changes that happened in the energy market, it was certainly provided that not only did the big six energy companies have to be members of an Ombudsman Scheme and complaint-handling standards had to be established, but Ofgem in that case had a role in making sure that companies fulfilled that. The consequence of having those laid out in statute and then carried through in regulation is not only that the regulator has a greater obligation to have regard to standards; it also means the hard-wiring of the experience of consumers in receipt of a service into the way they understand the performance of the market in general. Our experience is that some regulators are not inclined to do that unless there is a certain amount of prescription.

Q8 Chair: Can you give an example of a sector where the legislation doesn’t put that requirement on the regulator and you feel the system has let the consumers down?
Adam Scorer: Of course, the worry is that it might be postal services. I am not sure of other sectors; we can certainly get back to you with some concrete examples of that.

Chair: Thank you. Those are my questions, Lindsay?

Q9 Lindsay Roy: Thank you very much, and welcome to the meeting this afternoon. I am aware there have been a number of closures of post offices in Scotland. What has been the impact on these communities, and what has Post Office Ltd been doing to try to sustain post offices over the last few years?

Richard Bates: History teaches us one important thing in relation to the post office network: if it repeatedly sustains heavy losses there will be a threat of closures, and it is very well placed to be able to bridge the digital divide. A number of Government and private sector providers who can put services to see what kind of services those communities need better than the Post Office card account or basic account to low income consumers that meets their needs better than the Post Office card account or basic bank accounts. As I say, it is a highly trusted brand; the size and distribution of the network means it can reach those communities that other retailers can’t or choose not to; it’s local in nature; it plays a vital role as a community hub; and it will continue to offer face-to-face services as other service providers switch to digital means and remote channels of access. But in order to build on those strengths it has to work really hard to understand those consumers that are reliant on the Post Office and the communities it serves to see what kind of services those communities need in the 21st century that we as the Post Office are well placed to offer. It can then start to work with Government and private sector providers who can put business through the Post Office to offer those services.

Our work has identified some key areas where it is well placed to develop new revenue streams. In financial services it is well placed to be a neighbourhood bank, ensuring access to core banking services, including those of other banks that don’t have a presence in certain areas, but also offering its own services. One major piece of work we’ve done has identified its great potential to offer a customised account to low income consumers that meets their needs better than the Post Office card account or basic bank accounts. As I say, it is a highly trusted brand that low income consumers feel very comfortable using. A possible credit union tie-up is being seriously considered which we would very much welcome. Beyond that, it is well placed to be the front office of Government and other Government—whether that be central Government, devolved Government or local government—continuing to offer face-to-face transactions, interactions and an information point. It is very well placed to be able to bridge the digital divide. A number of Government and private sector
businesses are taking their services online as the default channel. The Post Office will still be there to offer a face-to-face service and be able to process paper-based applications and the like, so it is very strongly placed to be a kind of digital bridge as we move increasingly into the online world.

**Q10 Lindsay Roy:** That is very comprehensive and helpful. I just wonder to what extent the population at large know of the range and quality of services that are available. What is being done in relation to marketing to ensure there is that pick-up by the population at large?

**Richard Bates:** I think you identify a key challenge for Post Office Ltd. For saying it’s a business involved in communications, communication has not always been its strongest point. We have seen that in the roll-out of its Outreach services in rural areas. Some of the communities that Outreach services are serving are unaware there is an Outreach service there. There is also confusion about the services available through the Outreach model. So, clearly, it needs to up its game in terms of marketing its offer and making clear what those services are. There are also some challenges where Government may be able to assist it here. One is around banking services, which I touched on. The Post Office is very well placed to offer universal access to all bank accounts. At the minute there are two major banks—Santander, or a number of its brands, and HSBC— that refuse to make their current accounts available through the Post Office. That stops the Post Office having a simple universal message: “All accounts available here”. So communication is a challenge; it can do more.

**Q11 Lindsay Roy:** There is work to be done there. To what extent have the joint ventures with companies like W H Smith been successful?

**Richard Bates:** From where we sit I think they have helped to preserve access to post office services in key areas. Frequently, the W H Smith partnership has been in areas where there was a Crown office before. If the choice is between losing the service completely and having W H Smith provide it, I think it is to be welcomed that they are playing a role in the post office network. As you will know, there is a range of multiple providers. The Co-op Group is one good example. They are key partners in providing post office services, so I do not have any immediate concerns there. We welcome their role in helping to sustain access to post office services. I don’t know whether Douglas wants to come in.

**Douglas White:** I would just come in with a few general points that probably cut across a number of the issues you raised. Research that we carried out last year really underpins the extent to which the post office network is still a vital resource for consumers in Scotland, even in light of the challenges that we have discussed: previous closures and the issues that the network faces. Some of the figures from that show that over 80% of consumers say they visit a post office at least once a month. Particular demographic groups include older people, the disabled and those on lower incomes. A particularly interesting finding from our research was that three quarters of Post Office customers in Scotland normally use the post office nearest to where they live. I think that’s a key selling point that the network carries; it’s the convenience that it offers to consumers. Even with the reduced numbers from what it had previously, it still offers consumers, generally, a service in an area that is close to where they live. But, as Richard said and as you highlighted in your question, the network faces a number of challenges with regard to its future. The key now is to think about how we can address those to ensure there is a sustainable and viable network for consumers to use and benefit from as we move forward.

**Richard Bates:** Your question touches on quality of the service. If you look at this on a network-wide basis you will find that consumers often value the post office but they are often frustrated when they have to use it; and in some instances if they don’t have to they won’t. This is a key challenge for the Post Office to address as we move forward. If it is going to be a viable, thriving business, it has to offer the services consumers need and the quality of service they come to expect in this day and age.

**Chair:** We appreciate your coming and all that you are saying, but we have a fair number of questions we would like to ask, so can we plead for more concise answers?

**Fiona O’Donnell:** We are allowed only five minutes.

**Lindsay Roy:** There is something on which I want to come back.

**Chair:** We should have time at the end to come back. I think Fiona is next.

**Q12 Fiona O’Donnell:** I am particularly interested in access criteria, but I think what I will focus on with you guys is financial services. Do you think it’s a mistake and we’ve missed a trick here that we are not now going to have the Post Office bank?

**Richard Bates:** I think that is an issue for Government rather than us. I know they have set out the reasons why they won’t be moving forward on that basis, but there is still potential for the Post Office to be a good provider of financial services. Granting universal access to all high street bank and building society accounts is a positive thing. The credit union tie-up would also be an immensely positive thing for both parties, and there is a great opportunity that I have outlined for the Post Office to offer the kind of customised account that would meet the needs of low income consumers.

**Q13 Fiona O’Donnell:** Presumably, we know that banks still often decline to offer people a bank account. They don’t make them aware of the fact that at least a bank account is available. I am constantly surprised and depressed by the number of people who do not have a bank account, especially those on lower incomes. Is there any hope in this Bill of increasing access, or is this something that needs to work itself out further down the line?

**Richard Bates:** There is nothing directly in the Bill about financial services at the Post Office, but if you look at the wider landscape of activity at the minute there is the new BIS policy statement on the future of the Post Office during this Spending Review period.
That recognises financial services will be a core area for the Post Office. There is significant potential for the Post Office to grow in that area and build on its trusted brand, its local nature, the opportunity to be a neighbourhood banking centre and generate a viable revenue stream.

Adam Scorer: From the point of view of financial inclusion it is clear that it is not just a lack of trust and engagement with mainstream banking; it is also that the products available are almost designed to exclude people. These are neglected consumers who won't trust the institutions. Banks don't have products designed for them and consumers don't get a level of service or welcome in mainstream banking that they find useful. The research we have done shows that these consumers in particular trust and would like to see new services available from the Post Office. If Post Office Ltd, when they are separated, are going to have a plan for growth and continuity, they have to argue for it. It is not on the face of the Bill but it is something they have to do.

Q14 Fiona O'Donnell: Do you think that if there are new services and people do things like signing on at post offices, that will make people less likely to access other services? Do you think there is a conflict there? If it is the place where you sign on, then it is not the place where you want to do your banking.

Richard Bates: That is not something we have assessed directly in our research but, as Adam is saying, there is clear potential there for the Post Office to meet the financial inclusion needs of low income consumers.

Q15 Fiona O'Donnell: The credit union option is something that interests me particularly. I do not have a credit union in my constituency, but you need the physical presence of post office branches. Do you think this Bill provides enough in terms of access criteria? From what I can see, it talks about numbers but it does not enforce how close your nearest post office will be.

Richard Bates: The Post Office access criteria are currently set out in an agreement between Post Office Ltd and the Government. There is nothing in the Bill that covers that. That agreement commits the Post Office to preserve the network at the current level, which is around 11,500 post offices, but if you look at the technical aspects of that agreement and the access criteria within them it is technically possible to meet those criteria with a smaller network of around 7,500 branches. What we would like to see in the Bill is the network of the current size protected by bolstering that agreement to say that the access criteria must be based on the current level—11,500—and with the current distribution touching all communities of the post office network, and then that being mirrored by a similar obligation on Royal Mail going forward; which would say that in the future, as you renegotiate agreements, you should continue to provide mail services and have a mail gateway at around 11,500 post office points. By doing that, I think you create the kind of level playing field the Post Office Ltd and its competitors for when the agreement with Royal Mail comes up for review to ensure it is in the strongest possible position to keep that mail business and the network going.

Q16 Fiona O'Donnell: I am very excited. I have a one-minute warning so I will press on with some questions about regulation. What kind of resources will Ofcom need? I know the resources I need to deal with complaints concerning Royal Mail. What kind of resources will Ofcom need? Is there any indication of how much Government are to invest to meet that need?

Douglas White: I think it is really important that the postal sector is properly resourced within Ofcom to make sure it is able to carry out the regulatory scrutiny that the sector requires, particularly as the sector undergoes the kind of fundamental changes we are speaking about and when there is any sort of provision to look at the scope of the Universal Service Obligation in the future. Obviously, that needs to be thoroughly resourced. That will require a great deal of work and consideration to tease out what it is that consumers need from the Universal Service Obligation to make sure that that continues to be provided. More broadly, I think the merger of Postcomm and Ofcom brings benefits for consumers in that it makes sure that the two markets—postal providers and communications providers—which were often in competition with each other, are regulated within the same organisation. I think that will help to create a coherent and joined-up regulatory framework which will be beneficial for consumers.

Q17 Cathy Jamieson: If I can pick up the relationship between Royal Mail and the Post Office, I was interested in the written evidence that Consumer Focus Scotland submitted. It highlights some of the issues around the potential dangers for post offices in rural areas if their ability to cross-subsidise from the more profitable urban branches is lost. I wonder whether you can say a bit more about that.

Richard Bates: Yes, I touched on it a minute ago. The relationship is currently enshrined in the inter-business agreement. This is a contract Royal Mail has with the Post Office for the latter to provide access to mail services. That is worth around £343 million a year, which is about a third of Post Office revenue. Government has committed to refreshing the Bill ahead of the separation, but our fear is that, as the two businesses separate as a result of the Bill going through Parliament at the minute, once that expires, there is a risk that Royal Mail may look to competitors to provide its services in certain locations, possibly cherry-picking the urban populated centres where competitors are concentrated. The big risk here is that if the Post Office starts to lose that business and the vital revenue stream it will not be able to cross-subsidise in the way it does currently. Those profitable urban post office branches will not be generating the revenue that currently helps to sustain those branches in rural and urban deprived areas, which are the kinds

1 Note by witness: The basis of the access criteria is stronger that the agreement referred to in Q15. The criteria reflect requirements that were mandated by Government in the DTI's paper, ‘The Post Office Network: Responses to the Public Consultation’ (May 2007).
of communities that have greatest reliance on the Post Office. Unless there is some clarity and certainty about the future of the inter-business agreement, it will be those communities that are at greatest risk.

Q18 Cathy Jamieson: Just so that we have got it absolutely on the record for people who may want to pore over the Committee notes at some later stage, is your view that a new inter-business agreement is required? Should that be similar to what is in place, or do you think that could be improved?

Richard Bates: There is a commitment from Government—Royal Mail has backed this—that, when the Bill finishes its passage and it is enacted, the current agreement will be refreshed for as long as legally possible. I would urge you as scrutineers of the Government to establish some clarity on that.

Q19 Cathy Jamieson: To press you on it, do you know what that means?

Richard Bates: We would welcome some clarity on how long “legally possible” is.

Q20 Cathy Jamieson: I do not know what that would mean.

Richard Bates: That is our first concern. Let’s see how long that is and what opportunity it gives the Post Office to diversify into other areas and grow revenue streams in other areas that leave it less vulnerable to losing that, but that also helps it to be better prepared to compete for that contract. Our second concern is that if, when it comes up for renewal, it loses some or all of that contract there is a potential risk of some pretty grave consequences in terms of closures in those areas most reliant on the Post Office.

Q21 Simon Reevell: Could I just try to understand a little more about your organisation? I know from the written evidence you have provided that you describe yourself as the statutory consumer watchdog for postal and Post Office services. Do you have a role beyond yourself as the statutory consumer watchdog for postal and Post Office services? Do you have a role beyond yourself as the statutory consumer watchdog for postal and Post Office services? Do you have a role beyond yourself as the statutory consumer watchdog for postal and Post Office services? Do you have a role beyond yourself as the statutory consumer watchdog for postal and Post Office services? Do you have a role beyond yourself as the statutory consumer watchdog for postal and Post Office services? Do you have a role beyond yourself as the statutory consumer watchdog for postal and Post Office services? Do you have a role beyond yourself as the statutory consumer watchdog for postal and Post Office services? Do you have a role beyond yourself as the statutory consumer watchdog for postal and Post Office services? Do you have a role beyond yourself as the statutory consumer watchdog for postal and Post Office services? Do you have a role beyond yourself as the statutory consumer watchdog for postal and Post Office services? Do you have a role beyond yourself as the statutory consumer watchdog for postal and Post Office services? Do you have a role beyond yourself as the statutory consumer watchdog for postal and Post Office services? Do you have a role beyond yourself as the statutory consumer watchdog for postal and Post Office services? Do you have a role beyond yourself as the statutory consumer watchdog for postal and Post Office services? Do you have a role beyond yourself as the statutory consumer watchdog for postal and Post Office services? Do you have a role beyond yourself as the statutory consumer watchdog for postal and Post Office services? Do you have a role beyond yourself as the statutory consumer watchdog for postal and Post Office services? Do you have a role beyond yourself as the statutory consumer watchdog for postal and Post Office services? Do you have a role beyond yourself as the statutory consumer watchdog for postal and Post Office services? Do you have a role beyond yourself as the statutory consumer watchdog for postal and Post Office services? Do you have a role beyond yourself as the statutory consumer watchdog for postal and Post Office services? Do you have a role beyond yourself as the statutory consumer watchdog for postal and Post Office services? Do you have a role beyond yourself as the statutory consumer watchdog for postal and Post Office services? Do you have a role beyond yourself as the statutory consumer watchdog for postal and Post Office services? Do you have a role beyond yourself as the statutory consumer watchdog for postal and Post Office services? Do you have a role beyond yourself as the statutory consumer watchdog for postal and Post Office services? Do you have a role beyond yourself as the statutory consumer watchdog for postal and Post Office services?

Adam Scorer: The people who work on our postal and post office services. That could number around 10 to 15 people. I don’t want to be too precise about that. Of course, there is a contribution from that money to the running costs of the organisation as well, but we can give you a breakdown.

Q26 Simon Reevell: There is a core team of whatever size that deals with issues relating to the Post Office?

Adam Scorer: Yes.

Q27 Simon Reevell: So, when there is a post office matter, such as a new Bill, there is a pool of expertise on which you can draw from within your organisation?

Adam Scorer: Yes; and when there are issues around business—usually, closures or a closure programme—we have resources that we would apply to that.

Q28 Simon Reevell: You said that the people in place who deal with post office issues do that primarily, but I assume that is the majority of the work they undertake. I am trying to understand the depth of the resource you have.

Adam Scorer: The people who work on our postal and post office services are concerned primarily with that, so it could be that even all their time is focused on those areas. Therefore, we have a dedicated, funded, ring-fenced group of people whose job is to ensure that the interests of consumers are properly represented in postal and post office matters.

Q29 Simon Reevell: Does that group of people look at things nationally or within Scotland, for example? Obviously, we are considering Scotland today. You
mentioned a specific organisation or branch in Northern Ireland.

Adam Scorer: Yes; and Douglas does a lot of our work in Scotland. We have a national team because post is not a devolved issue; it is a retained issue. It is a national market and the agreements are national. We have a team that looks at the way the market operates, but we also have colleagues in Wales and Scotland and a team in Northern Ireland to make sure we have a particular focus on the characteristics and priorities for the markets in Scotland, Wales and Northern Ireland.

Q30 Simon Reevell: Presumably, the research you refer to when talking to us is specific to Scotland.

Adam Scorer: It would be a combination of the research that is done specifically in Scotland. Maybe Douglas can touch on that.

Douglas White: The research I mentioned in my evidence earlier was specific to Scotland. That was a survey of 1,000 consumers across Scotland. We would be happy to provide a copy of that report to the Committee if that would be helpful.²

Simon Reevell: Thank you very much; that is very helpful.

Chair: Thank you. Are there any Members who have not been in yet?

Q31 David Mowat: Thank you very much. Just picking up what Simon said, does any of the evidence you sent us in written form and also your comments today apply specifically to Scotland, or does it apply generally to the UK, but more so in Scotland because of the rural aspect?

Adam Scorer: I think that largely the case, but maybe Douglas can pick that up.

Douglas White: I think that the issues consumers in Scotland face across a range of postal issues are very similar to those experienced by consumers in other parts of the UK, but it is how they play out. As you say, the rural dimension is a particularly important one. For example, mail is a particularly critical service in rural areas where people would have to travel longer distances to access face-to-face services, and where broadband services are often poorer than they are in other parts of the country.

Q32 David Mowat: I understand that. I understand that the rural element applies a lot in Scotland. Other than that, your comments would apply to other parts of the UK in terms of where you are in Consumer Focus.

Adam Scorer: Yes.

Q33 David Mowat: In his evidence, Richard talked about the 11,500 post offices right now. I think you said that the access criteria implied that it could be done with 7,500 and that could be an issue in the future, because if those are the access criteria and it could be met with 7,500 it would mean the closure of 4,000. I am interested in why you think 11,500 is the right number.

Richard Bates: The starting point is that this is where we are now. In all the work we do with communities across the UK, nobody is telling us, “We’re not using our post office; we don’t want it any more and we’ll volunteer to give it up.” As a crude starting point, communities want post offices; they want a viable post office network that is relevant in the 21st century and offers the kind of services they need. If you look at it, the consequences of reducing the network by up to 4,000 is that inevitably in certain communities—possibly it will be the rural and urban deprived ones with the greatest reliance on the Post Office— they will be pushed further away from those services that they currently access through the Post Office. That is something we would want to avoid and that is why in all the evidence we are giving we absolutely support the various pathways to make the Post Office a viable and thriving business with 11,500 branches.

Q34 David Mowat: I understand that and I am interested to hear you say that. You have been set up as a statutory body on behalf of consumers. It seems to me there are two sorts of consumers you could represent: one is the users of the post offices. Richard just made the case for them in terms of subsidised use. I suppose the other is the consumers who are doing the subsidising, many of whom also may be from deprived areas—inner cities or whatever—and therefore pay the subsidy through a higher postal charge than would otherwise be the case. I am just interested that the whole thrust appears to be on one lot of consumers and not the other, or have I misunderstood that?

Adam Scorer: No. I think our thrust is to recognise that there are some issues in the postal and post office market that affect everybody a little bit and some issues that affect some people a lot, and we try to get the balance right. In relation to the Bill, one of our anxieties—it is often the case either through regulatory interventions or legislation in markets—is that the group of consumers who through unintended consequences lose out tend to be those with the least amount of market power, because especially a privatised Royal Mail will look to see how it can drive and grow its business and provide the greatest value to people who are most lucrative to it. It is often the case that certain groups of consumers miss out, even though they are the ones for whom we have put in the protections. We are concerned with the operation of an effective and value-driven Royal Mail and Post Office service that provides value for everybody who accesses that and enables income streams to get to Mail, but we also have a particular concern that it is the same group of consumers who tend to lose out across a range of markets.

Richard Bates: It is also worth pointing out that the subsidy is from Government; it is not from Royal Mail customers. The money it receives from Royal Mail is in return for the counter access and mail services it offers. The money that comes from Government is for the Post Office to provide universal access to services of social and general economic interest, whether that be mail services, access to pensions and benefits or public service interactions and transactions. In an ideal world I would like to see a Post Office network that did not require any subsidy and did so well that it returned a dividend to the Exchequer. For a

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commercial entity that also serves a vital social purpose, we are unlikely to see that. I suspect there will always be a need for a subsidy, but the key challenge is: if we can make it a thriving, viable business, that call on subsidy will be as minimal as possible.

Chair: Thank you. I am afraid we need to move on.

Q35 Dr Whiteford: Thank you very much. First, may I apologise for being here so late this afternoon? I had some trouble getting here from the far-flung northern reaches of the land. When I read the written evidence you submitted, I was struck by the way you highlighted the whole issue of access to and cost of broadband in rural areas. That is certainly something I am glad you drew attention to. I want to ask you about the Outreach services. I am aware of Outreach schemes that run in my own constituency and I welcome that innovation. However, I have to say that the feedback from that has been some way short of wholly positive. Some of the consistent concerns that people have raised with me are with mobile services and problems with phone reception—people being in black holes for basic reception for the equipment. The other thing is that, if you are going to have a mobile service, queuing in temperatures like this throughout the winter and well into the spring is a really unpleasant experience and also people are glad to have some service. When they are standing in rain, wind, snow and what have you, they think it is a lot less than they had before. Another point that has been raised with me by more than one local community is the unreliability of the equipment and computer problems that dog the system.

I am throwing those points out there. Perhaps I am hearing this because I represent people who experience this at the coal face. That is not a reason not to innovate, but it flags up some of the inherent weaknesses of having mobile services as opposed to going down the road of some of the more experimental Post Office Local models that try to put businesses alongside each other. I don’t know whether you have any further thoughts on that.

Richard Bates: The first thing I would say is that we have done a significant piece of research on Outreach services, and we are also picking up the ground intelligence through our network monitoring. What it tells us is that the Post Office deserves some credit. It got 500 of these Outreach services up and running in rather difficult circumstances during the last closure programme. As communities have adapted to the Outreach model, satisfaction has grown. In most communities around two thirds of people are happy to use an Outreach service at the minute, but you are right in your concerns; it is far from perfect. Our research shows that around 21% of people are dissatisfied with the service. A gain, there are key issues around communication. As I said earlier, there is lack of awareness that the service exists in some communities and confusion about the services actually being offered. You are absolutely right to flag up some very serious concerns around reliability and contingency arrangements. Again, if for whatever reason the service is unable to operate, Post Office Ltd needs to communicate that to those who are reliant on it and put alternative arrangements in place. If there is a day or week when the Post Office Outreach service is unable to operate, you can imagine scenarios where that starts to cause significant detriment, especially to vulnerable groups and the older people in our communities who need to collect their pension or benefits payment. They then ask, “Can I pay my bills or not?” if they are unable to collect it because the Outreach is failing, or, “Do I pay £20 for a taxi to the nearest post office to collect my pension?” There is a range of scenarios where detriment could arise.

It is key from this stage forward with the Outreach model that the Post Office designs out some of those problems. It is also key that it goes back to the communities where the Outreach models operate and starts to engage with both consumers who use the service and the operators to see whether the service is properly meeting the needs of this area. Is the model of Outreach you have the best one? I note what you say about problems with the mobile service. In those instances, could a hosted service, maybe in a village hall or another community facility, work better for that particular community? If you have a particular instance in mind, I will be happy to take it up with you outside the Committee.

Chair: Thank you. Is there anybody else who has not been in?

Q36 Mike Freer: You might have to write in on this. You mentioned that 1,000 people had been surveyed. Could you provide details of the geographic and socio-economic spread? I would also be interested to see whether you have done any micro-analysis of individual local markets—I assume that 1,000 people across Scotland could be far-flung—to see if there is a variance between the Highlands and the outer reaches of the major conurbations. Your evidence is somewhat reliant on the views of those 1,000 users. What about the non-users? What research have you done as to why they have stopped using the Post Office and what they would need to re-use it?

Douglas White: I can deal with each of those points fairly briefly. A to the first one, I cannot give the data off the top of my head, but, yes, I can certainly provide that.3 Secondly, in terms of breakdown at different levels that was done by six different classifications used by the Scottish Government to define areas that range from urban to remote rural. There is some analysis in the report and the data about that which you might find interesting. Thirdly, in terms of non-users and the way that survey took place, the first question asked was, “When did you last use the post office?” Anyone who had used one within the last year was then taken through the rest of the survey. I believe very, very few people said no to that question and therefore were screened out. The other point I make is that that was only one piece of research conducted by Consumer Focus Scotland. The pieces of work Richard has been speaking about in relation to financial services, Outreach and so on have been broader work across the UK. The piece of work I referred to is only one. There are other pieces of

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research the organisation has done that captures a broad range of views.

Q37 Mike Freer: Is that available publicly?
Douglas White: Our report—yes, I will make sure we send that to the Committee with the classifications as well.

Q38 Chair: Thank you. I just want to follow up on one or two things you raised earlier. You said earlier that you would want to keep the current 11,000 post offices and the current distribution. I certainly would and I’m sure most of us would. But how do you write that into legislation? Surely, you can’t write into the Bill that no post office must ever close. How do you get into the Bill that you are keeping the present numbers and distribution?
Richard Bates: You are the expert legislators and I defer to you on the best way to achieve it. I think it is key to find a way to codify the agreement that currently exists, specifying that number and distribution across all the communities in the UK.

Q39 Chair: The current Government guidelines, as we have already heard, on access criteria could be achieved with 7,000. We have 11,000 because the Government have agreed that number. How do you write that into legislation?
Richard Bates: We were talking of bolstering the criteria so they reflect the current distribution and numbers. We would look to find a way to have that reflected in the legislation. One thing I would add is that we do not advocate that that be there for eternity. We recognise that consumer behaviours change and it could possibly end up being a millstone for either the Post Office or Royal Mail in some respects. So, alongside it, we would like to put a review process where those criteria can be reviewed from time to time in a way that receives the full scrutiny of Parliament.

Q40 Chair: Thank you. Time is short and I know Lindsay wants to come back in. I have another question. What sort of feedback have you had from consumers in Scotland about parcel deliveries?
Douglas White: We published a paper last year on parcel delivery issues in Scotland. I suppose we picked up four main issues of concern to consumers. The first is the issue around actually being able to have a parcel delivered to you in a cost-effective and timely way. Consumers living in rural areas in particular often find that a surcharge is applied to a parcel that is delivered to them, or they face a longer delivery time, or even that simply a parcel will not be delivered to their particular postcode. Obviously, those are issues of concern. Secondly, there is an issue around clarity for consumers who purchase things online and want them to be posted to them. That clarity concerns the stage in the transaction when you find out that a surcharge or longer delivery time may be applied. That is important because it may impact on your desire to carry out that transaction. Clarity is also to do with whether your particular postcode area will be affected by a surcharge or one of the other issues. Some websites use fairly vague phrases such as “northern Scotland”, which is very unclear to consumers. How do they know whether or not that applies to them?

Q41 Chair: And often they say that Campbeltown is in northern Scotland.
Douglas White: Yes. You see different websites that define it in so many different ways; and there are other vague terms such as “some Scottish islands” and things like that. The third issue is probably around choice. When you buy an item online and want it sent to you, very rarely do you have the option to have it delivered within a certain time scale for a certain cost and posted to you at a certain place so that you can pick it up, compared with two or three other options. Clearly, to give consumers that choice is important. Because time is short, I have one final point on that. The fourth issue is around fulfilment and getting hold of the parcel once it has been posted to you. Often people have to travel. If they are not in when it is delivered they have to travel to a depot, which is time-consuming and costly for them. Obviously, that is also an issue of concern to consumers. Therefore, there are four broad points.

Chair: Thank you very much. I know Lindsay has a follow-up question.

Q42 Lindsay Roy: There is another issue of access. I understand that throughout the UK there are 70 offices, some of them former Crown post offices, which are either downstairs or upstairs in another facility. In my own constituency that has caused a real problem in terms of access and lifts. People feel claustrophobic and have to go through the footprint of a big store to get to a post office upstairs. From their point of view it is much less satisfactory than the previous provision. I just wonder how much you were aware of that and the issue around that in terms of health and safety.
Richard Bates: Our predecessor body Postwatch was certainly very aware of that because it was a key issue that came out of some of the changes during the last closure programme, particularly as Crown branches moved to W H Smith, as we touched on earlier. I can look back at some of the issues raised then and the steps taken to address them, and get in touch with you, and then pick up any current concerns you may have.

Chair: Thank you. Perhaps we can have a brief question from David and a brief answer.

Q43 David Mowat: On the 11,500 figure, you said that that was the current position. If it was 12,500, would your position be that that is the number we should have?
Richard Bates: I start from the basis that we have 11,500. Consumers want a viable, thriving post office network. They do not want to see further closures. If success gets to the point where the Post Office is expanding again and there are 1,000 more post offices, I think we would all welcome that.

Q44 David Mowat: But, specifically, if we had 12,500, not 11,500 as now, your view would be that we should keep that because that would be the starting point?
Richard Bates: Clearly, if there are 1,000 that no one is using and communities have no need for them, I would not be here defending dormant post offices.

Chair: I am afraid time is up. We very much appreciate your coming and your answers. I know you promised to send in some information. Could I ask you to send it in as soon as possible, please, because I think this inquiry has to come to a conclusion. We have to consider it before the Bill comes back for its remaining stages on the Floor of the House. Thank you all very much.

Examination of Witnesses

Witnesses: George Thomson, General Secretary, and Mervyn Jones, Commercial Director, National Federation of Subpostmasters, gave evidence.

Q45 Chair: Our next witnesses are two gentlemen I know very well from the National Federation of Subpostmasters. Perhaps you could start by introducing yourselves and then make a brief opening statement.

George Thomson: I am George Thomson, General Secretary. Thanks for the invite to be here today.

Mervyn Jones: Thank you very much. My name is Mervyn Jones. I am a subpostmaster in Hawick. I have been a subpostmaster for 30 years. I am also a Commercial Director of the National Federation of Subpostmasters trading company.

Q46 Chair: Maybe you would like to make a brief statement with particular reference to the Postal Services Bill.

George Thomson: To make a brief statement, the last 20 years have been very difficult for the Post Office network, almost from selling off Girobank in 1990 to the decision to scrap benefit books seven or eight years ago. Everyone in this room knows that there have been closures. The network has halved since 1968. There were 24,500 branches; it is now down to 12,000 or 11,500. So the last 20 years have been difficult. Shopping habits have changed and society is changing. To some extent the Post Office has been in danger of being left behind. We think the Postal Services Bill is an opportunity potentially to get the show back on the road. Every single politician from all the political parties to whom I have spoken does not want any fewer than 12,000 offices in the UK. In Scotland there are 1,446. I think there is a general consensus among all Scottish politicians that that is the kind of level at which they want the Scottish network to remain. Some 68% of the Scottish offices are rural, which is 13% more than the UK, where only 55% are rural. Therefore, in terms of small businesses and the general public, we all have to work together to try to make sure the Scottish Post Office network has a long-term viable future and things can’t continue as they have been. I’ll say in this room that it’s well known that over the last two years the National Federation of Subpostmasters, in particular myself and Mervyn, have been working with both the last Labour Government and the coalition Government to see if there was a set of circumstances in which an independent Post Office Ltd demerged from the Royal Mail would have a future. We have worked behind the scenes. We do believe that the Government’s commitment of £1.34 billion over the next four and a half years and to make us a front office of Government means there is a desire to make sure the Post Office network has a viable future. Our job in this room is to make sure that promises and policy are delivered to make sure that happens.

Q47 Chair: You said there was a commitment from the Government that post offices would become the front office of Government. What about Scotland, Wales and Northern Ireland? Do you have similar assurances from the devolved Administrations there?

George Thomson: Mervyn and I had a meeting with the First Minister just three or four weeks ago. Maybe Mervyn wants to come in on that point.

Mervyn Jones: There is certainly a degree of sympathy within Scotland for providing devolved administration services. We have a concern that there won’t be a joined-up approach throughout the United Kingdom and that, in relation to certain devolved areas where the Scottish Government have responsibility for making those decisions, we could end up with disjointed decisions in England and Wales in comparison with Scotland and Northern Ireland. We are really trying to keep a handle on which decisions are the responsibility of the people here and which decisions are the responsibility of the Scottish Government.

George Thomson: For example, at the moment there is a little bit of envy in relation to subpostmasters in Scotland because of the small business rates relief. If the rateable value is less than £10,000 they pay nothing; so some subpostmasters are saving £4,000 or £5,000 a year. Something similar has happened in Northern Ireland and, obviously, Wales. To some extent a lot of our colleagues in England are pretty envious that we are able to do that. We think there is a case in the rest of the UK and England for providing help to small shops through rates relief to make sure they remain on the high street.

Q48 Chair: You mentioned the £1.34 billion from the Government for the next three or four years. Are you confident that that would be enough to set you up for the long term, or would you be coming back in three or four years’ time wanting that to be continued?

George Thomson: We think there is a recognition, Alan, by Government that it will make the network far more secure. The £1.34 billion represents £180 million in 2011–12; £450 million in 2012–13; £410 million in the year after; and £330 million in the final year, 2015. That will allow us to restructure the network both by modernising the branches that are there and investing in the infrastructure and physical appearance; it will allow the Crown offices to break even; and there will be implementation of what is called Post Office Local, or Post Office Essentials,
which basically puts a post office provision in a convenience store and, say, a local garage or newsagent to make sure that, rather than having two small businesses in a small village that struggle to survive, the retailer and post office are strong enough. It puts us in a stronger position. Will it be enough? Will there be a need for the Social Network Payment to continue to a lesser extent? I think there will be. The person who runs the Post Office Local receives only commission; he or she does not receive a fixed element. As long as that goes into a business that is viable and they can share the costs—for example, if it was a Londis convenience store, as Mervyn has in Hawick—then that becomes viable, but you will still have a situation where it is the last shop in the village and the subpostmaster gets £15,000 or £16,000 from Post Office Ltd but only £1,000 is commission. Because that post office is the last shop in the village and has a bit of retail, there would be no sense in cutting that subpostmaster’s income to only £1,000 for the commission. He would still have to get £15,000 or £16,000, so the continuing Social Network Payment, I believe, would have to go to offices like that to make sure the last shop in the village remained at the kind of income level it has at the moment in order to survive.

Q49 Chair: We hear stories that the inter-business agreement that the Post Office currently has with Royal Mail will continue for another five years. Are you confident that after those five years are up the Post Office will provide a good enough service that whoever owns Royal Mail at that time will have no alternative but to renew that inter-business agreement?

Mervyn Jones: I think what we have to do is to make our network as attractive as possible to Royal Mail to make them want to use it, rather than have it ensnired in legislation to make them use us. We would like to see that inter-business agreement as it is now—or as it is about to be revamped—exist for as long as possible to give us time to redesign the network. I’d just add to a point George made earlier. We have a challenge to ensure that our post offices are open longer hours and provide the services that modern-day customers require. That probably means opening until 10 o’clock. If we could do a little, my convenience store is open until 10 o’clock at night and opens at 7 in the morning, and it’s open seven days a week. But my post office is only open from 9 o’clock till 5.30 because of the costs of delivering the staff wages, and the income that the post office provides and generates outside those core hours does not meet the costs. If I can get to a situation where I can amalgamate that service provision so that I can multi-function my staff and allow them to open the post office and provide services outside the current standard hours, that would enhance customer service and make our network, if we can achieve that on a large scale, much more attractive for Royal Mail to want to use. Customers’ shopping habits have changed; they want to post packets and parcels at 7 or 8 o’clock at night; they want to come in and pay their gas bill on a Sunday, and we have to meet that challenge.

George Thomson: In addition to what Mervyn said, we want Royal Mail to make it a no-brainer that they use us in the future because of the hours and the new network. However, in the meantime we want a deal for as long as possible so we are fit for purpose in future. We would still say that Royal Mail should still give us a 10-year deal. What concerns the Federation at the moment is that we know for a fact, and I said this at the all-party group, that the Chief Executive of Royal Mail Group, Moya Greene, is prepared to give us a 10-year IBA. We know for a fact that the Managing Director of Post Office Ltd, Paula Vennells, wants a 10-year agreement. We keep being told by the politicians that it’s nothing to do with them. The question I would like to ask is: what is the reason we are not getting a 10-year deal? We have spent a bit of money on this. We know it’s not illegal to be given a 10-year deal; we know it doesn’t break European procurement legislation because it is an in-house award. So we want to know what is stopping the company signing a 10-year deal.

Q50 Chair: I presume you have asked the companies concerned. What have they said?

Mervyn Jones: Both have said they are happy to sign a 10-year deal.

Q51 Chair: Why don’t they?

Mervyn Jones: That is the question we would like to ask, and perhaps you might like to ask the Minister.

Q52 Chair: We will ask him next week.

Q53 Cathy Jamieson: I was going to pursue some of those issues but I think we are now fairly clear where we need to pursue those matters further. Can I just ask a wee bit about the whole issue of mutualisation and community ownership because I know that is something about which you have concerns? I have concerns about the very loose language that is being used around this. I pressed the Minister on it at the all-party group because he seemed to be using the so-called John Lewis model—which is not a mutual but employee ownership—interchangeably with mutualisation, which is an entirely different democratically controlled structure. Without going into the technicalities of that, I just wonder whether you can say a wee bit about your concerns in relation to the potential for community and mutual ownership.

Mervyn Jones: Perhaps I may take us back a few steps from where we are now. One of the things that the Federation recognised several years ago was that there was a conflict between what was good for Post Office Ltd and what was good for subpostmasters. We recognised that subpostmasters were being squeezed to achieve a profit target for Post Office Ltd and in essence that put the viability of individual subpostmasters at risk, because in order to generate more profits the commission levels for subpostmasters
were cut. Against that background, over three years ago now, the Federation embarked on a project where it took advice on how it could more closely align what was good for subpostmasters and what was good for Post Office Ltd. To be fair, we have driven the agenda along a mutualisation model and are now in a situation where the wording of the Bill allows for that potential mutualisation. We need to ensure that the company we end up with, now that we have been given the funding to restructure, is worth owning and, if it’s going to be worth owning, that the model that exists to facilitate that ownership is something subpostmasters will want to buy into.

The John Lewis model is only one of a number of models. I understand that Ed M Ayo has been tasked by Government to present four or five different options. I am able to tell you that the Federation is working on its own option which it will present to Ed M Ayo so that we end up with a model which may be based on the John Lewis Partnership model—it may not be—but will allow subpostmasters to share in the profits and success of this company once it is restructured. We believe that is a fundamental principle which will drive any new model along a path that is going to give the customers the service they deserve.

George Thomson: I think what brought things to a head on mutualisation was the last year and a half in which we had a situation where a large minority of subpostmasters were suffering from reduced income, which in some cases was quite substantial, and yet at the same time there were the highest bonus payments ever paid out to Post Office Ltd management. We said that, rather than their interests becoming more aligned, they were being more and more misaligned and we felt it couldn’t go on. You can understand that, Cathy, when a company is doing well and everyone benefits and gains bonuses. It is a bit like the Chief Executive, Moya Greene, saying to postmen, “I’m going to cut your wages by 10% and I’m going to take a £4 million bonus.” Obviously, Moya wouldn’t do that, but in effect that is what has happened within Post Office Ltd. At a time when the income of subpostmasters was reducing dramatically, we had massive bonuses paid out. As far as we were concerned that was a game-changer; it could no longer continue. That is why we have spent a bit of time and effort to put mutualisation in front of the Government. In fairness, the Government picked up our ideas not only on mutualisation but will allow subpostmasters to share in the profits and success of this company once it is restructured. We believe that is a fundamental principle which will drive any new model along a path that is going to give the customers the service they deserve.

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George Thomson: I think what brought things to a head on mutualisation was the last year and a half in which we had a situation where a large minority of subpostmasters were suffering from reduced income, which in some cases was quite substantial, and yet at the same time there were the highest bonus payments ever paid out to Post Office Ltd management. We said that, rather than their interests becoming more aligned, they were being more and more misaligned and we felt it couldn’t go on. You can understand that, Cathy, when a company is doing well and everyone benefits and gains bonuses. It is a bit like the Chief Executive, Moya Greene, saying to postmen, “I’m going to cut your wages by 10% and I’m going to take a £4 million bonus.” Obviously, Moya wouldn’t do that, but in effect that is what has happened within Post Office Ltd. At a time when the income of subpostmasters was reducing dramatically, we had massive bonuses paid out. As far as we were concerned that was a game-changer; it could no longer continue. That is why we have spent a bit of time and effort to put mutualisation in front of the Government. In fairness, the Government picked up our ideas not only on mutualisation but will allow subpostmasters to share in the profits and success of this company once it is restructured. We believe that is a fundamental principle which will drive any new model along a path that is going to give the customers the service they deserve.

Q55 Dr Whiteford: Thank you; that’s really helpful. My other point is which I share with you is about long-term, indeed medium-term, sustainability. You talk about a 10-year deal, but it is a bit longer than that. What is to prevent a very gradual erosion of services in rural areas under some of these proposals? I have a lot of questions around that, so it is a concern that is very real. The other thing I wanted to ask you about is the post bank, because in the evidence you submitted you expressed some disappointment about that.

George Thomson: We have to be honest here. We were really supportive of the post bank. It was the Federation that started pushing it about three and a half years ago. To be blunt, there were a series of two meetings within a fortnight, one with Labour and one with the Conservatives. Mervyn was also there. Peter Mandelson said point blank, “George, it’s going to cost £2 billion to fund a state-owned post bank,” which was what we wanted, “and we can’t afford it.” We then had a meeting with Jonathan Djanogly and Ken Clarke and it was a slightly harder line, even. The response was, “We now own the Royal Bank of Scotland; we now own a large share in Lloyds. If Peter Mandelson said it was going to cost £2 billion, we’re against it for theoretical and policy reasons.” It became apparent to us probably in February or March of this year that there was no way it was going to happen given that the two big parties had said no. Obviously, things changed slightly with the coalition Government coming in, but we decided to put our efforts elsewhere and try to make sure that banks like the Royal Bank have to sign up to allow their customers access to the Post Office, which is about to happen. In an ideal world I would have loved a post bank, but I know that the Treasury were not in favour of relinquishing their control of NS&I, thousands could be closed, or do you want them closer to Government where, obviously, the Government would have responsibility for their future?” So we are coming out of the group. On that point, people have already said to me, “Would it be better being totally owned by the Government and more secure, or would it be better to go along the mutualisation path?” I think that, by going along the mutualisation path but with the Government still being involved, we can make sure that local communities still have their post offices. As you are aware, 97% of all outlets throughout the UK are owned by self-employed subpostmasters. That will continue. What we are talking about is mutualisation of the central company, because really, all Post Office Ltd is is a central body that owns contracts and is responsible for discipline and ensuring that cash is paid and so on. The people who really are the business are subpostmasters. So, in our opinion, as long as the Government is in for the long term, mutualisation will present no difficulties or threats to small and rural post offices.
NS&I was part of the General Post Office until 1969. It was a post office bank for 108 years from 1861 to 1969, but again nothing came of that. Regrettably, it looks like there has not been the political will to create a post bank.

**Mervyn Jones:** I think we also need to be cognisant of the potential income that agents acting on behalf of other banks generate for the company and subpostmasters. It is not a great amount of money. I understand that subpostmasters are paid about 18p for doing a banking transaction. If you have staff, it is very difficult to meet the national minimum wage when the payment rates are so low. To come back to your point, we need to ensure that the work we get from Government is profitable and lasting work and sets the network off on a footing that allows subpostmasters to generate enough income to operate profitably. We have a role to play within Post Office Ltd to ensure that its costs are kept to a minimum and as little of the contract price that is determined between Government and Post Office Ltd sticks to the pipe. We need to make sure that as much money as possible from those contracts flows through to the end of the network and regenerates it.

**Q56 Fiona O’Donnell:** First, thank you very much for being here. I hope it wasn’t too onerous a journey. Perhaps I can start by trying to get a picture of the health of the network in Scotland just now. George, you gave us an update; there are five more branches than we thought. Therefore, we have 1,446 branches in Scotland now. How many of those are profitable?

**Mervyn Jones:** Two thirds are not. For Post Office Ltd? We need to be very clear here because this is really important. When people ask whether a post office is profitable, do they mean profitable for the subpostmaster when he amalgamates internally with a post bank? Or do they mean profitable for Post Office Ltd? When people ask whether a post office is profitable, do they mean profitable for the subpostmaster to operate or for Post Office Ltd to maintain in that community? There are two different answers to that question. To elaborate for a moment, two thirds of those branches are not profitable for Post Office Ltd to operate. They become profitable for the subpostmaster when he amalgamates internally with a retail offer. At some point, if Post Office Ltd look at the network and are put in a position where they say that these branches in rural Scotland are losing us money, then they withdraw that service or change the model to an Outreach or some other form of model. It impacts so negatively on the retail activity and overall business proposition of the individual subpostmaster that it puts in jeopardy the long-term sustainability of that business. Not only do you lose the business—the post office—but you lose the shop, and that is particularly worrying where it is the last shop in the village. It means people then have to travel to buy fresh fruit and vegetables, milk, papers and that type of thing. We need to find a mechanism where there is a recognition within the decision-making process that, by changing the current operating model because Post Office Ltd deem that outlet not to be profitable, it could negatively impact on the profitability of the individual subpostmaster who is currently running a profitable business.

**Q57 Fiona O’Donnell:** Do you know how many post offices in Scotland are currently for sale?

**Mervyn Jones:** I cannot answer that specifically, but the general trend is 10% per year.

**George Thomson:** It is what I said to the all-party group, Fiona. There is no doubt that a post office franchise is not as attractive as it used to be. There is no doubt that it takes longer to sell a post office. We all know of cases where people just hand in the keys and walk away. That is becoming a greater issue. That is why we think the status quo is not an option. On the closure programme Mervyn touched on, I think that is why all the political parties have made up their mind that we cannot have another closure programme of post offices within Scotland or the UK, because when you close a post office it rips the heart out of local retail. But, more importantly, if we are trying to encourage small and medium enterprises to establish themselves in rural areas, we must have a situation where businesses can reach a post office relatively easily, so not just for social customers—the general public—but small and medium enterprises. We must all work together to make sure the network in Scotland remains roughly where it is. People have asked me why 12,000 are so important for the UK. It is pretty simple. As a modern, developed democracy, if we can’t have one post office per 5,000 of population in the UK, we must be doing something wrong. There is no way on God’s earth we should accept a post office network that does not remain at around 12,000. Everything you do as a Parliament and a democracy should be to make sure that that continues because post offices are so important.

I’ll give an example of how important they can be in the bad weather in Scotland. I know post offices that are shops as well. Because people can’t reach some of the big supermarkets any longer, a lot more local shopping has been done until they run out. I know of shops that sold 40 loaves of bread a day, but which now sell up to 500 because all the people who leave the town to go to the Asdas and Tescos all of a sudden shopping has been done until they run out. I know of post offices as well. Because people can’t reach some of the bad weather in Scotland. I know post offices that are shops as well. Because people can’t reach some of the big supermarkets any longer, a lot more local shopping has been done until they run out. I know of shops that sold 40 loaves of bread a day, but which now sell up to 500 because all the people who leave the town to go to the Asdas and Tescos all of a sudden shopping has been done until they run out. I know of post offices that are shops as well. Because people can’t reach some of the bad weather in Scotland. I know post offices that are shops as well. Because people can’t reach some of the big supermarkets any longer, a lot more local shopping has been done until they run out. I know of shops that sold 40 loaves of bread a day, but which now sell up to 500 because all the people who leave the town to go to the Asdas and Tescos all of a sudden shopping has been done until they run out.

**Q58 Fiona O’Donnell:** What in this Bill guarantees the access criteria?

**George Thomson:** In an ideal world, Fiona, we would have liked greater access and to say it should be around 12,000. We raised that issue with Peter Mandelson and Pat McFadden. They were not keen on that. We have raised it again with both Vince Cable and Ed Davey. Obviously, they are not keen on it either. How can we create a set of circumstances that makes it likely that the network will stay at around 12,000? Funding is part of it; mutualisation, which Mervyn talked about, is part of it; a long IBA is part of it, but more importantly, the key for us is new Government work.
Q59 Fiona O'Donnell: Can you say a bit more about that? What kind of work would you like to see coming to post offices to make them viable and healthy?

George Thomson: The front office of Government is not just a phrase. You made a very good point about the contradictions and conflict. I do believe that in rural areas people who are unemployed should be able to sign on at a local post office rather than have to jump on a bus or use their own car to drive. To take your constituency, for example, someone from Tranent could sign on in Tranent rather than travel five or six miles to Musselburgh. I think that is a potential. There is an enormous opportunity for older people, who perhaps may not yet be internet-savvy, to use the post office for assisted applications, for example when they start their pensions. They could come into the post office; we could help them fill in the form; we could take photographs, if they are necessary; we can check documentation. There is also a concept called Validate where someone gets a letter from a local authority and has to take documentation to a local post office to produce evidence that his or her circumstances have not changed for the purposes of benefit payment. It was trialled under the previous Government and was a big success. However, there wasn’t a revenue stream there. There are lots of different things we can do. We want to work with the coalition Government not only to give us a viable post office network but to make sure that Government Departments can restructure and save a bit of money by using that network; but again, it is up to the Government to deliver that. It would be a disaster if all the half-promises and promises came to nothing. That is why in relation to the Postal Services Bill I said that Post Office Ltd was a financial basket-case at the moment, and it is. I thought long and hard before I used that phrase. MPs must be aware of the enormous journey that will have to be undertaken both to make Post Office Ltd profitable and then turn it into a mutualised company. It won’t be done by just a few small changes; the Government need to step up to the plate.

I’ll just finish on this point. In the past, quite rightly, various Governments of all different political persuasions have been able to say to us, “Look, George and Mervyn, society, shopping habits and banking habits have changed.” To a large extent those Governments have been correct. We have fought a rearguard action to keep work that we have or get some kind of restructuring to keep the network afloat through compensation. We have done all that, but this is the first time a British Government have taken a policy decision to remove the retail arm of a mails company from that company. It is a bold move that is not without risk. The Government have to deliver. If the Government take us out of the group—and they must do that; I hope they step up to the plate and deliver new work to the Post Office at a reasonable income level, as Mervyn said. They have nowhere to hide. They must work with the Federation, Royal Mail Group and Post Office Ltd to make it a success.

Chair: Fiona, do you want to come in?

Q60 Fiona Bruce: Gentlemen, thank you for coming and for your very clear comments. To turn back to the point about services in rural areas that Eilidh raised, how do you feel that the Outreach post office is working? I ask that from three directions: Post Office Ltd, subpostmasters and customers.

Mervyn Jones: Thank you for your question. It is something that has caused me much thought. People use post offices because they are convenient. If a post office is open only two hours a week it ceases to be convenient. If people have to stand outside in three feet of snow waiting to get into the back of a van, you question the convenience of that offer. But then there is a balance, which is that the network needs to be subsidised and the service provision in rural areas is very difficult. In truth, the company can’t afford to pay subpostmasters when an office is maybe having 50 customer visits a week. How do we as a company grasp that nettle?

For the very first time Post Office Ltd have included the Federation in a lot of discussions around the new network models and how they will work. It’s not an easy balance to achieve, but we believe that where the service can be hosted in an existing convenience store and the two businesses feed off each other, that is one model, provided the contract is right and we can negotiate on the final detail of that. From the subpostmasters’ point of view, some of the Outreach services are more profitable than others. It depends, first, on usage and the type of Outreach model being delivered. Where there is enough to generate a van to go round maybe 10 or 11 different communities, a subpostmaster can do reasonably well. In a hosted site where they go out and provide a temporary service in an existing outlet, it depends on the contract that exists between the host property owner and subpostmaster who is going out, and also its usage. If I am honest, the flat answer is: patchy.

Q61 Fiona Bruce: That brings me to my next question. What could be done to promote this service to give it greater usage?

George Thomson: If you have a situation where a post office closes and there is still another shop in the village or town and it is getting a partial service at the moment, I think the solution there would be Post Office Local, where you have a Post Office Local provision in the shop that remains. It is a cheaper option for the Post Office. The Outreach services have a role to play. If it is a post van, yes, it’s better than nothing—absolutely yes—but it’s not great. If there is somewhere else, particularly another retail outlet, that could become a Post Office Local or Post Office Essentials, I think that makes more sense because it gives the retailer footfall and the customer longer hours. But certainly we’ve got to look at the whole model. In Scotland there are about 140 post offices where we provide the service through an Outreach model. In some locations it works; in others it does not work too well at all. Again, we have to work together to try to give the community the best type of
post office for the population that use it in that locality.

Q62 Fiona Bruce: That's interesting. When you say "we have to work together", what kind of partnership working is there to look at this, and what would you like to see?

Mervyn Jones: These are all aspirations around the mutualisation of the company. We would see the National Federation of SubPostmasters having representation on the board of Post Office Ltd. George and I have discussed many times that the people best suited to protect the network are not those who manage it but those who run it and have invested £2 billion of their money to ensure that our network exists. In Scotland we have very specific issues, given the rurality of Scotland and population density and distribution, but we believe that the only way to solve these problems is for us to have a fully inclusive and meaningful involvement with the management of the company. That involves the mutualisation model which allows us to have that full and open interaction. To give an example, the business has consistently refused to allow us to see the inter-business agreement that exists between Post Office Ltd and Royal Mail Group. We have consistently said, actually, we would like to see that agreement. They have moved some way to giving us a briefing as to what is in the agreement, but we have still never managed to see it. It is getting better but it is not in the place we would like it to be yet.

Q63 Chair: I have just one or two follow-up questions. First, are you pressed for time to get away?

Mervyn Jones: No, we have time for you, Alan.

Q64 Chair: Thank you very much. That is the way to curry favour with the Chair. One issue that regularly turns up in my postbag is where a private mail operator tries to deliver a parcel to someone in a rural area and that person is out. Often a card is put through the door to say they have to go to a depot that may be 50 or 100 miles away. My understanding of the present inter-business agreement is that that parcel cannot be left at the local shop because only Royal Mail or Parcelforce parcels can be left at the shop if the shop also has a post office in it. Is that also your understanding?

George Thomson: At the moment, outside companies, or competitor companies like TNT or DHL, can use a local post office if they want to do so but they would need a commercial deal through Royal Mail Wholesale. Royal Mail would negotiate with them and then they would negotiate with Post Office Ltd. That facility has been there for five or six years. My understanding is that, apart from a company called DX, there has been no demand for that service. Subpostmasters would be over the moon if, for example, TNT or DHL were able to conclude a deal or pay for one. The problem is that they would like to use us but don't want to pay the rate. We would love a situation where they can use our offices—so, someone comes back from work, has missed the postman and can come to the local post office and pick up a parcel from DHL or TNT.

In fact we go further. Moya, the Chief Executive of Royal Mail Group, is going to be a tremendous asset to Royal Mail and will sort out the company and take it forward; I know that for a fact. What we have said is that they have postmen taking letters and packets back to delivery offices that could be miles and miles away from where the person stays. Although their hours are increasing, they are not very good. Why not as a matter of policy and a matter of course let postmen, even in towns when they have a delivery office, take them back to local post offices where the public can pick up Royal Mail Group items? That would be far more beneficial. We already have Local Collect but the volumes are very small. If delivery offices start to do that, it would be a win-win. It would be a win for the general public because it would mean longer hours—unless it is certain that we will end up doing longer hours with the new Post Office Local, it could be until 10 o'clock at night. So the public are happy with longer hours and it is nearer to their homes. I think it is also a big win for Royal Mail. We have put that to Moya, to give the customers a better service.

Q65 Chair: But you would also like to see a deal with private mail companies for the same service?

George Thomson: Royal Mail was part of the inter-business agreement. Mervyn is right. We have never seen it but we are getting close to it. I have asked whether I can be in the negotiations between Royal Mail Group and Post Office Ltd before they split the company, because it is certain that we will not have a deal. We have never seen it but we are getting close to it. I have asked whether I can be in the negotiations between Royal Mail Group and Post Office Ltd before they split the company, because it is certain that we will not have a deal.

Mervyn Jones: There is also a regulatory issue here in relation to what subpostmasters and other retailers have to provide. For instance, we have to provide a secure area generally where the mail and valuable special deliveries can be locked away. Our staff have to sign the Official Secrets Act and go through appropriate training. There are now lots of regulations about the Financial Services Act and money laundering legislation with which our staff are required to comply. I am by nature all in favour of competition, but it must be fair and equal competition. If our network is regulated to the point where it costs additional money to provide that regulatory framework to allow us to operate, others should be required to provide the same service. It should be a stipulation in the different contracts. This does not apply simply to the relationship between the Royal Mail and the Post Office; it applies also to Government. When they make up the invitation-to-tender documents, the benefit of having staff who
have signed the Official Secrets Act, and the provision of secure areas and that type of thing, should be stipulated, so that we end up comparing apples with apples and we get a fair reflection in the terms and prices of the contracts for which we bid. That is very important going forward.

Q66 Fiona O’Donnell: When you talked earlier about your own post office, I was trying to get a picture of what it would look like if it was open later in the evening. That would be such a welcome development. I hope staff are paid well above the minimum wage because of what is required of them. I am just trying to get a picture of how valuable that is. Given the security you must have in place, often when a store stays open later in a remote rural location, staffing levels drop and you might just have one person.

Mervyn Jones: That’s right.

Q67 Fiona O’Donnell: If there is money on the premises, surely there must be extra costs, resources and security issues. To what extent have you looked into that?

Mervyn Jones: Quite a bit. If I may take a couple of minutes to describe my own office, I have a six-position fortress counter. It is probably in the top 5% of the busiest post offices in the UK. We have a Londis convenience store. We have an alcohol and tobacco licence; it is the usual convenience store operation. For me to open my fortress positions outside normal hours, I would have to pay a dedicated staff member to provide that service and it is not cost-effective.

Q68 Fiona O’Donnell: So it’s not someone flitting back and forth.

Mervyn Jones: We cannot have them flitting back and forth. What has evolved is what is called a combi-till where much smaller amounts of cash are kept. It’s a safe. There is provision for cash. Therefore, it would not be the whole range of services; it would be accepting mail, bill payment and maybe some banking transactions. A lot of post offices now have ATMs anyway, so they can get their money from outside. They can’t do that if they have to have staff outside the post office counter. It also means I can multi-function my staff. Therefore, the savings that I can achieve through multi-functioning staff and increasing their capacity at the shop counter means they can accept parcels. When people come in and we are doing that type of work, hopefully, if the shop is set up properly, they will buy groceries—bread, milk and that type of thing. That interaction is really important. That combi-outlet to provide services outside existing hours would be a sustainable way of doing that.

George Thomson: We have to be careful, however, because this journey will be quite a long and slow one, by which I mean that the fortress positions will still be in place in many post offices for years to come. The offices that do the longer hours predominantly are those that will become Post Office Essentials and Post Office Local. It will be a rolling programme. I don’t want the general public or politicians to think—this is why we ask for a 10-year deal—that this will happen overnight. It will be a process and we will get there. Mervyn has alluded to why he can save money by multi-functioning the staff. Something really big has to happen. You touched earlier on the state of the network. Our big fear—I have to get it in today—is that the bulk of the funding package doesn’t kick in until April 2012. That is when £410 million comes in; the year after it is £450 million; and then it is £330 million. The restructuring, modernisation and beginning to sort out the problems starts then. That is a year and a half away. Our big problem is that we have literally hundreds and hundreds of subpostmasters in Scotland who are hanging on by their fingertips and can hardly afford to provide a service and are using pension money. We have many members over pensionable age; we have hundreds of members in Britain over 70 who provide the service. It was their private pension plan but they can’t utilise it at the moment because the market has turned. Therefore, in the next few weeks, Mervyn and I will have to sit down with Paula Vennels, Sue Huggins and their team and see how we can possibly help subpostmasters in Scotland and the rest of the UK get through this very difficult 18 months until the big changes from the restructuring fund happen and the work starts to come in from the Government. That is something we are concerned about. In fairness, we should have identified that half an hour ago. How do we keep the show on the road for the next 18 months? That is, in fairness, about as big a worry for us as the Government delivering new work. It is a big, big worry.

Q69 Chair: So what would you like to see happen?

George Thomson: The key for us is that, in fairness—and it isn’t having a go—we have had so many promises that have not materialised. About a year and a half ago the Select Committee on Business, Innovation and Skills, under the chairmanship of Peter Luff, produced a very good report which referred to a lot of things that could be done. It was put on a shelf and forgotten. There have been lots of good intentions over the past 10, 15 or 20 years about the network but it has never materialised. We do think we are drinking in the last chance saloon. Now that the Government have taken the tactical step of removing us from the Royal Mail Group—I was going to say it is unprecedented within the western model but it is unprecedented within the world—they have to get it right. The key is new Government work. We believe the Government can put down a significant marker in the next few weeks by awarding the Green Giro exceptions contract to the Post Office. As all MPs are aware, it is out to tender. We think it would be extraordinary if the Government awarded it to another company. Not only would it fly in the face of saying they will give us more work. What message would that send out at a time when Ed Davey is banging heads together in all Government Departments about new work for the Post Office? What message would it send out to Government Ministers in all Departments if the DWP is putting a contract in the opposite direction? If I was a Minister, the response would be, “I’m not giving a stuff if they’re not giving a stuff.”
We must have joined-up government. The key is that the Government stepping up to the plate and working with the new Post Office on it and the Federation to make it profitable and help us to mutualise it but continue to use the network. Mervyn and I have said over the years that we believe we have a tremendous national asset that has been under-utilised for years. We have a national asset that is the heart and soul of most communities, even though it is now down to 12,000. Under the last closure programme we have all seen what happens when you close a post office. You rip the heart out of the community and retailing. If the funding package is used properly, if the Government step up to the mark with new work and the IBA is for the long term—at least 10 years—and we work together on mutualisation so that the people who put £2 billion of their own money and provide 97% of the outlets, staff and subpostmasters are owning the company in the future, that is a vision we can get to. It won’t be easy but, by God, I hope that the next 10 years will be better than the last 10 years.

Q70 Chair: That sounds a great vision. One worry I have is your small post office in a very small remote village. Even with all this Government work, what makes it viable?

Mervyn Jones: When I am asked this question I think of Orkney. I was up in Orkney some time ago now. The thing that occurred to me was that in one of the villages there the post office was run by a lady in the front room of her home. She was a second-generation subpostmistress in the family. It was open full time and probably didn’t receive enough customer visits a week to justify it being open full time, if we are honest. Across the road was a convenience store that attracted people from outlying areas. The natural amalgamation of that community is to move the post office into the convenience store. The question for us is: how do we facilitate that move? We have a role to play with Post Office Ltd to ensure that that convenience store operator sees the value of having a post office and we allow the current subpostmistress who operates from her own premises to redesign her home so it becomes entirely a home again and doesn’t have an empty post office counter in the front living room. It can be achieved. If we look at the successful retailers like Tesco, Marks & Spencer and Sainsbury that operate now, they have different levels of service provision. You can go to one of these big out-of-town Tescos that is open 24 hours a day seven days a week and buy everything—right down to the local Tesco Express in the local community. There is an issue that the prices aren’t the same in all the different models, for the reason that Tesco Local or Tesco Express is convenient and because of that it can acquire a higher margin and so the products tend to be more expensive. I have an issue about that. But each of those models is placed to fit the community or area it serves. We need to do exactly the same thing with the post office network.

As Fiona Bruce said, I remain unconvinced about the success of the existing Outreach model, but there is work we can do to make that better. We are prepared and willing and asking the Post Office to work with us on the new models to achieve that aim.

George Thomson: In addition to that point, and I touched on this earlier, Mervyn is absolutely correct. When you have an option of two shops becoming one, we can do it. Take the last shop in the village. There will still be a need throughout the UK, particularly in Scotland which is more rural, for a Social Network Payment to make sure that physical location can remain open for the benefit of both the general public and small and medium enterprises. However, we have to be careful going forward with regard to regulation. If, for example, we move from a six-day to a five-day delivery throughout the UK and, let’s say, for example, we drop the Saturday delivery, we will have a situation where the number of mail customers on a Friday dies a death. You could have a situation where the Social Network Payment in the UK has to go up because the workload within the Post Office network has declined as a result of the diminution of the Universal Service Obligation provided by Royal Mail. Therefore, even as we go forward we have to be careful that decisions made by Royal Mail and the regulator do not impact on the Post Office network and do not result in the taxpayer picking up a greater tab because of a commercial decision made by Royal Mail Group. The Federation will still keep its specialisation in Post Office regulation; it will still keep a watching brief on postal affairs, because Royal Mail is our biggest customer by a mile. I have a great love affair with the GPO; I joined it in 1979 as an eighteen-and-half-year-old. We still had British Telecom at that time. We have gone on a long journey. I have had a great love affair with this company and I want the love affair with the Royal Mail Group to continue, even though we are having a slight divorce.

Chair: Thank you very much, George and Mervyn. We very much appreciate your staying on longer as well. Let’s hope that your vision comes into effect.
Tuesday 14 December 2010

Members present:
Mr Ian Davidson (Chair)
Fiona Bruce
Mike Freer
Cathy Jamieson
Jim McGovern
David Mowat
Fiona O'Donnell
Mr Alan Reid
Lindsay Roy
Dr Eilidh Whiteford

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Examination of Witness

Witness: Peter Hunt, Chief Executive, Mutuo, gave evidence.

Q71 Chair: Peter, thank you very much for coming to see us on behalf of Mutuo. We have you here for half an hour, I think. We are interested in hearing from you how there could be a mutual solution to the issues that are being presented in the Postal Services Bill. It would be helpful if you gave us a brief outline of what it is that Mutuo is proposing. Cathy in particular wants to pursue some points to get them on the record, and then we will discuss with you some of the detail. The floor is yours.

Peter Hunt: Thank you, Mr Davidson. Thank you for inviting me. I am very glad to be here. It is not that I didn’t want to go to Glasgow, but this is easier to get to.

Over the past few weeks, we have been talking to the Department for Business, Innovation and Skills about the Bill, and I have given evidence to the Bill Committee as well. We have produced a publication, which you have hopefully had a chance to glance at, that looks at the question of potential mutual ownership for Post Office Ltd. Rather than torture everyone with the detail of that at the beginning, there are two basic points to be made. The first is that we are saying in this document that we think that mutual ownership is a valid form of public ownership, and a valid way of maintaining public interest in public services and of holding public assets. Secondly, we think that the type of business Post Office Ltd is ideally suited to a mutual structure.

There’s an awful lot of loose talk in the press and among the commentariat about mutuals, and I hope that I will at least be able to leave you today with where my organisation stands on all this. We’re not talking about a John Lewis model; we’re not talking about any particular group of individuals who are currently involved in Post Office Ltd taking it over and running it for their own benefit. What we’re talking about is a way of safeguarding it for the public interest—to provide a public service—but to build into the structure a role for all the different stakeholders, be they Crown employees through post office branches, sub-postmasters who are their own business people, or multiple operators who might operate in one or more post offices through their retail outlets. There is an additional group of people who, in most of the comments I’ve seen, have been excluded from all this: the general public.

I’d like to make the point up front right here that we envisage that any kind of mutual structure for the Post Office would also leave a place in that structure for members of the general public. That means that you are trying to bring together a range of varied stakeholders with different interests and desires, and the only corporate structure that works to achieve that successfully is a co-operative one. All the evidence of the past 150 years, particularly of the past two or three, would point towards that. But, ultimately, we’re trying to envisage an organisation that would guarantee that Post Office Ltd would be maintained as a public service in the public interest, with no individual group being able to maintain a whip-hand or a dominant role. I can go into the detail of that through the questioning.

Q72 Chair: Can I just clarify what in particular you think might be the benefits for an area like Scotland from this, because we’ve been quite clear that we didn’t want to be focusing mainly on issues relating to ownership of Royal Mail? Nor did we want particularly to focus on things like pensions. We wanted to focus on the Scottish aspect—in particular, as it were, the outputs and outcomes, where we want to see the provision of a universal service and the maintenance of a network of post office services. Given that we are a predominantly rural country, how would the mutual model be advantageous as compared to anything else?

Peter Hunt: You’ve probably half answered your own question in that full question, because you really need to look at what the alternative structures might present to Scotland. Clearly, with the predominantly rural nature of the country and the significant reliance you’re going to find in those communities on post office services, the maintenance of a universal service is absolutely critical, and much more, I would have thought, at the front of your minds than it would be for colleagues in England. For a mutual structure you are permitting rational decisions to be taken in the interest of the overall service users, rather than simply on a straightforward, straight line business case.

To look at the alternatives, if you for example turned it into a private company, decisions would be taken for the future on which post offices the Crown should support, and which ones do we keep open? Rather than a purely straightforward economic, rational basis. That, of course, doesn’t necessarily serve the universal requirement of providing services to a disparate community. If you have a mutual structure—I’ll give you an example in a second—there is an opportunity to hear the argument for different types of service
provision in different areas, and to make sure that the business overall reflects that need, rather than simply having a one-size-fits-all approach. The example I give you is the Co-op. The Co-op in Scotland is a very good example of a business that operates and maintains outlets that other retailers would simply not bother to keep open. They’re not as financially viable; they’re much more difficult to service—particularly in the islands. Yet they choose, because of their structure, to keep them open, and they choose to continue to keep this broader service available. They can do that because they’re not focused solely on one line of profit—they’re focused on a whole range of different issues. Ultimately this comes back to the original purpose of the business. The original purpose of the business of a co-operative is to provide a service. It’s not to serve the individuals within it, but to provide a service to the people it is for. The experience of remote communities is that often, the only outlet left is the co-operative or mutual business.

The additional point I would make is that there is an opportunity in many areas, as the Government is already starting to happen, for local people to participate in the running of services, through other groups that they might have already. That’s something that I think can be explored much more easily when you have this more open and co-operative organisational style.

Q73 Chair: Just to be clear before I pass on to Cathy, you’re saying that essentially the whole of the Post Office structure would be some form of mutual, but within that there could quite easily be mutuals operating particular outlets, and that it would not necessarily be a giant mutual which just ran everything as branch offices.

Peter Hunt: That’s right. I think you would seek to avoid that. You would want to run it by maintaining what’s good about what you’ve already got and expanding that by bringing in different stakeholder groups. So you would still have owner-occupier sub-postmasters; you would still have employees of the Crown; and then you would still have multiple operators. And on top of that you would have other community groups as well. The point about it being a co-operative is that each of those different groups has a place within the business structure.

Q74 Cathy Jamieson: I should probably declare an interest as a member of the Co-operative party and as a member of a number of different co-operative organisations. Thank you very much, Peter, for outlining how you see things moving forward. I have had an opportunity to read the document. You mentioned that there seemed to be a lot of loose talk around mutuality, and that was one of the things that concerned me. So far, what I have heard from Ministers does not seem to describe a mutual business model. How far do you feel the Government are coming towards what is a genuine mutual? Are they still looking at some kind of untested hybrid?

Peter Hunt: Over the past few months, there have been a lot of ministerial statements and a lot of discussion from the Government about different types of mutuals providing public services. The truth is that it really depends on which public services you are talking about and what the specific proposals are. In most of the hubbub around this so far, the term “mutual” has been used as shorthand for employee ownership. A crucially, that is only one type and a pretty small example as a proportion of the total number of mutuals in this country. There is £100 billion of turnover within the mutual sector in the UK currently. Over 1 million people are employed in mutuals. As a best estimate, about a quarter of those are in the employee-owned sector. The largest proportion of the mutual sector is the consumer-owned sector; and it is likely to remain so for some time.

In terms of public sector reform, there are some pretty complicated questions to be answered around the involvement of mutuals in providing those services. I do not necessarily see anything wrong with groups of employees providing services on a contracted basis, but the proposal in the Bill is different from a lot of what has been discussed so far. The principal difference is that—we have argued for this from the start, and we are happy to see it in the Bill—there is a commitment to the public purpose of the Post Office going forward. That is absolutely critical. It may seem a small point, but for the organisation to stick to its knitting going forward and to stick to its primary purpose, it is critical that that is clearly stated within the Bill. I have not seen that in the rest of the discussions on public sector reform, and it is something that I would argue for in the health service, in education and in other areas too. We do see it here, so this is probably a more sophisticated take on the discussion than we have seen elsewhere.

Q75 Cathy Jamieson: We have heard a lot about how much investment is needed to bring equipment, machinery and all sorts of things up to date, but—this needs to be on the record as far as Scotland is concerned—how would the mutual business model attract that sort of investment, and would you be confident that it could do that?

Peter Hunt: Maybe I should have said this at the beginning, because there is a big caveat with all of this, which is that there is no point in considering a different corporate structure of any kind unless this is a viable business. At the moment it is not a viable business—it could not operate without subsidy. What we have said to Ministers, and to anybody, is that until that is a reality, don’t even think about changing the corporate structure. All that is predicated on the fact that, within the next three years, through the additional subsidy and investment, which they have announced, it would be possible to have a viable Post Office business.

A mutual is not a way of saving money or of doing things on the cheap. It is a way of doing things more effectively. The reality is that it would need to be a viable business anyway. In terms of future investment, the ways that mutuals find capital to invest is by borrowing against future income streams and from retained surpluses. That is even more reason why a mutual structure can only work if you have a viable business with a profitable bottom line going forward.
Q76 Chair: Following on the issue about financial viability, as I understand it there are costs associated with the closure of 1,000 post offices. How would you propose to make savings in order to make the network viable? 

Peter Hunt: Well, I think that what we need to do is to look at the post office network as a whole. There are a whole lot of other variables that need to be brought into it. That is clearly a massive part of the equation. None of us knows what is going to happen with those decisions. What I am saying is that whatever the decisions are, the outcome is going to need to be that there is potential to make savings in the Post Office as a stand-alone business, whether it is through a contractual arrangement with Royal Mail, with Government Departments or with other sources. It is not an easy thing to do.

Q77 Chair: Following on the issue about financial viability, as I understand it there is cross-subsidy at the moment from Royal Mail, in terms of common service. Would that continue under a mutual, and is your bid, so to speak, predicated on that subsidy continuing? What would happen if, say, a privatised Royal Mail decided that it was not going to subsidise the Post Office Network? Have you thought through those sorts of scenarios?

Peter Hunt: Yes. When we talk about a viable business, we are not actually saying what it should look like. We are saying that it needs to be a business that can make a profit on its own without subsidy. If that means that the only way of achieving that is for different business streams to be established in the next three years—as we understand, that is a likely run-up—that is what has to happen, and it has to happen before any transfer takes place. I don’t think it is possible for us to say which aspects of the business that currently pertain need to continue, other than that the overall bottom line needs to be profitable.

Q78 Chair: So in terms of the business agreement between Royal Mail and the post offices, are you saying that that would have to continue for your scheme to be viable, or could you operate without that?

Peter Hunt: There are a whole lot of other variables that need to be brought into it. That is clearly a massive part of the equation. None of us knows what is going to happen with those decisions. What I am saying is that whatever the decisions are, the outcome is going to need to be that there is potential to make savings in the Post Office as a stand-alone business, whether it is through a contractual arrangement with Royal Mail, with Government Departments or with other sources.

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Q80 Chair: Just to be clear though, it is possible to have a profitable business by reducing the number of post offices to one. That would meet the criteria of a profitable business. I am not clear whether you have a perspective as to how you would want to relate to the business agreement, to the cross-subsidy, to the maintenance of the number of post offices before we express a view on the merits of your proposal.

Peter Hunt: I am not McKinsey, but what I have heard is that the Government do not intend for there to be any more closures. They also intend to make investments. You would then presume from those statements that the business they would, at the end of the process, be considering mutualising would involve some of those characteristics. But you would have to ask the Ministers that.

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Q83 David Mowat: Sorry to interrupt you, but there is a big difference here. Your remarks seem to confuse what a governance structure and what an ownership structure might be. I wanted to talk first about an ownership structure. Would you see it as something that was owned by the public and some of the postmasters—groups of stakeholders—in that way?

Peter Hunt: You are quite right. The governance flows from the ownership. But the ownership structure that I would imagine would be one that permitted ownership, with the sub-postmasters as members, the multiple operators as members and the general public as members. The question of the governance arrangements is really where the negotiations are required, and discussion between the different groups to find out who gets what say in the organisation and who effectively drives the decision-making process.

Q84 David Mowat: And it would be a company limited by guarantee, would it, in terms of organisation?

Peter Hunt: It could be a company limited by guarantee, a community interest company or a co-operative. There is no reason why you would need to invent anything new. Co-operatives have been working for many years, so some kind of industrial and provident society would make a lot of sense.

Q85 David Mowat: Okay. One final point. You talk about the transparency of decision making as being important. That is not necessarily the case with existing mutuals all the time, is it? Either John Lewis or the Co-operative itself makes decisions that are not necessarily in the public domain. They manage it like an organisation.

Peter Hunt: If we had longer we could probably go into each of those examples. They are all different. The point is that they are transparent to the people who are affected by it. John Lewis would argue that its structure is transparent to the people who own it, who are the employees. Of course, you still have management. You still have management decisions taken and you have people's contracts, and you've got all those relationships to manage. But at the end of the day, the overall performance of the business is decided in accordance with the desire of the owners. The same is true of co-operatives.

Q86 David Mowat: I am not sure that John Lewis's owners, who are the employees, are any more cognisant of the decision making than the shareholders in a private company. I am not sure you necessarily get transparency from this arrangement.

Peter Hunt: I didn't really want to talk about John Lewis.

Q87 David Mowat: But you talked about transparency.

Peter Hunt: Yes, I would argue that they are more aware of decision-making processes and information. John Lewis would tell you that its employees receive information that shareholders in limited listed companies simply do not receive on a regular basis. They get weekly sales reports and all sorts of stuff like that. In a co-operative you find that the members are actively involved in the governance structure. They are not merely bystanders. They are participants and the current chairman of the co-operative group is an elected customer who has been elected to the area, the regional and the national boards. So there is a difference.

Q88 Dr Whiteford: I should also declare an interest. I am a member of a co-operative and of a credit union. I want to ask a fairly simple question: do you think that the Post Office can deliver a universal service across Scotland without some level of public subsidy?

Peter Hunt: I don't know.

Chair: That is a bit of clarity.

Q89 Dr Whiteford: My other question follows on from the big caveat you made about the need for the business to be in a fundamentally viable state before mutualisation. From your perspective, are there other pitfalls of mutual models that we should seek to avoid if we go down a mutualisation route? Are there particular things—strengths and weaknesses of the model—that we should be looking out for?

Peter Hunt: There are lots of things to look out for. The first and most fundamental—I have already alluded to this—is that, when you are designing the structure, it makes a lot of sense to involve the people who will be in that structure and making it work, so that they will feel that they have played a part in designing it. Our experience is that that gives a great deal of strength to any structure that you might come up with.

Clearly, access to capital over a long term is a difficulty for mutuals. You can see this across the entire mutual sector at the moment. It is possible to borrow and retain surpluses, but to do that you have to have a decent business. You can see examples of co-operatives doing extremely well and, indeed, acquiring. Last year, the Somerfield business was acquired by the Co-operative group from a private equity owner, so you can see examples of where this can be achieved. But again, I come back to the same point that you need a viable business to start with. There are a lot of fairly lazy comments about the pitfalls of governance in involving the public in decision making, which I reject. I don't think there are any examples that show that involving the public is to the detriment of organisations. I think that, certainly if it is an organisation that serves their interests, it needs to engage and conduct its business on an open basis. You probably need to ask somebody else for a list of pitfalls.

Q90 Mr Reid: Thanks, Peter, for coming along. If we had the model that you have described, what safeguards would be in it for small, remote, rural post offices where the business may be profitable to the franchisee because of the payments they get, but may not be profitable to the business as a whole? What safeguards would there be for small, remote, unprofitable post offices to survive?

Peter Hunt: One of the benefits of this kind of structure is that each of the different categories of player within the business has, as I say, an opportunity to make their case within the business. Given that the
starting point is that we are seeking to achieve something that involves all the different groups—it involves the bigger operators alongside the smaller operators—the contrast at the moment is Post Office Ltd, which is effectively run by business people appointed by the state. It is not run with the cooperation and assistance of the people you describe, so the chances of involving them are much greater and you can establish in the governance structure different sections to represent the different interest groups, because clearly there are huge differences between city centre and rural community operations. The mutual structure permits those different variations to be supported. As I said, if you are involving those people in the design of the structure to begin with, you have a real chance of building codes of practice between the different stakeholders that will respect the different interests.

Q91 Mr Reid: Let us say, for example, that 90% of the post offices were profitable to the main business and 10% were not. What safeguards would there be to stop the 90% ganging up on the 10% and closing them down?

Peter Hunt: I come back to the purpose, primarily, which is to guarantee the service and to guarantee that the Post Office operates as a public service, which, by inference, means for everybody. You could actually make that explicit within the governance documents between the different members. Secondly, you need to ensure there isn’t any group that can get a 90% majority and gang up on any other of the groups. That is what the governance arrangements are all about. They are about ensuring that you allow the representation of all the different groups without hindrance.

Q92 Mr Reid: But how do you distinguish different types of sub-postmasters? How do you categorise them into different groups?

Peter Hunt: That is a good thing to ask them. They would probably be the best at describing themselves. You could do it on a regional basis, you could do it on a size basis, or you could do it on the basis of the types of business they do. Those are all on the table and available for discussion, so there is no reason why you can’t have a discussion with them to work out what the best way of categorising them would be.

Q93 Chair: Before I move on to Lindsay, can I just pursue one point with you? Alan is quite vexed, as are the rest of us, by this issue of the 10% that are not profitable being dumped on, as it were, by the other 90%, and you seem to indicate that you thought it could be made explicit within the governance documents. Surely another way of doing that would be to make something explicit within the rules under which the new mutual had the contract from Government, so that Government could decide that the contract they had was not just simply to do as they saw fit. There could be a list of specifications that the service must provide, and that could be contained with that contract. Would that not be a better way of dealing with it, because otherwise you always run the risk of a majority ganging up on an unprofitable minority in order to boost their own financial position?

Peter Hunt: I hesitate to say that that sounds like a needlessly cynical view.

Q94 Chair: I ought to say that I am also a member of the Co-op.

Peter Hunt: At the end of the day, what you are looking at here is trying to create a business that matches the interests of all of the different players within it, that gives them a reason to be part of it, that gives sub-postmasters a profit out of it, that gives the multiples a reason to carry on doing it and that gives the public the service that they need. None of those things are going to be easily achieved, but they can be achieved if you have a process that allows different groups to have a say and to be part of the decision-making process. It is possible that some people might think that you could better trust the mutual to do that than Government. It is not necessarily the relationship or the contractual relationship between Government and the organisation or the purchaser of services in the organisation, but it is actually what the organisation explicitly says it is there for in its own rules, memorandum and articles. There are lots of examples of organisations that hard-wire these things, and I could write to you separately with examples of bodies that have fixed their constitutions so that certain things just cannot happen.

Chair: You can understand why we’re anxious about having promises slide away and why we want them hard-wired in some way or other.

Q95 Lindsay Roy: Good ideas are relatively easy to formulate. You’ve mentioned that we’re, obviously, looking for effective practice and to engage with stakeholders, but you’ve also used words like diversity and complexity, so what kind of support is there for mutuals? Are there working models of effective practice that can be shared with other people?

Peter Hunt: There are huge numbers of mutuals in this country. I think there are about 18,000 different businesses that operate, in one form or another, as mutual businesses, and one in three of the population are members of mutuals. There is a lot of experience of being involved in different types of mutual bodies, and standing alongside this idea is the established mutual sector, which I am effectively here to represent. We think that this is worth looking at. The organisation that I work with is prepared to help and to offer its expertise in dealing with difficult decisions and conflict resolution, which will come along from time to time. The short answer is yes.

Q96 Lindsay Roy: There is a support framework here for the development of mutuals in relation to post offices. Is that what you are saying?

Peter Hunt: In relation to post offices and the business, yes.

Jim McGovern: Thanks for coming along, Peter. Everyone seems to be declaring an interest of some sort or another, so I had better say that I am a
shareholder in Celtic FC. I don’t know if that makes me part of a mutual.

Chair: Next.

Q97 Jim McGovern: Prior to this job, I was actually a glazier and words like “franchises”, “business streams”, “stakeholders” and “mutualisation” would have been totally foreign to me. We should bear in mind that what we say here we make public, and a large majority of the people whom I represent—and no disrespect to them—would probably be puzzled by such terminology. I should appreciate it if we could keep it fairly understandable. When you say “stakeholders”, I take it that you mean private sector investors.

Peter Hunt: No, I mean the current people. If you look at the current Post Office Ltd business and put the Government aside, the stakeholders are the employees of Post Office Ltd. They are the sub-postmasters who run post offices. They are the retail outfits, such as Sainsbury’s, Tesco, Asda and the Co-op, which run post offices within their shops, and people with franchises, who might run two or three together. Those are the definable stakeholders.

Q98 Jim McGovern: Currently?

Peter Hunt: Currently, yes.

Peter Hunt: Currently?

Q99 Jim McGovern: What would your proposal mean?

Peter Hunt: My proposal would mean an additional stakeholder group called the public. I hate the language, too, but I cannot think of better words. You let the customers of the post office become members of the Post Office and play a part in its decision-making process, too. It keeps the thing honest. It keeps it true to its original intentions and, of course, the provision of services is the shared objective of all the different groups. They may not spend a lot of time with each other otherwise, but they are all interested in the same business outcomes.

Q100 Jim McGovern: Some hon. Members have raised the same concerns. I, of course, raised it before you came to speak to us. For example, in Dundee the buses used to be run by Dundee Corporation, but they were privatised and promises were made that the same route would be kept going all the time, but now they are saying that that route is not profitable any more, that it is not viable, so they are stopping it. Last night when the Scottish Affairs Committee was coming from Glasgow back to London, the front page of the newspapers at the airport said that Glasgow would not be running buses on Christmas day or New Year’s day because it was not profitable. What guarantees would we have that the non-profitable areas for post would still be maintained?

Peter Hunt: First, there are no guarantees with the current system. Post offices have been closing hand over fist for the past decade. The current system has not protected services. There are no guarantees in any structure in the future. There is no guarantee for anything.

Q101 Jim McGovern: If it were totally publicly owned and the Government were giving a guarantee that would be a more solid guarantee than a private sector guarantee, a profit-driven guarantee—

Peter Hunt: It has not happened, and it probably wouldn’t happen. We are talking about looking for the most likely structure to deliver what most people want, which is as many post offices in as many places as possible providing as many services as possible. You are looking for a structure that can do that. The most likely structure to be able to deliver that, given the caveat that you need to have viable business streams and sufficient money flowing into the system, is a mutual structure. That will defend the different interest groups within the structure. It will provide them with a voice and provide them with an opportunity to play a part in the decision making, which currently they are not part of.

Q102 Jim McGovern: Thanks, Peter. I have one other point. Early in your contribution you said that the only alternative is privatisation, unless I misunderstood you, but that is how it came across to me.

Peter Hunt: No. I didn’t mean that. I used that as a contrast.

Q103 Jim McGovern: As an alternative to a public ownership.

Peter Hunt: I didn’t write the Bill, and I didn’t write the rules. It is a Bill with the realities as they are presented. It’s up to Parliament to decide what happens to all the different services. However, if you look at what’s happened over the last 20 or 30 years, the choices have been pretty stark for public services. They have either been privatised, or kept within the state. There are examples in the last few years of services that have been separated from the state, but kept in mutual ownership, that continue to provide the services that people want to use. That is my preferred option, but at the end of the day I don’t get to choose; you guys get to choose what happens to the service.

Q104 Fiona O’Donnell: You have more or less answered one of my questions. I want to ask about sustainability. You said that it is clear that there must be sustainability. In the evidence we took from the National Federation of SubPostmasters it was clear that business needs two things to be sustainable. One is new work from Government; the other is a long-term business agreement with Royal Mail, because that is the only organisation to do business with. Do you think a five-year deal for that business agreement between post offices and Royal Mail would meet the criteria for sustainability?

Peter Hunt: They are much better qualified to talk about that than I am. I wouldn’t want to comment on that, because those may be the only two options, or there may be a third, a fourth or a fifth. I don’t know. I can only come back to the same point, which is that whatever structure is put in place, it can move forward only when there is a viable business. That means a long-term future for post office services. Whether it is on those terms or not is up to other people to judge.
Q105 Fiona O’Donnell: Who makes the decision on whether there is a viable future? If sub-postmasters say that it is not viable, and it turns out to be a five-year deal and if there is not enough work coming from Government, where are they?

Peter Hunt: The legal answer is that the Secretary of State decides, but the reality would be that if no one agrees with them, they’ve got a problem.

Q106 Fiona O’Donnell: I should also declare that I am a member of the Co-operative party. Would you see the model as one with regional co-operative or mutual organisations, as with the Co-op store? Would that be a model? We may have a Scottish co-operative or a highlands and islands one that would negotiate itself.

Peter Hunt: You could do that. That is one of the things that needs to be discussed with groups in the next few months. Interestingly, that might answer some people’s concerns about representation of rural groups or different types of groups. I don’t want to say whether it should be regional or geographic, or by type. But type there might be a different way of looking at it, but those are the sort of questions that people need to be thinking about now.

Q107 Fiona O’Donnell: Given the special relationship between Royal Mail and Post Office Ltd, do you think it would be a good idea for the mutual organisation to be a share owner in Royal Mail all when it is privatised?

Peter Hunt: Absolutely. Why not?

Q108 Fiona O’Donnell: Do you think that is something that the Secretary of State should look at putting into legislation, in the same way as employees’ shareholding?

Peter Hunt: I’m not sure they can, because the mutual organisation doesn’t exist yet. There is a bit of a chicken and egg there, although you could probably come up with a clever amendment.

Q109 Fiona O’Donnell: The Government in the meantime could perhaps hold in trust, say, 10% of the shares, and then pass them on to the mutual when it is established.

Peter Hunt: These are good ideas. From my perspective, this has been a useful session to hear many more ideas than I got from the Public Bill Committee.

Q110 Chair: Well, we are here to help. Since we have had two confessions already, it is only fair that I mention that I am a Labour and Co-op Member. I am a member of the Co-operative party and used to be a Co-op message boy. My mother’s divvy number was 1776 and, following on from Jim, I am also a member of the Rangers Supporters Trust. The fact that Alison had an outburst of coughing was nothing to do with the fact that you declared that you were a member of the Celtic Supporters Trust.

There is one thing that I would like to follow up and which I think you might be able to help us with. We have talked on a number of occasions about wanting to have a viable business, but I am not clear, from what you have told us, whether you have identified specific things that you think would be necessary to have in place to ensure a viable business model of the size that we have at the moment. People have mentioned the business agreement and guarantees about the number of post offices, but you have been delightfully vague, if I may say so, about your view on some of those things.

I am not clear whether that is because you have focused only on the principles, or whether you have thought through answers on what would be necessary to allow that mutual organisation to operate. If you have thought through some of those and think, for example, that it would be necessary for the business agreement to be available for twice as long as is currently proposed, or something similar, it would be helpful if you told us, either now or in writing. We are trying to formulate a list of items that we believe will be necessary for the Government or Ofcom to specify in order to keep the Universal Service Provision and the Post Office Network at their present levels. I understand that you want to run a profitable business, but as I said before that could be run on the basis of one. It is not just profitability that we are concerned about. Have you thought through what would be necessary to maintain the service at roughly its present size and scale?

Peter Hunt: That is too difficult a question to answer, because there is a complex series of questions and a range of issues that we are not party to.

Q111 Chair: Okay, but if you were invited to work that up in a serious fashion, are there any preconditions that you would want to put to the Government, saying, “Look, we can only seriously look at making this work if you do such and such”, with regard to the business agreement, the network, cross-subsidy, or anything else? Have you not yet reached that stage in your thinking?

Peter Hunt: I don’t believe that it is possible to do that through the legislation, if that is an answer. I do not think that it is possible to legislate for those types of things, because they move and change and are different as time moves on. At the same time, we are not party to the private business information of Post Office Ltd and, as I have said, we are not McKinsey. You would probably have to pay quite a fat fee to get that kind of an opinion from someone qualified in that. We are talking about taking at face value the commitment that the Government have made to invest in the service over the next three years and, at the same time, not to continue to close post offices. The reasonable point to reach with those two bits of information is that they intend to make that viable within the current estate.

Chair: Thanks very much for coming along. If, upon reflection, you think of something that you wish to let us know about, please write to us. We intend to make our recommendations next Tuesday.
Q112 Chair: In the spirit of the confessions that we made earlier, I ought to say that I was a Christmas postie when I was at college, and a member of Unite, but we’ll hear about all these other things from others. Billy, welcome to you and your colleagues from CWU, and to Brian from Unite. We are not particularly interested in all of the Postal Services Bill but in its impact on Scotland. In particular, we are focusing on the Universal Service Provision and maintaining the existing level, or pretty close to it, of sub-post offices. We have not been concerning ourselves so much with ownership or the pension scheme, because we see those as being UK-wide issues that are being debated elsewhere.

We are particularly focused on the two issues that I mentioned. It would help if you were able to outline your unions’ views on what guarantees would be necessary from the Government, or from someone else, in order to provide satisfactory commitments on maintaining the USO pretty much in its existing form and the existing network of post offices—not necessarily exactly the same, because of population movement, but roughly of the same scale.

Billy Hayes: To start with, Richard Hooper, who reviewed the postal services some two years ago, said that the universal service is the glue that binds the nation together—that one price goes anywhere, to 28 million addresses. In the first instance, that is obviously a big concern to us, because something like 15 to 18 clauses in the Bill undermine the whole question of the universal service. Scotland, being a rural country, is particularly vulnerable to the whole question of the diminution of the service.

The central point that we make on universal service is that once you introduce a bottom-line motive, universal service is automatically under threat. We saw only this week a very stark example of that. Yesterday, Royal Mail said that it would put an extra £200 million of it into the provision of postal services at Christmas time, and we have seen Tesco and one or two other operators pulling back on providing services because of the costs involved. We have seen Royal Mail investing in ensuring that everybody gets their Christmas mail, but there is no requirement for Tesco or other private institutions to supply these services. That is the first instance.

The other thing in terms of postal services and Post Office Counters is that there is not a postal administration on the planet that separates its post office counters from the mail business. It is not just me saying that, but a former deputy chair of Royal Mail, Elmer Toime. He should know; he very successfully ran the New Zealand postal network. There are two central things that we see, in terms of the Bill. One is that there are other issues—although I take your point, Chairman, about the remit of this Committee, so I shall not dwell on those particular points. However, the universal service is under threat, and Post Office Counters is under threat.

The previous chief executive of Royal Mail, a fellow Celtic supporter, Adam Crozier, said that the profitable Post Office Network was about 4,000. If you do it on cost alone, you are really down, and I would guess that it’s even more of a threat now because of what’s happened, so Post Office Counters is certainly under threat as a result of the Bill. The work streams that are going into Post Office Counters are a vital part of maintaining it, notwithstanding the commercial imperatives of maintaining the network. When we had a Labour Government, the Post Office Card Account was put out to tender. It was good sense for Peter Mandelson, then Business Secretary, to scrap the tendering process; all credit to him. As recently as this week, I received a letter from Ed Davey, the Minister responsible for Royal Mail, saying that he would not intervene on the question of the green giro, and all the mood music is that the contract will go to somebody other than Post Office Counters, despite the fact that the Government are saying they want to introduce new work.

So, on the one hand we have got the Minister responsible for Royal Mail and the Post Office saying that he wants to draw new work in, and on the other hand we can submit the letter from the Minister to this Committee saying that it is basically nothing to do with him. In terms of joined-up government, on Royal Mail, this Government are about as joined-up as spaghetti in what they are doing. On the one hand, we are being told that we have to get new work in, and on the other hand we are being told that it is nothing to do with the Minister responsible for Royal Mail and that it is a matter for Iain Duncan Smith. I also wrote to Iain Duncan Smith about that, and I got a response from Steve Webb—I am not sure if it was from a civil servant—basically saying that they expect an announcement in the next few days. So the universal service is under threat and Post Office Counters is under threat.

In respect of the universal service, last year we were told that TNT was going to be the saviour, and that we needed to get somebody like TNT in to sort out Royal Mail’s problems. You haven’t seen much of this in the papers, but TNT is the privatised postal service in Holland, and fairly recently there have actually been strikes in Holland—I think that there have been up to about four strikes now—because of the problems that it has there. The chief executive of TNT in Holland has described the universal service as prehistoric. He wants to move away from mail services being provided as one delivery, one collection, five days a week, as set out in the European directive. Why is Holland a very good example, in terms of looking at Scotland? Of course, as we know, Scotland is a very mountainous country. Holland is a more or less completely flat country. If they are having problems with the provision of the universal service in a privatised mail business in Holland, how many
more problems will there be in a privatised Royal Mail delivering to the communities of Scotland?

Brian Scott: First of all, if we are harming our soul, I will say that my granny’s store number was 9149. I remember it.

Chair: It was obviously a bigger co-op than the one in Jedburgh.

Brian Scott: Well, there you go. I just want to say at the outset that I would be very surprised if you see any difference between ourselves on this issue today. We sometimes have differences of opinion, but in terms of the impact that this Bill will have on the universal service, the uniform tariff and the Post Office Network in Scotland, the potential is there for it to be disastrous.

We know what the Bill says about the universal service and the uniform tariff; that it will protect them. The question is for how long. We think that they will be eroded or attacked at some point in the foreseeable future. We think that unless they can get transactions across the Post Office Network, they will reduce at all levels, and that the number of Crown offices left in Scotland could be reduced even further. To answer the question directly that you asked earlier, we have some grave concerns about the impact that the Bill would have on Scotland. We think that it really is a challenge.

Q113 Chair: Before I ask my colleagues to come in, can I just seek clarification from you on a couple of points? We are seeing the Minister tomorrow. What are the sorts of specifications or guarantees that we should be looking for, either in the legislation or in some other form, that would, first, guarantee the maintenance of the universal service provision?

Billy Hayes: Okay, I’ll give you a couple of points. Obviously, Dave or John may supplement them. One of the things is that the universal service provider, leaving aside the separation issue, should use the Post Office Network. There is no provision in the Bill for that. There is some talk of an IBA of between five and 10 years, but the universal service provider must use Post Office Counters. That is not provided for in the Bill.

What the Royal Mail gave evidence to the Business Committee, it was very keen to stress that it wanted to love Post Office Counters but it was very loth to go into an IBA. The National Federation of SubPostmasters and postmistresses has called for a 10-year IBA. In some ways, although I’m not saying that I agree with it, I understand the logic that says that once you’ve separated from one institution—we’ve seen that with our people who worked at British Telecom when O2 was separated—it’s a commercial relationship. Certainly, the USO provider should have to use the Post Office Network. There’s no guarantee in the Bill on that.

Q114 Chair: Can you tell us why, if other provisions are in place, they should have to use the Post Office Network?

Billy Hayes: You have to make a decision, don’t you, as a society: do we want a post office counters network? There’s no post office counters network on the planet that’s survived without subsidy. We decide that we want a Post Office because of what that means for communities and social cohesion, if you like. Once we decide that, then we have to give it the means to be able to survive. In a lot of areas, post office counters are linked to Royal Mail. Some small offices called scale payment delivery offices are linked to the small post offices network. If people can’t deliver items, they’re taken back to the network. Once it’s completely free-standing, it will undermine the Post Office Network, which is an important part of the fabric of communities.

Q115 Chair: Coming back to the universal service delivery, which is presently based on a six-day delivery and collection service, what is it necessary to specify to ensure that that continues? Is that presently in the EU legislation, and can nothing that the British Government do make a difference to that? Or is EU legislation more relaxed than that, meaning that somebody somewhere would have to make a ruling that it was maintained at six and six?

Billy Hayes: The EU legislation provides for five-days-a-week delivering, Monday to Friday; that includes collection. TNT is trying to undermine that aspect of the legislation. There are about 15 to 18 clauses in the Bill on the review of the universal service provision, and 15 provisions. The Bill says in clause 28(3) that there is a need for the provision of the universal postal service to be financially sustainable and efficient. The fact is, in terms of the USO provision, there is a threat to the USO because of the nature of what is being done in particular sections of the Bill. We will put this in evidence. We are talking about anything that strengthens the USO. The USO is currently only guaranteed to Royal Mail for the next three years, so there is a possibility in the Bill that there may be a number of USO providers.

Dave Ward: That is the key point. If you look at the Bill, as distinct from what the Minister often says, its provisions at the moment give Ofcom the opportunity in three years’ time to change the provider of the USO. The USO only works because it’s a universal concept, on the basis of the economies of scale that Royal Mail can bring to it. The company would also fear something else. Why would any company at this point in time, invest in a modernisation programme knowing that one of the key components leading to its investing in such a programme is not guaranteed for more than three years, as the Bill currently sits? From the Bill, you can see that Ofcom could, in three years’ time, suggest that it give Scotland to TNT, for example, or give a region within Scotland to TNT or some other competitor. That will undermine the whole concept of a universal service, because Royal Mail cannot provide that service without using its economies of scale.

Let me mention one key thing. You know that we oppose the Bill on the ownership question but, moving back from that, I think that we and the company would agree that not having at least 10 years’ guarantee of Royal Mail as the service provider is wrong, and it threatens both the USO in its concept, and post offices. The issue with post offices, where we just don’t understand the logic of what’s being proposed, is that there’s nothing that the Government
Chair: I think that we do understand much of that, and Members here will have different views on whether the legislation ought to be supported, but as a Committee we are trying to identify what the recommendations or rules are that we should be making that would guarantee the continuation of the service. You mentioned Scotland perhaps being given to TNT. If there was a stipulation that said that they had to maintain the “six and six” service, that would, to a great extent, meet our reservations about a change. What is not clear is by whom and to whom that would have to be specified.

Brian Scott: It’s also about having time to plan and prepare, and to take a look at changes for the future. Further modernisation, whatever that looks like, can’t be done by keeping the two organisations together. So, in terms of the subsidy that is being put forward, they can do that as it is now.

It all seems to come around this inter-business agreement. Our view on an inter-business agreement is that it is what it says on the tin. It’s a commercial agreement, very distinct from the agreement that sits there at the moment. We would offer evidence that would suggest that once they come to negotiating an inter-business agreement in a completely commercial environment, the cost to the Post Office Network will be significantly different from what it is now. There are inbuilt subsidies, within the organisations through their natural synergy, that will be taken away, and our contention is that that will end up with a higher taxpayer subsidy going forward, once you split the two businesses.

Chair: What’s the difference between three and 10? That is one of the questions that came up when we were visiting Glasgow. What’s the significance of extending it to 10 years from three years?

Dave Ward: Because that’s the only way in which the company can get a return on its investment. Why would Royal Mail, as a company, make an investment of this level going forward, with all the other things that are taking place around the Bill, if it doesn’t know that it’s going to be the sole provider of the universal service?

Brian Scott: It’s also about introducing the subsidy that is being put forward, they can do that as it is now?

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Dave Ward: It’s also about having time to plan and prepare, and to take a look at changes for the future. Further modernisation, whatever that looks like, cannot be done from day zero to three years. You would never get it done in that period of time; it would take a long time for a network business the size and complexity of Royal Mail across the whole of the country—the whole of Scotland. You couldn’t do that in three years, so you would never move on. You would end up staying almost as you were, and that’s just not good for anyone. So, three years is not long enough, and an eight or 10-year plan would give a degree of certainty and allow people to get on with providing a service and challenging the changes that need to be made in the future.

Chair: Would it be your view that a Scottish USO provider would not be profitable? It would be a bit like railways, in a sense, wouldn’t it? People would tend to undertake the contract for Scotland at a certain degree of subsidy rather than paying money to the Government.

Billy Hayes: The evidence is already there. The only trial on providing a parallel delivery service has been TNT in Liverpool. As far as I’m aware, there has not been one trial in Fife, Aberdeen, the Orkneys or wherever. They’re all urban areas. In a very limited trial, TNT tried to set up its own parallel service, so I can’t envisage anyone bidding for Scotland.

Chair: As I was hearing your remarks, I was trying to understand if your concern was principally about the USO and whether privatisation would let that go, or about the fact that it could be liberalised in three years. If it was a lift and shift, as you called the German system, would you be happy?

Chair: I think that we do understand much of that, and Members here will have different views on whether the legislation ought to be supported, but as a Committee we are trying to identify what the recommendations or rules are that we should be making that would guarantee the continuation of the service. You mentioned Scotland perhaps being given to TNT. If there was a stipulation that said that they had to maintain the “six and six” service, that would, to a great extent, meet our reservations about a change. What is not clear is by whom and to whom that would have to be specified.

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Billy Hayes: We’d be happier. In our submission on the Bill, we have a broad strategy on what we believe the problems are with it. To answer your specific point, any improvement, for example, if it took away the idea of numerous USO providers and just recognised that Royal Mail for the foreseeable future—

Q120 David Mowat: Sorry to interrupt. There are lots of examples of privatisations with some sort of USO-type provision. I am thinking of British Telecom.

Billy Hayes: British Telecom is a good example. We represent people in BT. If you watch the new technology programme, “Click”, this week on the news channel, you will see that the superfast broadband document, which has just been submitted by B15, doesn’t envisage everybody getting superfast broadband. It talks about communities, and there is a bit of a concern in respect of BT providing superfast broadband everywhere. How will it be managed and how will it be done? We haven’t got time to get into that, but when there’s a bottom line, the tension becomes about if you will provide the services and how they will be provided.

In terms of the USO for mail services, what is unique in the Bill is that it envisages a number of USO providers. I haven’t seen that anywhere else where there has been a liberalisation. BT has the USO. It is unique in the Bill. It was a long time before we had privatisation of BT. Liberalisation took place—

Q121 David Mowat: I agree with you. In your example, if Scotland were to have its own USO provider and it were a different one from that in London, it would clearly be less profitable, but you’d have to manage that with some inter-business agreement, such as the one that the Chairman described with rail franchises and things such as cross-subsidies. Otherwise, it couldn’t work.

Billy Hayes: But the whole point is that the current USO is 28 million addresses. It seems to me that it would be a mess. Royal Mail announced this week that it was going to invest £20 million extra just to make sure that the mail gets there while Tesco, a private company, in the same week said—legitimately—that they are not going to do home shopping as of now. Royal Mail has put in an additional £20 million—it was on the telly yesterday—to ensure that everybody gets their mail for Christmas.

Q122 David Mowat: You’re right. I won’t take up much more time, but the fact that you have got a USO provision would mean that that action couldn’t be taken by Tesco, because whoever took over the Scottish franchise would have that statutory obligation. It does leave the point that it is less profitable and there would have to be a cross-subsidy—I agree with that.

Dave Värnh: With respect, there are some differences in terms of lifting the whole company into a private organisation and suggesting that you can then franchise. First, with the USO provider in the examples you gave, that’s about running cables to places. This is about a labour-intensive operation. There is no way out of that. This is about people, in some cases, having to go to some places that are very difficult to get to. There is simply no way that Royal Mail can provide a USO anywhere if its base concept is attacked. People have to make their minds up on that. On the USO, the idea that, as the Bill suggests—and I think the Committee needs to be looking at this carefully—you can potentially break up the USO and stop Royal Mail being the service provider everywhere means that the USO concept is gone. Royal Mail cannot survive as a company, only in providing a bit of the USO here and a bit there. It does it through its economies of scale. If you take that away, the bottom line will be that it cannot be a solvent company and provide bits of the USO.

Q123 David Mowat: I suppose my question would be—and I won’t take up any more time—that if Royal Mail can’t do that, because of the reasons you describe, that would imply that nobody else could either.

Dave Värnh: Other people might choose to think that they could perhaps deliver mail to Glasgow, but they are very unlikely to want to choose to deliver mail to the Highlands.

Q124 David Mowat: That depends on the subsidy.

Dave Värnh: If you are going to subsidise it, you keep it as a public entity and subsidise it for everybody’s benefit. That is the issue.

Q125 Jim McGovern: Is the point you are making that, if the private sector comes in, it’ll cream off the profitable areas, and Royal Mail will be left with the extremely unprofitable areas, so it won’t be able to sustain it?

Dave Värnh: Exactly.

Q126 Mr Reid: You suggested that TNT might be given the USO contract for Scotland, but why would TNT want that contract?

Dave Värnh: I didn’t suggest that. I was using an example of how it could be broken up. Billy’s point is the reality. Nobody is going to pick it up, because of the rural nature of parts of Scotland and the geography of Scotland, and universal service provision is not going to be a money-making business. It was probably the wrong example. What we are trying to get across is that there are provisions in the Bill, if it is not amended, that could lead to the break-up of the USO and of Royal Mail being the sole provider of that. That could happen in three years’ time. From where you started out, I can kind of understand your saying, “We are looking at the provisions in the Bill and how they affect Scotland,” but if you support a universal service, you must make a decision on the debate about whether you want Royal Mail to be the universal service provider. Our view is that is the only way that
you will protect the universal service—if one company provides that service. It is also our view that, in reality, anybody who tries to suggest, as this Government are doing, that this is about really wanting to protect the universal service and maintain a nationwide network of post offices, but then suggests on the back of that that the only way to do so is through privatisation—that is simply not true.

Q127 Mr Reid: The universal service obligation—the six-day delivery and collection—is written into the Bill and the regulator, Ofcom, will have a duty to regulate in such a way as to maintain that. Royal Mail, or any other provider, would also be under contract to do that. So, given that it is written into the Bill, can you explain how you think that it would be subverted?

Billy Hayes: As we have said, this whole section on the provision of the USO needs to be re-examined—there should be one USO provider. It should also be strengthened in terms of the USO provider having to use the Post Office Network. There is talk of an IBA, but making the USO provider—which presumably for the foreseeable future will be Royal Mail—use the Post Office Network would strengthen it.

Q128 Chair: Can you remind us what clause that is in?


Chair: Not everyone is familiar with the exact detail of that, but it is worth having it on the record.

Q129 Mr Reid: So what would you like put into the Bill to strengthen the USO?
from the shop—here—and Royal Mail takes that access point away
agreement goes—I am giving the worst-case scenario
Brian Scott:
Q136 Mr Reid: What other company could take that
access point away. Royal Mail provides those services for
Post Office Counters Limited.
Q134 Mr Reid: Post office services do work for
Royal Mail. They take in parcels, recorded delivery
letters and special delivery items. What other
company could Royal Mail engage to do that work for
it that would have the trained staff?
Billy Hayes: First, let’s just look at what Royal Mail
has done in the last month. It has said to all its
suppliers, “We want to see a 20% cut in the cost.”
Once Royal Mail is separated and it’s a commercial
relationship, it will look at all its options, because it’s
a commercial relationship. Currently, there is a £150
million subsidy in terms of services. The footprint of
Post Office Counters is one of about 11,500 post
offices in the network. Royal Mail can look elsewhere.
Q135 Mr Reid: But say you have a village with one
shop and the post office is in that shop, where else
can Royal Mail go in that village to get those services?
Billy Hayes: Well, first, we’ve seen this before. Royal
Mail could develop its own network of outlets. Why
don’t it use its own delivery network as a post
office counter network for certain services that it
requires? There is a whole host of things. The point
is that once you separate one company from another
and it becomes a commercial relationship, that
company will examine its relationship. Donald
Brydon, the chairman of Royal Mail, and Moya
Greene were quite clear on that. Of course, in the
initial period, there will still be that network, but once
it becomes a commercial relationship, everything’s up
for grabs and everything’s up for review.
Brian Scott: The worst-case scenario, as I see it, for
a small village with a shop that has a post office
attached to it is that Royal Mail takes that post
office—that access point—away.
Q136 Mr Reid: But Royal Mail can’t take that access
point away, because Ofcom will not let it.
Brian Scott: Yes, it can. If the inter-business
agreement goes—I am giving the worst-case scenario
here—and Royal Mail takes that access point away from
the shop—
Q137 Mr Reid: But Ofcom has a duty to regulate in
such a way as to maintain the universal service, so
Ofcom cannot say that that access point can be
removed.
Brian Scott: It could in your scenario.
John Brown: If Royal Mail is a separate entity, it
doesn’t need to use that outlet. Royal Mail can have
its own—
Q138 Mr Reid: It has to have an access point in that
village, and my point is this: where can it go other
than the existing post office?
and we need to be clear about what it is we want him to specify. Simply to say a certain named provider does not seem to be strong enough. We need to be clear what it is that only that named provider can supply. Can you clarify why garages could not do it?

**John Brown:** I think that’s the point we’re trying to make; that the two companies are mutually benefiting each other. If you have a separate Royal Mail, further down the line it will look to use another set of retail outlets. Therefore, your post office is no longer guaranteed to get the footfall of the number of customers crossing the counter. That is why we are saying that the two have to be kept together, as a complete entity, because that way each feeds off each other as they go along. It provides the point that Alan made about the local post office: the only way to sustain that local post office is to have those customers coming through the door to access Royal Mail services, and probably also to access and use other services available in the shop. Our great fear is that when you separate the two, the post office will wither on the vine because Royal Mail will have found other outlets.

**Chair:** I’ll let you ponder that Alan, if you want to come back. I have Lindsay, Fiona, Jim, Eilidh and Cathy wanting to come in.

**Q142 Lindsay Roy:** If I read this rightly, not only are you concerned about the drop in the Royal Mail footprint, but that what might happen is there might not be any other retail outlet to engage with. You would then have a loss of a service, or a diminution of it. I understand the need for financial viability, but we also need to look at profit in terms of social wealth and dividend. Instead of subsidy, we need to talk about social investment. I can see that if there is a shortfall, there will be a rural depletion, that it will impact on businesses in rural communities and on rural communities themselves. Is that something that you are concerned about, too?

**Billy Hayes:** The impact on the business community?

**Q143 Lindsay Roy:** The impact on rural business communities and rural communities themselves if, for example, Royal Mail says that not only does it not want a liaison with that post office but that it is not worth its while in that area, that it is not profitable.

**Billy Hayes:** That’s a good point. It is often missed that some of the biggest users of Royal Mail are internet-based companies. As broadband becomes more common, Royal Mail is the only company that will deliver to 28 million addresses. If you go to any company now, in a particular location, every other company can say, “I’m sorry, we’re not doing that. Oh, the cost is so prohibitive, you won’t want to do it.” The UK has the biggest number of small businesses among OECD countries. The joke, “The cheque is in the post,” is not a joke to a lot of small businesses, which is one of the issues of concern to us. Again, Richard Hooper in his first report—there have been three—said of liberalisation that the people who benefited were the big businesses, and the people who had been damned the most by liberalisation were the small business users.

**Brian Scott:** On the point you are making, I think our response to that has been to work—Unite and CWU, and others—as part of the Post Bank Coalition. That is about creating a number of products, services and access points within post offices that can increase footfall and make them sustainable. So, it is about getting access to mail services and financial services, including banking facilities, and getting access to Government services and information. All that stuff can keep a post office going, because if footfall increases, turnover increases—and that makes it more viable and sustainable in the longer term.

Without sounding impertinent, Chairman, your idea of going to drop off your parcel or your letter at a petrol station is fine if you have a car, but we are going to get to the stage soon when you go to the petrol station to buy everything except petrol. You need to have a part of the community, for all sides of it, that will provide all those access points, services and facilities. That could be a post office, with a post bank providing proper financial services to communities, small businesses and the disadvantaged, including providing accounts for the 1.5 million people who have not got access to bank accounts at the moment. They are the disadvantaged in our communities in terms of being made to pay the highest rate for electricity, gas and all that sort of stuff. As I understand your question, this is all about what services post offices—not Royal Mail—should be providing.

**Q144 Lindsay Roy:** Interestingly, I read a very good paper last week, which highlighted the range of services currently provided by the Post Office Network. I showed it to a number of people in my constituency, and they were not aware of some of those services. Is the Post Office Network doing enough to advertise what is currently available through the Post Office Network?

**Brian Scott:** They say that an average post office branch can provide 170 products. I have no idea what they are—don’t ask me to list them, because I couldn’t and I haven’t got time anyway. I agree with the point that people don’t know all the products and services that are available, and they could be better advertised. The products themselves could be better, because at the end of the year half the profit from the financial services goes off to the Bank of Ireland, and only half of it stays within the Post Office. A couple of years ago, that was a share of £64 million.

**Q145 Lindsay Roy:** And the Bank of Ireland needs that at the moment.

**Brian Scott:** Indeed, but that is a different argument for a different day, perhaps.

**Q146 Fiona O’Donnell:** There are some things that I just want to confirm, because I want to be absolutely clear about things I think I have heard. Dave, you said that the power will now rest with Ofcom to review the opportunity to review the provision of the service obligation, against the background that Billy explained—efficiency and various other aspects of that—in three years’ time.
Q147 Fiona O'Donnell: Why do you think we are doing this within three years, which will be very early in the process?

Dave Varlet: We don’t understand the reason for that. The Minister seems to suggest that Ofcom will have the responsibility, and that it should therefore look to see and ensure that the service will still be delivered in an efficient way. Our reading of that is that it gives the regulator the opportunity to break up Royal Mail as the sole provider of the USO. All we are saying here is that, if you support the concept of a universal service—set aside from the ownership issue—which I think you do, and if you want the universal service to operate as it is meant to operate, it can only really effectively operate across the UK if Royal Mail is the sole service provider, because it relies on economies of scale. What we want to do is to close that loophole in the Bill. If the Minister is genuinely saying, “Actually, it doesn’t mean that,” he is not going to have a problem in closing the loophole.

Q148 Fiona O’Donnell: So, if I were to write to Ed Davey in the next year or two and say, “I am very concerned and my constituents are concerned”, will he be able to do anything about that under the Bill as it stands, or will he say, “It’s nothing to do with me, that’s Ofcom’s responsibility”?

Dave Varlet: Our view is that successive Governments have introduced regulation and allowed various different regulators to put competition in front of protecting the universal service. If you want to know where we might end up in the future, you have to go back to how we got to this point in time. The fact of the matter is that Jim’s point is right—that regulation and how it has been introduced in this country has put the universal service at risk, because it has already allowed other competitors to cream off the profitable bits of the business. If you allow that to carry on without absolute guarantees that Royal Mail will be the sole provider of the USO, this situation could develop in three years in a range of different ways.

Q149 Fiona O’Donnell: Is there anything in the Bill that says that a USO or the provider, once Royal Mail is fragmented in that way, could make it more expensive to deliver a letter or parcel to the Western Isles? Is there anything in the Bill that prevents that from happening? We have one chance to get this right. Once it is with a regulator, Parliament will not be able to revise this.

Dave Varlet: There’s no guarantee.

Billy Hayes: Clause 23 says that the service should be stable and efficient, and gives statutory powers to Ofcom to reduce the obligations. There are a number of clauses that discuss financial viability. If it is seen as a burden, Ofcom can look at reducing the USO. The point is that the central tension in the Bill is that once you privatise a company, this is the only piece of legislation on the planet that I am aware of which envisages a number of USO providers for one country.

Q150 Fiona O’Donnell: Alan was talking about access criteria and, to be clear about it, does the Bill have something that absolutely specifies in a watertight way that you will not have to travel more than a certain distance in Scotland to visit a post office, or to access the service through outreach?

Billy Hayes: Not that I’m aware of.

Q151 Fiona O’Donnell: That’s my concern. It only talks about numbers of offices, outreach and Post Office Local.

Billy Hayes: And Scotland is particularly vulnerable. I will give you some figures. There are 1,446 post offices in Scotland, 2009–10. Some 68% of those are rural, compared with a UK average of 55%. Some 21% were urban, compared with a UK average of 34%. Scotland is particularly vulnerable, as many people will know, in terms of rural provision.

Q152 Fiona O’Donnell: Of course, no one can force a postmaster to keep their post office open if it is not making money or they come to retirement age. There is nothing that you can do about it if they decide to walk away. It is whether or not you then decide to seek another provider, or you provide at least an outreach service.

Billy Hayes: Post Office is currently advertising for 57 post office counters in Scotland currently, and they are up for sale. You are right in a way, because postmasters are small business people. What you can do is put a bit of wind in their sails—for example, what Peter Mandelson did in terms of Post Office Counters, and what Ed Davey is refusing to do in DWP work. I say that because they talked about work streams for Post Office Counters. So they won’t make it so that Royal Mail must use Post Office Counters, and they won’t do it for DWP work. There’s another aspect of DWP work—I understand the point about using any outlet but I don’t know many people on benefits or child support who want to go to a petrol station or some such outlet to pick up their child benefit. The thing about the Post Office is that it’s a trusted brand. Royal Mail per se is the second best recognised brand in the UK, after Coca-Cola. It’s a trusted brand. Yes, people want to retire, and all the rest of it, but the work streams are progressively going away from the Post Office Network, and it’s making it harder and harder for postmasters and postmistresses. I should just say by the way that the National Federation of SubPostmasters represents 61% of postmasters from 11,500 post office counters. We represent an equal number in post office counters—I think coincidentally it’s 7,500. We speak also for the Post Office Network.
Q153 Chair: Can I just be clear on one thing. Is there a particular rule that we ought to seek to have applied—some sort of specification that says that the post office counter network should be maintained? I think this is the point that Fiona was drawing attention to. There’s nothing there in the Bill. Is there a particular way in which this can be done?

Billy Hayes: I think the requirement for the universal service provider to use the Post Office Network is a definite.

Q154 Chair: To be fair, that would not determine necessarily the exact number and the coverage, and the distance that people had to travel to a post office, would it? It would put more business through, and make it more likely that they were viable, but it doesn’t provide any sort of guarantee, does it? What I’m not clear about is, if we are looking for guarantees, what sort of guarantee do we look for, and from whom?

John Brown: There appears to be nothing in the paperwork to talk about the access criteria that Fiona was talking about specifically. There doesn’t appear to be anything at all that would hold the access criteria at this nominal mile away, and if something were to be in there, that could possibly firm up the access criteria for Post Office Ltd. It’s just Government guidelines as far as we’re aware.

Brian Scott: Can I mention the five access criteria that the Government and the Post Office use between them, which are also referred to in a BIS document about securing the Post Office Network in the digital age, and in other places, more recently? That gives five access criteria. I don’t think it’s referred to in the Bill, but perhaps it could be.

Q155 Chair: Right. I just want to be clear that if that was either in the Bill or a pledge in blood by the Minister, or part of a stipulation that was given to the regulator, it would overcome these reservations that you have.

Billy Hayes: Can I just play the question back, if you don’t mind, Chair. The problem is the Government have said they’ve set out a £1.34 billion subsidy, the first tranche of which was agreed by the previous Government. They have to give a demonstration in terms of the Bill, which talks about access criteria—and we have talked about DWP work. The difficulty for us is that you are posing a question to us, and we think the central thesis of the Bill—separation—demonstrably undermines the network. And we’ve provided a list. So you’re asking us almost to answer an impossible question for ourselves, but we’ve given you USO, the DWP work, and issues around that. I think your question is “Is there a number?” I think the problem with a number is that if you take away the work streams and network, you undermine the network. Once you separate and then undermine the work stream, it almost makes it impossible to maintain the network.

Fiona O’Donnell: Thank you all for your evidence. I apologise for the fact that I have to leave to attend another meeting, Chair.

Chair: Yes, a number of people have had to go, but they will all read the evidence.

Q156 Jim McGovern: In the spirit of declaring an interest before asking a question, I should say to Brian that my wife, Norma, like you, is employed by Unite. In her defence, she is a member of the GMB, like me. I mentioned Celtic earlier. Actually, I don’t know what the significance or connection is, but a lot of the people who go on the Celtic bus when we go to matches are posties, and when I go for a pint before going to a football match, generally I get a bit of an ear-bending about subjects like privatisation or part-privatisation, the pension scheme and so on. I don’t grumble about that—it’s the nature of the job, it comes with the territory. However, yesterday, as the Chair mentioned earlier, we visited the sorting office in Glasgow, and the manager or chief executive, or whatever his job is—let’s call him A Ian, because that was his name; Alan Gairns—said that he welcomed the Bill. I took him to task later and said that he was the very first Royal Mail employee I had heard saying that they welcomed the Bill. In your experience, how much favour or popularity does the Bill have among people who are employed by Royal Mail?

Brian Scott: Actually, I think the person you were talking to was the processing director for Scotland, unless I am mistaken. He probably sees a personal benefit in the privatisation of Royal Mail because he thinks that there will be share options for him. The second point is that he has probably heard that from someone else. He has probably been told that it would be a good thing for him, and he has given you the answer parrot-fashion and toed the party line.

Q157 Jim McGovern: In fairness, the Chair asked him, “When you say ‘we’, who do you mean?”, and he said, “Royal Mail”—the organisation rather than the employees.

Brian Scott: They are often concerned more about their own position and status than the public postal service, in my opinion.

Dave Ward: I don’t believe that managers at Royal Mail, if you press them, actually do welcome this Bill in this shape. I think that they have major concerns about the fact that regulation is not being dealt with. The Bill talks about changing the regulator, but it doesn’t deal with the issues that have basically set up Royal Mail to fail—the way that the access regime has been introduced. No private or public company could make money if competitors were allowed to cream off the profitable bits of the industry and it was then expected to provide a universal service. The way that has been done is fundamentally wrong, and I would be very surprised if you pressed Royal Mail senior managers yesterday on this point and they didn’t say that they didn’t like those aspects of the Bill.

What the company would say is that it needs access to capital. It would make that case very strongly. Our view is that there are ways of accessing capital that don’t involve privatisation. That is true; there are ways for Royal Mail to access capital. I suppose that where we differ slightly is that we ask the company, “What for and how much?”; we don’t say “Let’s just write a blank cheque,” and say that that is the argument as to why privatisation is necessary.
If you ask the employees, they don’t want Royal Mail to be privatised, let’s be clear. Perhaps Ed Davey needs to ask them at some point, and perhaps we need to ask our members. As for this being about trying to engage the people who work in the industry in its future and about taking the right decisions, nobody is knocking on our door at the moment saying, “Excuse me, can we privatise Royal Mail? We think it’s a good idea.” Our members are not saying that. I think that the manager who said that to you is probably slightly out of step with the company’s position, which, as I understand it, is: “The ownership is not a matter for us. We need access to capital, better regulation and the pension deficit dealt with.”

Q158 Jim McGovern: Perhaps I should be fair to the guy yesterday. He did say, “We need investment and I’m not fussy where it comes from.” That’s what he said.

Dave Ward: That’s probably the answer you will get from Royal Mail.

Billy Hayes: I think that postal workers are like the British public: whatever they vote, there has not been one poll across the whole of the UK in which privatisation has been popular. We as a union have polled Lib Dem voters opposed to privatisation and Tory voters opposed to privatisation—the Great British public don’t want privatisation of Royal Mail and, I imagine, most postal workers don’t. As Dave said, I have never heard of anyone doing double summersaults down the sorting office floor, saying, “We can’t wait to be privatised.” They are doing a very difficult job, particularly at this time of year. The strange thing about Royal Mail is that despite the difficulties, postal workers like working for Royal Mail. They value the service they give to the community. I have never heard anyone say that they are in favour of privatisation, and I think our members are in line with public opinion.

John Brown: My experience would not just agree with that; I have not had any members in Scotland phoning me up and saying, “When do I get my shares when the company is privatised?” In fact, the vast majority have said, “If there is money for shares, give it in my wages rather than as shares.” So, I think you will find that the work force across the whole of the UK would replicate that: they are not interested in privatisation in any shape or form, because they recognise that the only way that the company can continue is as is. That is why, after a lot of pain and agony that we went through last year, when Dave and others negotiated a deal and our members agreed that deal, that was the way forward for the members, because they saw that as the future for Royal Mail. They don’t want to see changes in ownership.

Jim McGovern: I should add that at that sorting office, it was quite a noisy environment, so while we were on the tour, after I took the manager to task, the other employees who were on the tour were able to speak to me privately and said, “Thanks for saying that, because we don’t agree with what he is saying.” I thought that what I actually quoted would be quite a good slogan: “Modernisation should not be privatisation.”

Q159 Dr Whiteford: I was listening with a bit of wry amusement when we were talking earlier about post offices losing business to petrol stations because, frankly, you would have a harder job finding a petrol station in rural Scotland than you would finding a post office. I think they are closing at an even faster rate. Obviously, I am very concerned about the universal service obligation, particularly across the more rural parts of Scotland. I felt that your written evidence was very helpful—as were many of the things you said today—particularly the point about how in rural communities people are actually even more dependent on post office services than they are in the more urban areas, where they have more of a choice of other providers. I asked a similar question in the previous round, but I am still very unclear about whether we can deliver a universal service on a commercial basis. I wondered if you had any thoughts about that. Is it a commercially viable proposition? That is something that I am not clear about.

Billy Hayes: I think where it starts from, as I said earlier on, is that first of all you decide that we as a nation—the United Kingdom—want a universal service. Once you have done that, and you do, what follows is a certain cost; there are 28 million addresses, 17 million residential addresses, and we are talking about delivering to your front door. I will tell you what is interesting about the USO. There is an international body, the Universal Postal Union, a tripartite body comprising the management in postal businesses, the work force or the unions, and the UN itself. All the evidence is that as societies develop—they track it—the USO comes in; it is something to do with society. People want to be connected, whether in a physical form, through Royal Mail, or in an electronic form through the provision of broadband telephony. People do want that; it is something people value.

All the evidence suggests that when you link modern technology with the idea of a USO, we are better off all round, because it means people are more connected, literally, and more in touch, but there’s a cost to that. There is a problem with what has happened with the USO in the UK. Do you know, there’s more mail delivered now by your postwoman and postman, and that they deliver 99% of mail? The problem is that the big companies are sucking out—cherry-picking, it’s called—the bits that make money; they are going to the private companies, and the bit that society wants, the USO, is being undermined, as Dave has said, in terms of the access.

Brian Scott: What we’ve lost sight of, because of European law and so on, is that the mail market is a natural monopoly. Within that, you get the cross-subsidy for items that are easy to deliver, cheap to deliver, and more expensive to deliver. We’ve lost that because, as Billy has just said, you get competitors to Royal Mail with a downstream access licence cherry-picking their way to a nice little profit. That would have been in the whole basket. As soon as you break it up into different component parts, it all starts to get much more expensive and much more difficult to achieve a profit. But I guess it could be viable. What the price of that would be in the longer term remains to be seen, because we know that we’ve got one of the lowest prices in Europe for a postal stamp. We’ve
got a good quality service—until we have the weather that we have had in the past week or so. But it’s possible, depending on how the downstream access, if it continues in the way it is going, gives the competitor a sort of subsidy, if you like. If it costs them 3p for one correspondence but 1p for another, it won’t be viable, but if you can get over the regulatory issues, it probably would be viable.

Q160 Dr Whiteford: For me, one of the great contradictions in this is how this national piece of infrastructure is going to be privatised. How do you make that attractive to private investors if it currently has lost the ability to turn a profit?

Dave Ward: This is very difficult to talk about in isolation, in the way that you started the discussion. You keep coming back to: “What is the question that the Government are really posing?” What they will say to you is, “The question we are posing is: what is the best way to maintain the universal service and the nationwide network of post offices?” Our contention is that if that’s the question, the answer is not privatisation. Can you solve the other problems that people talk about within the organisation? Our view is yes, you can solve those problems. The universal service can continue to be a good service if a couple of things happen. First, regulation must change—not the regulator. It’s not whether it’s Ofcom or Postcomm. You have to make a decision at some point about whether you’re going to continue with the current regulatory regime, in terms of access that is clearly, on any evidence, benefiting cherry-picking. That is undermining Royal Mail’s central ability to provide its core service, so you have to do something about that.

Secondly, you must allow Royal Mail to continue to use its economies of scale in order to provide the reach of that service across the UK. Once you threaten that, it’s not profitable for Royal Mail to do it anywhere in the UK. I think they’re very straightforward, simple choices that need to be made. It seems to us that people have come up with the solution here, but haven’t asked the right question. They’ve had the solution in mind and have tried to fit the arguments to reach the solution. That’s the whole point we oppose what the Government are doing. If this is about how to restore Royal Mail to financial health, well, actually, the company makes a profit, and turned in a profit last time round, although it was a reduced profit because of the money it’s losing to the competition. If you privatise that, you’re just going to create more and more of that debate. I don’t think you can separate these things. You have to look at the whole picture. On the Post Office Network, one of the things that we discussed in a previous evidence Committee, which we tried to put forward in the right terms, was this: the only reason there is any discussion going on about the need for an inter-business agreement is because somebody has decided that you have got to separate the two. It seems absolutely perverse to logic to say, “We’ve got to separate these two and, as soon as you separate them, you then have to start thinking up ways of bringing them back together again.” Our contention, again, on the Post Office Network is that if it is about maintaining a nationwide network of post offices, it is better to keep the two together to take advantage of their scale synergies. It is better to keep the revenue coming from Royal Mail. You shouldn’t put that at risk by suggesting that there is a business agreement that can be done that will be a commercial agreement. Nobody in their right mind, commercially, from Royal Mail’s perspective, will do the same deal with the Post Office Network that it does at the moment. They are not going to do that deal. They will demand more savings. They will demand the ability to pull money back from the Post Office Network, which is currently subsidising the way they provide their internal services. You are going to end up with the Post Office Network, in a commercial environment, at a disadvantage to Royal Mail. It is inevitable that it’s going to happen.

Q161 Dr Whiteford: Could I change tack and ask about something else? I thought you were making a very interesting point in the written evidence about the front-office-for-Government aspect of the proposals. I think you said in the last paragraph that you weren’t clear how the two would fit together with a privatised Post Office Network. Could you say a bit more about that? From your perspective, what are the drawbacks of that?

Billy Hayes: You talk about Post Office Counters’ network. It goes back to the point we made: the Government are as joined-up as spaghetti on this. It is not clear to us what they want. There was a report headed up by the strategic policy unit during the 1997 Government that talked about similar stuff, drawn up by No. 10 Downing Street. It talked about the front office for the Post Office Network—that was a No. 10 document. Once you say that and then start to move away from it—I suppose our scepticism, if I can put it that way, is if you say you are the front office for Government, then why aren’t the green giro coming through the Post Office Network? You may say front office for Government has gone now, but why isn’t TV licence work going through the post office counter? We managed to keep the Post Office Card Account. That’s the issue.

One thing, it seems to me—we’ve put this in previous evidence—is the question of the internet portals at post office counters; that’s a very cheap and cheerful thing you could do. I have had this experience, funnily enough, in Dundee in Scotland. If you go round London, you can usually find an internet café very quickly. I think it was in Debenhams, actually; I don’t know why. So, there could be an internet portal at a post office counter. And not just a little bit of history: an awful lot of post office counters tend to have old red phone boxes outside them. They used to be the GPO. So we’re not against it being a front office per se, but there needs to be joined-up thinking.

Q162 Cathy Jamieson: I think possibly the questions I was going to ask have been covered to an extent. One was John’s point about the hidden detail in the Bill. Is there anything else that is tucked away that has particular resonance for Scotland that we ought to pick up on and be aware of?
Billy Hayes: Not so much in the Bill, but there should be a requirement for a report to be laid before the Scottish Parliament. I know it is not a devolved matter, and we said this in previous evidence, but Royal Mail should be required to give a report. I know that there was some social network payment on Post Office Counters provided by the previous Labour-Liberal Administration, as I recall. There should be a requirement for Royal Mail. It is a very simple thing to give a report on services in Scotland. The same thing should happen in the Welsh Administration and the Northern Ireland Assembly.

The countries other than England that make up the UK are particularly vulnerable on these issues. So Scotland is a rural community. Northern Ireland is mainly a rural community and so is Wales. There should be a simple provision that Royal Mail has to report how postal services, whether Post Office Counters or Royal Mail services per se, are performing in Scotland. Royal Mail is giving evidence tomorrow. Moya Greene is a former chief executive of Canada Post. She has some experience of dealing with highlands and lowlands.

Q163 Cathy Jamieson: That was going to be my next question. We often hear about international postal services being a threat and coming in and taking over. Who provides the best postal services internationally and what can we learn from them that we should argue Ministers should adopt?

Billy Hayes: Moya Greene said when she gave evidence that our core business transformation was the best in the world, or words to that effect.

Dave Ward: I don’t know whether that was a good thing or not.

Billy Hayes: We were always a bit nervous about that, but we take our praise where we can get it. Royal Mail is a good service but the thing that is very striking about the UK mail service is that the only land border, albeit a disputed land border, is in Northern Ireland, and because of liberalisation in Europe, An Post could, if it wanted to, deliver in the north of Ireland tomorrow. Moya Greene is a former chief executive of Canada Post. She has some experience of dealing with highlands and lowlands.

Q164 Mr Reid: I just have one or two questions. You have been saying that in the present situation there is unfair competition that allows the private sector to cherry-pick. Is the status quo sustainable?

Dave Ward: The current regulatory regime?

Mr Reid: Yes.

Dave Ward: No, I don’t believe it is. I think it has to change the way that access is done. The company should be free to negotiate its access deals going forward.

Q165 Mr Reid: Is the opening up to competition by the previous Government causing a problem for Royal Mail?

Brian Scott: I think the way that Postcomm did it has been a problem.

Q166 Mr Reid: How would you like to see it changed?

Brian Scott: I think Postcomm is starting to realise—and stated quite publicly—that the previous regulation regime has not really worked. We had a session with the chief executive of Postcomm. It was a private conversation, but he admitted that if it was doing it again, it would do it differently. But hindsight is a wonderful thing.

The question is if the access pricing regime was changed to take away the advantage that competitors have, would it allow Royal Mail to compete on a level playing field? That seems eminently sensible at this stage.

Q167 Mr Reid: So what could be added to this Bill to bring about that change?

Billy Hayes: Some people in Royal Mail say to us that on the whole regulation issue, the whole section on the access regime needs to be undermined. What is not fair is that Royal Mail currently subsidises the competition. One of the things that should happen is that if the competition wants to use the network, the company should be allowed to negotiate freely with
John, when he referred to clause 32 of the Bill and the geographic and emergency exceptions. How is that any different from the present situation in which the USP does not operate, for example, on small islands where there is no daily ferry service or places where people live in remote lighthouses? Those are the geographic exceptions that Postcomm has in place at the moment. How is the Bill different from existing legislation?

John Brown: At the present moment, Royal Mail has to make a really, really robust case for any of those. The reading of this would be that that robust case would not be made any longer and that Ofcom can be the determinator. What has less to do with the geographical point is the fact that it could reduce the five days that European legislation talks about by even further for geographical areas. The Universal Service Provider, which might not be Royal Mail as was discussed earlier, could say, “We don’t want to deliver to anything north of Oban, except for two days a week. We do not want to send any mail to the Western Isles five days a week or six days a week. We just want to send it across two days a week.” That means that there would only be two deliveries.

Q172 Mr Reid: How is that any different—

John Brown: The regulator could say that that is a good enough case. It is saving you money.

Q173 Mr Reid: But Postcomm could say that under the Postal Services Act 2000. Why is that different from the present situation?

Billy Hayes: Postcomm has now been asked to review the USO.

Q174 Mr Reid: But it can look at geographic exceptions. If it reviews the USO, that can be implemented only if both Houses of Parliament agree. In common with yourselves, plenty of other witnesses of all sorts expressed concern that the number of post offices will be reduced. The problem that we have all come across is how you write that into legislation. No one has yet come up with a suggestion how it can be put into legislation that you can’t reduce the number of post offices. Do you have any suggestions? It is an objective that I would share with you, but the difficulty is how to put it into legislation.

Billy Hayes: I understand what you have said about the Universal Service Provider. Sub-postmasters are independent business people. There is then the prime office network. If Royal Mail and the Post Office were independent business people. There is then the prime office network. If Royal Mail and the Post Office were integrated and it were still publicly owned, there is no reason on right why it cannot expand.

Q175 Mr Reid: That’s not the lesson of history. It was not just the previous Government, but the Government before that and the Government before that. For 20, 30 and 40 years, we have seen a gradual closing of post offices.

Billy Hayes: We have talked about the international dimension. Let us look at Norway. It wants post offices. It is not that far from Scotland, and it has decided that it wants a certain sized Post Office Network. It has set about saying that is what it wants. People want to get us off this point. There is an issue concerning the life cycle, if you like, where particular
people are in their business and individual postmasters or postmistresses. Once you separate that out and undermine the work streams, you are making admittedly a bad situation a lot worse.

**Q176 Mr Reid:** Would you like to write into the Bill that no post office can ever close?

**Billy Hayes:** There are lots of things that I should like to write into it. If you are volunteering to submit the amendment, I will write it for you.

**Q177 Mr Reid:** Was that your suggestion?

**Billy Hayes:** No, if you pick it up, I will give you the amendment.

**Chair:** There was a proposal from Brian about the specification for post offices in the BIS document.

**Mr Reid:** But that could only be met by about 7,000. We had earlier evidence that those criteria could only be met by about 7,000 post offices.

**Chair:** Sorry, I was not aware of that, because I missed that session. Jim, you had a final point.

**Q178 Jim McGovern:** The post office that we visited yesterday in Pollok is combined with the local credit union and it seems to work very successfully. Someone asked how many products an average post office provides. I was told yesterday that the one in Pollok provides 500 products. Do you remember that, Chair? Under the last post office closure programme, there were quite a lot of statistics that I remember; seven out of 10 pensioners now get their pension paid directly into the bank; nine out of 10 new pensioners get their pensions paid into the bank; most people renew their TV licence online. Rather than write into the legislation, “You are not allowed to close a post office”, what would you like to see in legislation by way of new products and facilities that post offices could provide that would encourage people to use them more.

**Billy Hayes:** We would like to have a post office bank for starters. A post office bank was a manifesto pledge. I don’t know whether manifesto pledges play any more in this building.

**Q179 Chair:** Sorry, whose manifesto pledge was that?
Wednesday 15 December 2010

Members present:  
Mr Ian Davidson (Chair)  
Fiona Bruce  
Mike Freer  
Cathy Jamieson  
Jim McGovern  
David Mowat  
Fiona O’Donnell  
Mr Alan Reid  
Simon Reevell  
Lindsay Roy  
Dr Eilidh Whiteford

Examination of Witnesses

Witnesses: Ian McKay, Director of Scottish Affairs, Royal Mail Group, and Paula Vennells, Managing Director, Post Office Ltd, gave evidence.

Q181 Chair: I welcome you both to this meeting of the Select Committee on Scottish Affairs. As you are aware, we are looking at the Postal Services Bill and its impact on Scotland. We are particularly concerned, as a Scottish Committee, with the impact on the postal service in Scotland—the Universal Service Obligation and Post Office post offices, rather than with things that are UK-wide, which are more properly the responsibility of other Committees. It is a question of ownership and so on.

I think it would be helpful if we started off asking you to introduce yourselves, but also giving us a brief statement about how you think this might impact on Scotland in particular and on the interests of this Committee in particular. Ian?

Ian McKay: My name’s Ian McKay and I’m the Director of Scottish Affairs for the Royal Mail Group.

Paula Vennells: I’m Paula Vennells, Managing Director for Post Office.

Q182 Chair: Right, Ian, how in particular is the Postal Services Bill going to impact in Scotland and what should we be concerned about?

Ian McKay: It will certainly impact on Scotland, in the same way as it will impact right across the UK. I think our general view is that we don’t see it as a matter of concern, but it’s certainly a matter for a challenge, in the way in which we respond to the things in the Bill and the changes that it will introduce. What we are looking forward to is the opportunity to address some of the historic difficulties—in fact, some are not quite so historic—that we are having to deal with just now, in terms of funding, in particular our access to capital, the position that people are well aware of with the pensions deficit, and our need to sustain the viability and long-term future of both Royal Mail and Post Office Ltd. Do you have something to add?

Paula Vennells: Yes, I would add two points to that. One is on regulation. We are hoping that the Bill will enable us to move into an environment where the regulation will be more favourable to Royal Mail. You may think that from a Post Office point of view, that is of little concern to me, but it is the opposite. Actually, I need a very strong Royal Mail Group, as it is one of my lead suppliers for Post Office Ltd. I think, from the Post Office’s view, that is probably the main issue—as long as Royal Mail is strong, very effective and able to compete commercially then, as Post Office, that sustains the future of the post office network as well. Royal Mail is our biggest supplier by some considerable amount, accounting for most visits to post offices, and we have had a very long, very healthy and very commercial relationship for some period of time in the past, and we anticipate that will continue in the future. From the Post Office point of view, the Bill simply helps that by addressing the points that Ian raised.

Q183 Chair: May I start by asking Ian about the Universal Service Obligation? As I understand it at the moment, in the Bill there is the specification that it should be six days a week for delivery and collection, and the single price goes everywhere, but this is only guaranteed for 18 months, I think, and then Ofcom can change that presumably. What is your view on that?

Ian McKay: I’m not privy to what the Bill or the final Act will be. As far as the USO and its importance to the group and to Scotland are concerned, the USO operates right across the UK. The great advantage of the USO is that it evens out in that way the demographics, geography and other natural things which are there giving an organisation such as ours difficulties.

On the idea that the USO should be changed within a short period of time, I think we would probably come at it from a very different direction. From our point of view, the USO is absolutely central to what we do presently and what we see ourselves doing, if the Bill goes through, in a private way within Royal Mail. The USO is the absolute base rock for everything else that we do. It is through the USO that our network is able to function and to provide a service, not just in Scotland, but generally. At the moment, the bill stipulates that every three years or so the organisation that is granted the USO comes up for review. You will be aware that in other very important industries, that period of time is much longer than three years—in water, it is 25 years, or something. It would seem to us highly sensible that anyone operating a USO has a longer period of time than with things that are UK-wide, which are more properly the responsibility of other Committees. It is a question of ownership and so on.

Paula Vennells: I would add that the Universal Service Obligation, and the Post Office, that sustains the future of the post office network as well. Royal Mail is our biggest supplier by some considerable amount, accounting for most visits to post offices, and we have had a very long, very healthy and very commercial relationship for some period of time in the past, and we anticipate that will continue in the future. From the Post Office point of view, the Bill simply helps that by addressing the points that Ian raised.

Q184 Chair: And then Paula, what about your organisation? What do you think about the Bill?

Paula Vennells: Thank you, Chair. I think our general view is that we don’t see it as a challenge, but it is certainly an important challenge. As you are aware, the USO is the absolute base rock for everything else that we do. It is through the USO that our network is able to function and to provide a service, not just in Scotland, but generally. At the moment, the Bill stipulates that every three years or so the organisation that is granted the USO comes up for review. You will be aware that in other very important industries, that period of time is much longer than three years—in water, it is 25 years, or something. It would seem to us highly sensible that anyone operating a USO has a longer period of time than with things that are UK-wide, which are more properly the responsibility of other Committees. It is a question of ownership and so on.

Ian McKay: I think the Universal Service Obligation is the absolute base rock for everything else that we do. It is through the USO that our network is able to function and to provide a service, not just in Scotland, but generally. At the moment, the Bill stipulates that every three years or so the organisation that is granted the USO comes up for review. You will be aware that in other very important industries, that period of time is much longer than three years—in water, it is 25 years, or something. It would seem to us highly sensible that anyone operating a USO has a longer period of time than with things that are UK-wide, which are more properly the responsibility of other Committees. It is a question of ownership and so on.
would like to know that the basic rules of the game are not going to change the next day, in a year and a half, or even in three years. You would want it to be a perfectly reasonable length of time. We would be more than comfortable with that period of time being longer.

Chair: Can I ask Alan Reid to follow on?

Q184 Mr Reid: Thanks for coming along this afternoon. At the moment both Royal Mail and Post Office Ltd are part of the same group, but if the Bill goes through you will be separate companies. I believe that there will be an inter-business agreement between the two companies. Can you tell me what will be in that and for how long you intend it to operate?

Paula Vennells: There is currently an inter-business agreement between Post Office and Royal Mail Group, as I’m sure you are aware. It is a particularly commercial agreement and there is always some robust debate about when it is put into place. We anticipate something similar going forwards. Both of us—Royal Mail and Post Office Ltd—are concerned that that can be as long as possible. I think Moya Greene, the group chief executive of Royal Mail, said that it was unthinkable that something could be in place that was too short a period of time. We would like it to be as long as possible and as robust and commercial as it is currently, frankly.

Q185 Mr Reid: You say it’s as long as possible—will it be 10 years, 20 years or 25 years? Has thought been given to that yet?

Paula Vennells: That decision hasn’t yet been made. We are both trying to make it as long as we possibly can. The current one runs until 2014, and I would like it to go much further out than that. But I would say that, wouldn’t I, because I am the managing director of Post Office.

Ian McKay: I think, generally speaking, this isn’t anything new. It has existed within the group ever since there has been a group. There has to be that kind of contractual relationship between the two parts. From our point of view, internally, there is nothing new. It has always been there, and it is there currently until, as you say, 2014. We recognise, however, that as the Bill goes through, and any legal status changes accordingly, we are on record as saying that that would be negotiated prior to the separation actually happening. I hope both of those give comfort in the sense that we see the importance of it, as well as the importance of all of us knowing the rules of the game thereafter, because that is important to us in the bigger picture.

Q186 Mr Reid: Are you saying that you are not aware of any legal restraint on the length of time you can sign that for?

Ian McKay: I don’t think we have got to the stage yet.

Paula Vennells: There are lawyers looking at it, because all sorts of factors come into play. The important thing for the Committee to note is that both the businesses are coming from exactly the same starting point—as long as possible and as commercially robust as the current one is.

Q187 Mr Reid: The evidence we have heard is that the amount that Royal Mail gets from other companies to up or downstream access is not sufficient. Can you explain how you have managed to get into that situation?

Ian McKay: As you know, we are starting from a position where Britain was quite early into the commercialisation of the postal services market, so a lot of things happened quite quickly, and some other countries have not caught up with us yet. Part of that history was that the way in which the market in Britain has tended to open up is that people have come in at the start of the delivery process. It is quite a mature market now—there are 50-odd companies operating—but there isn’t really anyone who competes with us in terms of end to end, who is going out collecting—

Q188 Mr Reid: I understand that, but why have you got into this situation?

Ian McKay: The reason I’m giving you that background is that if someone is coming into the market and only taking bulk orders from a big mailer and then passing them to us for the final delivery, which is by and large what happens—in fact, it happens in something like 60% of all bulk mail; that is where we now are—the regulator establishes the price of that transaction, because obviously there is a price that they are giving us.

Q189 Mr Reid: The regulator fixes the price. When the regulator fixed the price, did Royal Mail consult? Did you argue for a higher price?

Ian McKay: Indeed. It was done in the normal way. The difficulty we have is that the price that was established actually ended up with our losing something like 2½p on every item. When I say to you that that is 60% of all the bulk mail and 40% of all addressed mail in the whole system, it means that it costs us something like £160 million a year.

Q190 Mr Reid: We keep on hearing that Government Departments, for example, are awarding contracts to private companies for that part of the business. Why were you not able to compete with those private companies and win that business?

Ian McKay: We are debarred from competing by regulation. We are not allowed to do that. You have to remember that, at the start, we were the monopoly.

Q191 Mr Reid: Is that by legislation or by decision of the regulator?

Ian McKay: It’s a bit of both really. The regulator is established by the legislation and than makes the decisions. Our argument is that they set the wrong number. Their assessment of the market was wrong, and we ended up in this position. It is also one of the reasons why, even though the present Bill has the provision for a change in regulator—an important change—that takes us more generally into communications under Ofcom, which most people would see as a very sensible move, any changes
coming therefrom are really quite far down the road. It might be two or three years before we actually see changes to the situation that I am talking about. Our difficulty is that we would like to see change in that regulatory regime right now, because we are continuing to be damaged right now. It will mean that there will more of a run-off—us subsidising our competitors—until we get to the point further down the road when Ofcom, or whoever, is in a position to address it. It is a very real and immediate problem for us.

Q192 Mr Reid: One further area I want to pursue is that of parcels. We heard evidence when we were up in Oban that Parcelforce was actually cheaper at delivering to the Highlands and Islands than many private companies, yet the companies that are actually producing the product are often giving the contract to private companies, not to yourselves. Have you made any efforts to win that business?

Ian McKay: We have, and we continue to argue, in particular, with internet retail companies, which as everyone knows, is a vastly expanding area. We are constantly seeking from them that they give customers choice. Our belief is that when you go on a website and order your Christmas stuff from whomever, were everyone to be given an option as to their carrier, we would be in a very good position, particularly from a collection point of view. I can tell you anecdotally, in my own case, that if something is brought to me by Royal Mail or Parcelforce and I am not in, I have a 200-yard walk to the local post office to collect it. If it is brought to me by other carriers, I have a 70-mile trip, a 140-mile round trip, to go and collect that same item. From my point of view, given that choice as a customer, I would like to see that happen.

Q193 Mr Reid: You are talking a good sales pitch, but why, as a company, have you not been able to win that business in practice?

Ian McKay: I can assure you that we have tried very hard so to do. In a sense it is not even winning the business, it is getting retailers to act in that way. I know that Consumer Focus gave evidence earlier, and we were very pleased that in its detailed look at the parcels market in Scotland only last year, one of its recommendations was along the lines of what I am saying—that at the point of purchase customers should be given the option of carrier. They can then elect who is bringing the thing to them. We were very happy that a third party had looked at the whole situation and agreed with us that it would be a good thing.

Mr Reid: Thank you.

Q194 Fiona O’Donnell: May I ask a follow-on question? I wonder whether part of the reason why it cannot compete, Ian, is because some mail order companies pay drivers 50p a parcel, which is well under the minimum wage, and Royal Mail does not treat its employees in that way.

Ian McKay: I don’t think we would comment on the business practices of others. Clearly, we will have certain set costs, and even the CWU would agree that we have very good terms and conditions for our drivers and for everyone throughout the group. That is important to us and what we certainly would never do is cut corners on things like health and safety and the rights of our employees, for the sake of making a couple of bob.

Q195 Cathy Jamieson: On the same issue, do you think that people are aware, by and large, that when they are ordering from the internet they may not get Royal Mail or that they will not get it delivered to their door? Is there something in those terms, so that the organisations or the companies ought to specify exactly what delivery they will get? Otherwise, they assume it is you guys, and when it is not, you also get the blame.

Ian McKay: Notwithstanding anything to do with the Bill currently before the House, and notwithstanding your efforts at looking at the postal services in Scotland, I think that this issue—the right of a customer to have that information available to them at the point of sale—is something that we would support anyway. I suspect that not only Consumer Focus, but an awful lot of other consumer groups, would support that as well. A anyone who is adding the price of the item that general point about consumer rights will find us in full support.

Ian McKay: That’s my point. What we would like to see is retailers making that opportunity available to customers. Basically, when you get to the end of buying it and put in your credit card details, there is a page that asks who you want to bring it.

Paula Vennells: And some do. We are working through our central marketing department in Royal Mail, where we have major clients that we deliver for, and often now you will see the Royal Mail logo. We are pushing that as a company. Your point, Ms Jamieson, is very helpful. There is a point of principle on this, around consumer choice. Sometimes that choice is there, and it isn’t necessarily branded very obviously.

Q196 Jim McGovern: On that same point, does the buyer have any right to say, “I want this item to be delivered by Royal Mail”? If I may, it’s the clarity on the website. For instance, Parcelforce won Screwfix, which is a huge parcel distributor both in terms of business-to-business and consumer, quite recently. That was a great one, and it’s very obvious that it’s Parcelforce doing the delivery. The point I was trying to make is that at the point of purchase customers should be given the option to say, “I want this item to be delivered by Royal Mail”.

Ian McKay: That’s my point. What we would like to see is retailers making that opportunity available to customers. Basically, when you get to the end of buying it and put in your credit card details, there is a page that asks who you want to bring it.

Paula Vennells: And some do. We are working through our central marketing department in Royal Mail, where we have major clients that we deliver for, and often now you will see the Royal Mail logo. We are pushing that as a company. Your point, Ms Jamieson, is very helpful. There is a point of principle on this, around consumer choice. Sometimes that choice is there, and it isn’t necessarily branded very obviously.

Q197 David Mowat: Do you have a view as to why you do not win this work? Is it that the opposition is a lot cheaper than you? You said that the online retailers do not choose you and you must have done some analysis as to why you failed to win the work.

Ian McKay: With all due respect, I didn’t say that the online retailers don’t choose us. I’m saying that, in our view, it would be good were consumers given a choice by retailers.
to make is that we do a number of them, but it isn’t obvious on the websites of the online retailers that it is Royal Mail doing it. Where we can, we influence them and say “Please put our logo on there”, but at the end of the day, if there was a consumer recommendation from an independent body that almost insisted that that was best practice, that would be even more effective than the work our colleagues in marketing are doing.

Q199 Lindsay Roy: If I’ve made a choice through a retailer and that’s made known, are there differential rates? In other words, are you able to compete with the Royal Mail logo against other organisations?

Ian McKay: I think we’re very competitive. One has to remember that the parcels market is probably one of the most competitive markets that there is out there in the UK. Certainly, there is an awful lot of competition. Clearly, retailers—online or otherwise—will also have their own criteria. It might be price. It won’t always be price. I think you would see, were you looking at any of Parcelforce’s literature, for example, that we don’t compete on the basis of being the cheapest. We actually set an awfully high standard by our quality of service and by that side of the business.

If one were simply applying cheapness as the only criterion, it may well be that Parcelforce wouldn’t be the one you would look for. But if you were looking in the round for proper quality of service and a good service, that’s where I think we compete within the market. But, as I say, you’re dealing with a market that is very competitive and where there will be different criteria applied by the retailer as well as by the consumer. All that we’re saying is, in that balance, give the consumer more voice. Our view is that if that happens, an awful lot of consumers will choose Royal Mail and Parcelforce.

Chair: Eilidh has been waiting patiently.

Q200 Dr Whiteford: Good afternoon. I’d like, if I may, to take us back to the USO, because I’m sure you’ll appreciate that from my point of view in the rural hinterlands, the USO is critically important, as is access to the network of post office outlets. They are an essential piece of the infrastructure. The key question I want to ask is the question that Alan asked about the three years and whether it is long enough. It’s interesting to hear you say that it’s not nearly long enough, because, certainly from where I’m standing, I have very grave concerns that after three years we’ll be left high and dry if safeguards are not put in place.

A question that I’ve been asking lots of people who have been before us is whether, given the reality of the geography of Scotland, it is ever going to be commercially viable to have a Universal Service Obligation across the whole UK. A lot of the discussion here has been predicated on Royal Mail and the post office network being sustainable commercial propositions as businesses. I haven’t heard an answer yet that’s convinced me that we’re going to be close to that and preserve the Universal Service Obligation at its current standard.

Ian McKay: Perhaps Paula will say something on the post office network as well, because I think the two are intrinsically linked. In our view, the USO is the starting point. In a sense, it doesn’t start from the issue of commercial viability. It starts from being a principle that says wherever you are, there should be a common charge for your letters and parcels of a certain size to go to anywhere else within the nation state that is making that decision. That’s the principle. It is necessary, thereafter, to make sure that the USO is as small a burden on the state as it can be. What we are arguing is that we are very proud operators of the USO, we wish to continue to operate the USO, we have no plans to change the USO, and we don’t have any wish to see the terms of the USO change. What does need to happen, however, is that we need to be as efficient as possible in being the deliverer of that USO, and we need to make sure, therefore, that any burden that there is on the public purse in order to keep it going is minimised. That’s against a backdrop where we’re all aware that the mail’s market globally is falling though the floor. We are having, therefore, not only to think about now and the modernisation that we’re doing now in order to be as efficient as we can, but to look into the future and see that the need for modernisation is not going to go away. We’re going to have an awful lot of stores by our quality of service and by that side of the business.

The other area where I think there has been a lot of vagueness in the discussion today is models of mutualisation. I just wonder what kinds of models of mutualisation you think might work.

Paula Vennells: There are two answers to that. The first is that to mutualise you have to have something to mutualise, so in terms of the Post Office we’ve actually got to see through the transformation programme first, otherwise it’s going to be difficult to find any models of mutualisation that would make good sense, because it’s about recognising what was published in the Government policy document and the £1.34 billion funding that was awarded, which we are very grateful for.

Secondly, assuming that we can deliver that transformation programme—I’m very confident that we can—what models might work? The Government have put in place a review that is currently under way, and with which we’re working very closely. It is run by an association called Co-operatives UK and is headed by Ed Mayo, who used to be the chief executive of Consumer Focus—or its forerunner—and is therefore someone well versed in this area. The review will produce four or five different options for mutualisation that might work in a post office environment. It could be anything from the cooperative model that works in the Co-op, which is an almost entirely consumer-based one, to the employee-based model in John Lewis, or a trust, or some of
the things that work in mutual charity organisations. What’s important for us is that we’ve been involved in the discussions and feel that, whatever they come up with, we can make it work. A final point, bearing in mind that you want short answers, is that from a Post Office point of view it’s a promising concept, because if we can tie in local communities and local authorities—more local involvement in terms of what post offices need to deliver in communities—that can only be a good thing.

Q202 Chair: Can I return to the question of the USO? Unless I’m mistaken, the USO requires a substantial degree of internal cross-subsidy, and Scotland, as a region that probably has a disproportionate amount of the cost, is effectively being subsidised by the rest of the network for the provision of the USO. Is that fair?

Ian McKay: I think that Scotland’s demographics and so on are more of a challenge, yes.

Q203 Chair: Is that a yes? It would be helpful if you answered the question I asked you, rather than another question you wish I’d asked you.

Ian McKay: That would be a yes, Chair.

Q204 Chair: And in that context as well, at the moment urban areas are effectively subsidising rural areas.

Ian McKay: A gain, it depends on what the character of the mail is. Yes, that might be the case in some places, but it depends. For example, the mail market tends to be dominated by very large mailing agencies. An awful lot of the volume comes from banks or financial services, or something like that. Their customers will be spread; they won’t all be in urban areas. Their mail is going all over.

Q205 Chair: I understand that, but can I be clear though? For a bulk mailer, will it cost less to deliver in an urban area than in a rural one, on average?

Ian McKay: If you had a separate operation to ourselves, yes, but our network is designed—

Q206 Chair: No, I understand that. So, there is an element of cross-subsidy there.

The point that I wanted to clarify is that we have the USO, as specified in the legislation, and we are worried about the tension between the desire to have costs cut and the universality and frequency of the service. We are told that Ofcom can designate one or more postal operators in accordance with the standards set out in the universal service order. Presumably, if that were split on a geographical basis, in some areas TNT would be the universal service provider, in other areas it would be Royal Mail and in other areas it would be other people. This comes back to the question of some areas being more expensive to deliver in than others. Therefore, in a situation of competitive tendering, I can see that Scotland would be a less attractive market if the country were split geographically, than some other areas. What I am not clear about is what scope there would be for cross-subsidy in circumstances where there were different operators working in different parts of the country.

Ian McKay: I hear what you’re saying, and there are many ifs and ands about the way in which the legislation could be interpreted or, indeed, how the legislation that is currently going through might end up. I’m afraid that they remain ifs and ands. The situation as it actually is, and that we have to deal with, is that there is one USO operator and we are geared up to collect and to deliver the final mile—in Scotland, most of the time that is the final 20 miles—right across the whole of the UK. So, our operation is geared up that way, and it will continue into the future to be geared up that way. There are lots of hypothetical “others” that could happen, but that will be for others.

The one point I would make to you is that, through European legislation, there are currently other ways, were the USO not washing its face, in which the regulator can assist that process, particularly, as in the British situation, where others are in the market, but are not doing it at the end—the final delivery and so on—because the main cost is clearly at our end of the equation, where we are having to physically collect and deliver the mail. European legislation is already in place to equalise that, but, as I say, I would not speculate on what might come out of this, were it organised in another way. We can only live in the world that we live in.

Q207 Jim McGovern: I’d like to thank Paula and Ian for coming along. I have already indicated to the Chair that I have another meeting at 3 pm, but I will try to get back later.

Members of the Committee visited the sorting office in Glasgow on Monday, and met Julie, who was one of our tour guides, as it were—and very good at it, too. The person in charge of the Glasgow sorting office said, “We welcome the Postal Services Bill.” The Chair put to him, “What do you mean by ‘we’?” He said, “Well, Royal Mail.” I am in regular contact with a lot of posties in my constituency of Dundee West, and the only person I have ever heard saying, “We welcome the Postal Services Bill,” was the person in charge of the Glasgow sorting office. Do you believe that the employees welcome part-privatisation or total privatisation, or do you think that they would prefer public ownership?

Ian McKay: As you and some other members of the Committee know, I have a long personal association with the public service, and with different forms of delivery within the public service. What people who deliver those public services value is that the service is protected, their jobs are protected, and the public, who are the beneficiaries of those services, have at the end of the day a good service, which they pay for through their taxes and so on. My view is that what we are putting forward—in terms of our case on the need to address the pension deficit, the need to address our lack of capital and the need to address the regulatory situation—is the way in which we can ensure that these services to the public, and Royal Mail and the Post Office as entities, go forward into the future in a stable and secure way. That, in my
I actually think that the vast majority of our employees think?

Chair: A number of other people want to come in. I think that is clear.

Q208 Jim McGovern: Have you got a view on what the employees think?

Ian McKay: I actually think that the vast majority of our employees would agree with the view that I have just given.

Q209 Fiona Bruce: My question is directed to Paula, but thank you very much to both of you for coming. It relates to Outreach post offices and how effective you think they would be in meeting the needs of rural customers.

Paula Vennells: My answer is fairly straightforward—very. As some of you will know, post the last closure programme, Network Change, we were able to respond to the national access criteria—particularly in Scotland, because there are some challenges due to the terrain and the remoteness—through the Outreach services. We do know the view of the customers and of the sub-postmasters—both the cause and the local people operating them. The feedback has been very positive. Particularly in the Outreach, we have been able to address the widest range of services to the communities they are going to, so people can take the tax disc with them and do the sort of work that they can do in a main post office in an urban area.

Q210 Fiona Bruce: That is very interesting. Can you give us some examples of how this has worked in rural communities and perhaps how they could be built on to continue the network and the service?

Paula Vennells: Yes. In almost all cases of the Outreaches, what has worked particularly well is having different types of models. So we don’t just have the single Outreach model, but a mobile one that goes to some of the most remote areas. We also have a home service that operates, literally, in some cases, in somebody’s front room a couple of mornings a week. We have a host of services that might be in a local pub, a community hall or a church hall, which is set up at specific times two or three times a week. We finally have a partner model, which is usually in smaller shops and villages. What has worked well is simply the range of post office services and the fact that they are tied into a core post office, so that there is always the security behind it—that you have an experienced sub-postmaster managing the cash, the range of services available and the regulation and form-filling that has to go with it. What we deliver in what looks like a very eclectic range of services is something terribly professional, out to some of the most remote communities in the UK.

One of the interesting things from that is that both the hosted and the home services carry a lot of the post office in an attaché-type case. One of the lessons that we have taken from that—we are grateful because Scotland actually helped us do this—is that it is also something we are now thinking of applying in some other urban locations. Where we have pressure on needing to deliver additional services, we have been able to build that off the back of the Outreach.

Q211 Fiona Bruce: Thank you. That was also very interesting. So what you are saying is that those customers who use the Outreach service have confidence in it?

Paula Vennells: Yes they do.

Q212 Fiona Bruce: How can we promote the Outreach service to a broader range of customers?

Paula Vennells: That is done in two ways. In most cases where Outreaches work, they’re in communities. The small communities tend to be quite tight anyway, so there is word of mouth, posters and information about hours of opening. If it is in a pub, all the pubs have that available, and if it is in a church hall, there is a poster on the door. Within the communities, it is well promoted. Also, within the core sub-post office, that is exactly the same.

The other area that we would look at going forward is where we get post offices changing hands or closing, we would work with local councils, parish councils and local authorities to promote the services. I would simply say to the Committee that if you have any other suggestions, we would be more than happy to take those on. This is something that works for us, and we want to continue it being successful.

Q213 Fiona Bruce: And you therefore see that as a real way forward?

Paula Vennells: Completely.

Q214 Dr Whiteford: We have had evidence in the Committee from people in my own constituency, who are really very unhappy with the Outreach service. It is more popular in the summer than in the winter, when people are standing about in the cold and wet, waiting for a van that may be late. There isn’t any shelter provided.

There have also been consistent technical problems with computers. Sometimes telecommunication signals have been problematic, and so has back-up when staff go on leave. I think it would be remiss of me not to raise that with you when you’re here, because you are obviously getting very positive feedback about the service. Actually, I’m getting very mixed feedback from the people using it.

Paula Vennells: I am not getting biased feedback either, so I am aware that there have been technical problems and that the ones that have been explained to me have been sorted out. If you want to drop me an e-mail later, I will be happy to look into specific issues, because it is very important, as Fiona has pointed out, that those things work in future. In the past 10 days, it has been quite difficult to make everything work, but we have not run out of cash across the Post Office Network, and making cash available is one of the most important things we do.
Q215 Dr Whiteford: The weather wasn’t that extreme last week for people in the far north.
Paula Vennells: If there are ongoing problems in your constituency, please let me know.

Q216 Chair: To be clear about those other Post Office Essentials and so on, am I right in thinking that they can cap benefit payments so that people can only draw a certain amount of money on one day? Yes or no?
Paula Vennells: No.

Q217 Chair: Well, the evidence that we’ve heard indicates that some of them limit the amount of money and, similarly, can’t always pay traditional paper bills, or pay by cheque, and customers can’t always apply for passports or driving licences or send larger parcels or heavy international items. Some of those services would be restricted quite considerably in those smaller offices.
Paula Vennells: The answer to that is that a Tesco superstore sells many more things than a Tesco Express. The point about Post Office Essentials is that it deals with 95% of customer visit requirements and 85% of all the products and services that we offer. You are quite right that there will be some things that cannot be done in Post Office Essentials, but in the vast majority of instances those products and services are available. Of the customers using those, 98% are extremely satisfied, and seven out of 10 operators would recommend them to someone else.

Q218 Chair: The evidence from Consumer Focus indicates that part of the problems with Post Office Local included benefit capping, where branches limit the amount of money that people who are collecting benefits, such as a pensioners, can withdraw in a single day. That does not seem to us to be a particularly good service.
Paula Vennells: I would be concerned about that and would need to look into it, but that is the first time I have heard that criticism.

Q219 Chair: Does Consumer Focus not normally correspond with you?
Paula Vennells: Yes, it does, but I have not heard that criticism.
Chair: I find it surprising that you have not heard that from Consumer Focus if I have.

Q220 Fiona O’Donnell: To follow on from the question asked by the other Fiona, how many outreach services do we have in Scotland?
Paula Vennells: You have about 150 or so, I think.

Q221 Fiona O’Donnell: How many post offices?
Paula Vennells: 1,436.
Fiona O’Donnell: So it’s close to 10%.
Paula Vennells: There are more in Scotland, but it is not that far off the national ratio.

Q222 Fiona O’Donnell: I don’t know whether you’ll be able to answer this question, but part of the reason why the Federation of SubPostmasters supports the Bill is the £1.34 billion investment. My understanding is that about half of that will go into subsidising the network over the three years from 2012 to 2015. What will the other half of that figure be spent on?
Paula Vennells: The £1.34 billion is intended to achieve a number of different things, so I am not sure that I would have carved it in half. There are two or three main planks. The first is that we will restructure the network. I will go back to my Tesco analogy, where you have a Tesco Superstore and a Tesco Express. We segmented the Post Office Network and have identified approximately 4,000 locations across the country that will be termed “main post offices”, and they will have the full suite of post office services, including all the mail services, the full suite of Government and financial services and everything the Post Office does.

Q223 Fiona O’Donnell: I am interested in how that money will be spent. How much will that cost?
Paula Vennells: We haven’t got down to splitting it up exactly across the different things that we are doing. Now that the Government have issued the policy statement, which was literally only about three or four weeks ago, and confirmed the funding, one of the pieces of work we have to do is to say how we will split it up, not only across the different things we have to do, because some will be compensation and some will be converting post offices.

Q224 Fiona O’Donnell: Compensation to whom?
Paula Vennells: For post offices that become Post Office Essentials or Post Office Locals, there will be some moves in terms of converting either existing post offices or new ones, where pay rates change etc. From precedents set previously, there would have to be some sort of compensation if you were changing somebody’s contract from a current one to something else.

Q225 Fiona O’Donnell: Where the service is reduced you would compensate.
Paula Vennells: For a period of time, if that was the appropriate thing to do. What is important in that money is that it isn’t just a compensation to change a model of Post Office; it is an investment in creating new Post Office operating models that will work in the future.
One of the biggest challenges I have had while I have been in Post Office was having to manage the last Network Change Programme. I had to close 2,500 post offices, which was probably the most unpleasant thing I have done in my whole career. I really don’t want to have to do that again. This funding enables me to put in place different models across the network that will be sustainable, so that we don’t have any more post office closures. A really important part of that money is investing to create the right shop, if you like, for a post office.
Q226 Fiona O'Donnell: How do you stop the 900 post offices that are on the market from closing, so that none will close?
Paula Vennells: No, the 900 post offices that are on the market at the moment are there simply in terms of commercial churn—roughly every quarter, 200 to 300 change hands.

Q227 Fiona O'Donnell: But this is an unusual number just now, we have been told by George Thomson.
Paula Vennells: I would disagree—it is not much more than it normally is. It is very healthy to have commercial churn, and if sub-postmasters are in a position where they believe they can sell their business, that's a good thing. My concern is that I want them all to be able to do that in future.

Q228 Fiona O'Donnell: I don't think it is fair to represent that you can prevent post offices from closing. Although the Government do not—
Paula Vennells: There are two different aspects on that. There are sub-postmasters who retire, or who, unfortunately, fall ill. There are force majeure reasons for a post office closing. We cannot possibly change that, and some of that goes into the commercial churn. In some areas, it is very difficult to find somebody to step in and take that post office on.
Part of the funding and the Government policy change is about having different models available so that it is possible to continue post office services. In Scotland, Outreach services and the Post Office Essentials model have enabled us to do that. You are quite right—we cannot stop post offices closing in some cases. But I want to stop sub-postmasters closing because they think that they cannot make any money out of it, because that is not a healthy Post Office going forwards.

Q229 Fiona O'Donnell: When it is clear how the money will be spent in Scotland, would it be possible, Chair, to ask Paula to write to us to make us aware?
Chair: If possible, that would be helpful.
Paula Vennells: I should think that would be possible, yes.

Q230 David Mowat: I want to go back briefly to the IBA— the agreement between the two of you—which accounts for a third of turnover of Post Office Ltd. Is that right?
Paula Vennells: That's right—37%.

Q231 David Mowat: It seems to me that if there were a possibility of you losing that contract in the future, which I know you do not plan for, you could do all you like about re-modelling—business models, and all the rest of it—but if you lose a third of your turnover it will be difficult to keep 11,000 post offices open without a massive influx of cash from somewhere else, won't it?
Paula Vennells: It would be much more challenging, certainly. That is why we are very supportive of the Bill. There are a number of answers. The first is that the Bill is important, because whether we can sort out a strong Royal Mail going forwards remains a hypothetical question. It is the biggest provider of mails and will continue to be our biggest supplier in that area. There are a number of other areas, however, where Post Office provides customers with products and services. We have been very successful in financial services, in bureaux de change.
As I am sure you are aware, the policy document referred to positioning post offices as front office for Government. Before this meeting I was at a meeting with the Minister, in which we were talking to local authorities about how we could extend that concept into local authorities as well as national Government. So there are other areas—Government being a prime example—of where else the Post Office could get revenue.

Q232 David Mowat: Yes, so are you saying that you could try to grow the other two thirds to, potentially, replace that?
Paula Vennells: Not at all in terms of motivation to replace Royal Mail, because we are the Post Office.

Q233 David Mowat: No, it's not motivation. All I am saying is that if you are a business, and it has become privatised, and one third of your turnover depends on a contract which it may or may not renew with you—
Paula Vennells: You would not have all your eggs in one basket.

Q234 David Mowat: It would be quite a difficult position. I was trying to imagine, if you weren't to win that contract, how you could keep 11,000 post offices open. That is my question.
Ian McKay: Could I add something from the Royal Mail point of view? You have identified the proportion of the Post Office's income as 37%. If, particularly given that we are in the eBay generation, the Post Office Network were not available to Royal Mail, privatised or otherwise, in terms of putting things into the system and being a collection point out of the system and so on—if we didn't have that enormous network available to us and all the links that have been built up over that period of time—we would be in quite a lot of bother, too. That is why our chief executive used the word “unthinkable” to break that umbilical.

Q235 David Mowat: That is useful. So you are saying that the possibility of the IBA not being renewed in some form is very small on both sides?
Ian McKay: It's extremely difficult to see how either company could go forward without what is a very basic relationship.

Q236 David Mowat: So what you're saying, just to be clear, is that when we started the evidence sessions by saying that a contract renegotiation was due to take place, that we didn't know the period and all the rest of it, your business judgment is that it's so beneficial for both sides that it is likely to be a non-issue? Is that right?
Ian McKay: Indeed. To make it very clear, think of the range that we need to deliver the USO. It's 28 million addresses everywhere, up hill and down dale.
To do that and to service that, we need a network of a size to be able to do so. The Post Office Network is bigger than all the supermarket branches put together; it is bigger than all the banks and all the building societies put together. Here in our most natural of partners, we have the most natural of partners for that, too. That is why, from our point of view, it is literally an unthinkable separation.

Q237 David Mowat: Just to be clear, the negotiation that you are going to have when you come to renew the IBA, in whatever form you do it, sounds as if it’s going to be fairly amicable. One side is saying that it is unthinkable not to have the IBA, and it represents one third of the other side’s turnover. In that sense it is not a massively commercial negotiation, is it?

Ian McKay: Paula’s been involved with it.

Paula Vennells: It’s always both. It’s always very amicable and very commercial, because service level agreements between both businesses are tied into it. Royal Mail needs to be sure that the Post Office agreements between both businesses are tied into it. They aren’t amicable and very commercial, because service level agreements between both businesses are tied into it. Royal Mail needs to be sure that the Post Office agreements between both businesses are tied into it.

Q238 Cathy Jamieson: Could I follow up with one question on that particular point? I then have another question that I want to ask. One of the things that I have learned during my years in politics is that, with the best will in the world, you can have nice people who want to do good things and who say that it is unthinkable to do something else, and then someone comes along later and does the unthinkable. Does the Bill stop anyone doing the unthinkable at a later stage? If the Bill goes through, would it stop the unthinkable coming along later? Could the Bill stop anyone doing the unthinkable at a later stage? If the Bill goes through, would it stop the business arrangements from going ahead in future?

Ian McKay: With your experience of ministerial duties in other places and with your experience here, I am sure you would agree that there are things that one writes into primary legislation, and there are things that one doesn’t. I think it would be very unusual to find detailed commercial relationships written into primary legislation, because, like the anecdote that you’ve just told—

Q239 Chair: That’s a no then?

Ian McKay: That would be a no.

Q240 Cathy Jamieson: Could I move on? The Chair’s beady eye is upon me. On smaller post offices, Fiona mentioned that 900 post offices across the UK are on the market, do you have a figure for the number in Scotland?

Paula Vennells: I don’t, but I could get back to you with that.

Cathy Jamieson: We seem to be having some difficulty.

Chair: I think it’s 57, and 22 have closed and are classified as long-term temporary closures. It sounds as if you have to identify what those closures mean, but I am sure you can get the list of figures.

Paula Vennells: I’d be happy to write back to you on that.4

Q241 Cathy Jamieson: That would be helpful. The other issue is that I have been speaking to some of my local sub-postmasters, who, being Ayrshire folk, are not entirely in agreement with the overall view of the National Federation of SubPostmasters. Their concerns are that there has been an increasing squeeze on them, as they see it. I heard your words on not wanting any sub-postmaster to be looking at closing down because they thought that they could not make a living, but the sub-postmasters that I have met would say that that is the reality. They say that it will be increasingly difficult to attract new people into the business, at a point where the percentage of their income that they need to survive is coming from additional retail markets. In other words, they have to be able to open a shop and sustain that, rather than being stand-alone. Can you give any comfort to the people who have been struggling on in difficult circumstances? What encouragement are you able to offer new people who may want to enter the market as sub-postmasters in future?

Paula Vennells: Yes, I believe I can. You have to set it in the context that many retailers are currently suffering because of the economic conditions. If I talk specifically on sub-post offices, what is particularly good about a sub-post office converting to a Post Office Local or an Essentials is that it enables them to offer post office services for longer. I will paint a picture. My local Budgens currently has two post office counters—in Scotland perhaps not Budgens, but a similar example—behind the fortress glass, so it is a typical sub-post office. The local shop is open from half 6 in the morning until 10 at night and the post office is open from 9 until 5.30. In the two shoulder periods, there are no post office services available to the customers and no possibility for the sub-postmaster to earn off the back of that. If they convert to a Post Office Essentials, we dismantle those one or two post office counters, depending on the number of customers going through, and that space is then available to make a greater return from a retail business, whether they put in freezer cabinets or self-bake bread or whatever. They put the Post Office Essentials on their main counter. That is then open from half 6 till 10 in the evening. The big saving for the sub-postmaster in that is on staff. Previously, they were employing two additional members of staff to work on the dedicated post office counters, who could not work in any other part of the shop because they are frozen off by the fortress glass. Once that is gone, they have saved on staffing costs. That is one of the biggest pieces of positive feedback we have had. The model is in pilot, so it is not theory, it is practice.

Q242 Cathy Jamieson: With respect, the people who have spoken to me say that’s all very well in a one-shop village or a one-shop local area. It is not as easy if there are a number of other competing shops for that additional retail outlet. Can you envisage any stand-alone sub-post offices that do not have to operate a shop, and sell bread and things out of freezer cabinets, in the longer term, in Scotland?

Paula Vennells: There would absolutely be, where there is the number of customer sessions to justify...
Q243 Cathy Jamieson: My final question, going back to Fiona’s issue on the money, is how much of that money might be available to assist local sub-postmasters in upgrading their premises, converting and doing all the things that are necessary to sustain them?

Paula Vennells: We haven’t got down to specifics on how much, but within the strategy that is foreseen as something that we will do. We will invest with them in their shops to convert them into something that is much more viable.

Ian McKay: In Scotland we have seen other agencies becoming involved in the equation that you are setting out. The Scottish Government made a £1 million fund available last year, not just for post office development, but to develop those who had post offices within their shops. For some of the people who benefited, the money was for things not related to the post office as such. It was a more general fund. Far from a stand-alone sub-post office, we will actually try to put lots of different services into that place for the community. Indeed, the Chair and other members of the Committee saw at Dalmally a good post office, which runs Outreach services to other places which shares premises with our pharmacists and one or two other things within the shop. It is the range of streams of income that make it a viable proposition.

Q244 Lindsay Roy: I am interested in further discussion about mutualisation. Yesterday, we heard that it was potentially diverse and potentially complex. Looking at different models and different stakeholders, can you give us an idea of what kind of mutualisation models in rural areas would embrace Outreach? Would they be highly localised mutuals, regional mutuals or are some models being developed?

Paula Vennells: To be straight with you, as you would expect, at the moment I don’t know. The work is currently under way, and we haven’t got close enough to the detail of that at the moment to say what it would be. I would be very happy to come back and talk through it once we have more detail. The work has just kicked off. The plan is, I believe, that roughly by Easter next year, there will be various options available for us to look at, which will then go to public consultation in early summer.

Q245 Lindsay Roy: Would you consider, for example, the one that we have discussed at some length—the W. H. Smith Post Office Network? That is a kind of mutual, too, isn’t it? Or is it?

Paula Vennells: Could it be? As I said, we have to get models that the Post Office can work with, whoever operates the mutuals. One of the questions we have to ask in this process is how that would work. Our big franchise partners are clearly a question mark in that. Interestingly with the Co-op, which runs more than 500 for us, there is an easy conversation to engage in. What I don’t think we can countenance from a Post Office point of view is lots and lots of different models of mutual because it would be almost impossible to manage that. Again, I know it is not a very satisfactory answer, but as we get closer to some of the models, we can look at that.

Q246 Lindsay Roy: Perhaps in due course you can give us an idea of the range of stakeholders you might envisage across the network.

Paula Vennells: Yes.5

Q247 Mr Reid: You both said that it would be unthinkable to break the contractual relationship between Royal Mail and the Post Office. However, the evidence that we heard from the CWU yesterday was that all that Royal Mail would need in villages would be a box and a machine that people would put their parcels in. It would automatically be weighed, people would put their coins in and the only human intervention would be postmen to come and empty it. Clearly, you think that there is more to a post office than that, so can you respond to the point made by the CWU?

Paula Vennells: I can’t envisage that that would be the case as long as the relationship between Royal Mail and the Post Office carries on. Both businesses are here to deliver a service to customers. What we do very, very well and better than any potential competitor is the face-to-face service in the post office. The mail’s business in this country is so complicated that I cannot envisage people just doing that—perhaps in urban areas as a supplementary, but certainly not as a replacement for post offices.

Ian McKay: Can I add to that? I didn’t see that evidence, but possibly those who gave it have not been sitting in the same post office branches as I have. Again, in any big challenge like the one we are facing, your glass is either half full or half empty. From our point of view, this is not about a future that is about cutting corners and taking money away from suppliers and so on; from our point of view, what is offered is the opportunity for us to correct the difficulties that we historically and currently are dealing with and to put us a position to start developing and bringing in new products.

I hope that that relationship with the Post Office in the future will see us freed up from some of the regulatory constraint, and able to bring in new products that reflect where communications are because that is part of the issue. Society out there communicates differently from how it used to. You cannot go back. You have to go forward. When you are looking for the app for your Android—whatever that means—the post office is your app. It is a human thing, which will

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allow us to develop new products between both of the companies. We are looking at a positive future.

Chair: I understand that. You are both sitting there all lovey-dovey between the Post Office and Royal Mail. Can I just clarify this? The National Federation of SubPostmasters said to us that you were both willing to sign a 10-year business agreement at the moment, but the Government weren’t letting you. Is that true?

Paula Vennells: I have no idea where they got that from. Absolutely no idea.

Q248 Chair: So it’s not true.

Paula Vennells: We are currently looking for something as long and as strong as possible.

Q249 Chair: Can I be clear? You would both today sign up to a 10-year agreement if you were allowed to do so.

Ian McKay: In that hypothetical question you assume that the Bill goes through as it currently is without Parliament doing anything more to it and that we have reached the other end. We would be more than happy when we reach the other end to come back and talk to you again. But at the moment—

Q250 Chair: Is that a no or a yes?

Ian McKay: It is neither because we are not in a position to answer that until the changes that are before Parliament have progressed. I am conscious that people are seeking reassurance. The reassurance is that both parties to a contract, which has been in existence for an awful long time and is currently in existence—

Q251 Chair: No, I understand that.

Ian McKay: We both want that contract to be for as long as it possibly can be and to be negotiated prior to any separation.

Q252 Chair: I understand that you would have a haggle.

Ian McKay: It’s not a haggle.

Q253 Chair: Quite naturally there would be a haggle. Even if you both wanted to sign a pledge, as it were, there would still be a haggle about the exact terms. I understand that. But I want to be clear about this. I don’t quite understand, Ian, why you are not responding to this in the way that I had expected. If you were allowed to do so now, irrespective of some haggling later on, would you or would you not be willing to sign up to a 10-year deal? If that was signed, it would clearly give a guarantee of the further work that David mentioned earlier. It would give a guarantee of continuity to the Post Office, which is not there at the moment and is where a lot of the anxieties seem to be coming from. If you are trying to distance yourself from that you can understand why we then have anxieties.

Ian McKay: I am not distancing us and I think Paula has also said this. The position you were describing is one that we don’t recognise. We are not in the position of all of this having been agreed legally and so on, as to what the position is between the two companies. What we are trying to do, in the absence of that legislation having gone forward, and in the absence of the world having changed, is to give you the assurance that we wish to see the longest possible contract.

Q254 Chair: Okay. But can I also pick up the question of growing business from other streams and so on? You indicated that you wanted to get more Government business, quite understandably. Yet the Government have put out to tender the contract to issue green giro cards. I don’t understand how you can suggest to us that you are working with Government to expand the range of things that you are doing with Government while at the same time the Government put out to tender something that would put £50 million or so a year through yourselves, and presumably will take the lowest bidder who might very well be somebody else. Can you address that incompatibility?

Paula Vennells: The Government Department concerned follows procurement rules the Committee will be very familiar with, and which apply to central Government and to local government. We have submitted a very competitive tender and what I am very aware of, having read all the documentation, is that when they evaluate those submissions, they are evaluated on two bases. Part of it will be on the cost competitiveness of what is put in and part of it will be on the qualitative criteria. We have put in a cost-competitive bid. We also feel very confident on the qualitative. It’s measured on a 50-50 basis. We believe we are a long, long way ahead of anybody who would compete with us for that business. I hope that whoever evaluates the tender will do it on that basis.

Q255 Chair: But can you understand then why we have this anxiety, which some Members have also expressed to us, about there being alternative networks to the Post Office Network when the Government, even though they have said that they will be working closely to support the Post Office, are entertaining other bids for what would be seen as a core part of your work?

Paula Vennells: I can understand that. The current processes are bound by current procurement legislation and the rules that apply.

Q256 Chair: So it’s the European Union’s fault rather than the Government’s. Is that correct?

Paula Vennells: We are working within the guidelines that were set out in the documentation.

Q257 Chair: That’s a yes, then. It’s always good to have my prejudices confirmed. I am quite happy with that.

One of the things that we had with another group was the question of credit unions saying to us that they would be very keen to put a lot of work through Post Office Counters. But to do that, it is necessary for you or them, or both of you together, to put some £50 million into back-office gee-whizery. Is that being considered? Is it a possibility? Where are we with that, and is it not one of the ways forward?

Paula Vennells: Yes, it is. It’s a very positive possibility, so we are working very closely with ABCUL, the Association of British Credit Unions.
The issue that has presumably been referred to, although I don’t recognise the £50 million, is that the several hundred—I don’t know the exact number—credit unions around the country have slightly different back ends. We have the ability to do that now. So within the Post Office, there is the technology, because we service 80% of banking customers in the UK. A piece of work is under way scoping out what needs to be done.

Q258 Chair: That’s all I needed to know. My final point is that it has been suggested to us on several occasions by a number of people that, basically, you are being bled white by the people who are getting downstream access to your services, and that the rate at which you are charging them is the wrong one. I am not clear about the process that led to that rate. It has been suggested to us that the regulator would have allowed you to charge more had you not settled with the bulk suppliers at a rate that was to your disadvantage. Can you clarify that position for us?

Ian McKay: There is a very simple response. There is a rate, and the rate is established by the regulator. Ever since that rate has been established, we have been in the position that we are in. I think what has happened is that, at one and the same time, you have had a massive fall in the overall volumes of mail—that has happened globally and in this country—and a really massive shift over to the use of other carriers.

Q259 Chair: I understand that. The point that was made to us quite specifically yesterday—it is something that we will pursue with the regulator as well—was not that the regulator set the rate, but that the regulator was lurking in the wings ready to set the rate, and that you settled at a worse rate for yourselves than the regulator would have imposed. I want to clarify whether or not that is correct.

Ian McKay: As to the historical “who did what and when”, I would have to get back to you with the chronology of events. That rate is established by regulation, which is why we want to see that changed.

Q260 Chair: Sorry, but you say “established by regulation” and that has a double meaning—in fact, it has three meanings. It is either established by the regulator, or there is an immutable formula, or the regulations establish some sort of negotiation structure within which you settle a price. I am not clear, from what you are saying, which of those three it is. Can you clarify that for me?

Ian McKay: I would have to take advice on that. I would be quite happy to give the Committee a document that sets that out for you.6

Q261 Chair: This is obviously of major significance, given the issues of bleeding yourselves white.

Ian McKay: I can understand. As I say, what we are dealing with is the reality that the price that is established means that, from our point of view, we lose £160 million a year.

Chair: As I said, the evidence we received was that you settled on that yourselves.

Q262 David Mowat: Just to be clear on that, presumably it could be due to a volume decrease since the price was established.

Ian McKay: There will be several factors involved as to just how bad the situation is, so that is not the only one. There are other restrictions in terms of us bringing forward new products, the general mail volume, the pension deficit and so on, all of which have now combined to put us in a place in which the status quo is not an option for us. That is why we need change.

Chair: Thank you very much for coming to see us this afternoon. I am sure it has been enjoyable all around. We learned a great deal from that. We are seeing a couple of other people this afternoon, so we will now have a short break.

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Examination of Witnesses

Witnesses: Tim Brown, Chief Executive, Postcomm, and Jonathan Thompson, Director of Strategy, Ofcom, gave evidence.

Q263 Chair: Can we make a start? Could those who are leaving do so quietly, and could those that are staying get ready for some more? I meant to say, “Order, order.” I welcome you to the session. Maybe you could introduce yourselves for the record and also just start off by saying a little about how, as you understand it, the new legislation impacts upon the concerns that we have. Our particular concerns are, first, the maintenance of the Universal Service Provision to the remote rural areas of Scotland in particular, but also to the whole of Scotland, and, secondly, the maintenance of the Post Office Network across the whole of Scotland.

Obviously, there are other issues concerning pensions and ownership that are UK-wide, but we are not really concerning ourselves with those; we are concerning ourselves with these particular issues and, therefore, the question of your role in all of this is obviously going to be significant.

Tim Brown: I am Tim Brown. I am the CEO of Postcomm. I have been there for two years, but I had about 18 years in the industry, including working at Royal Mail and Post Office Ltd. Picking up the points that you raised, our primary duty, as Ofcom’s will be under the new Bill, is the maintenance of the universal service. It’s fairly clear in the current Act, and in the new Bill, that a uniform price and a universal service are absolutely key and protected. In terms of the service in Scotland and to Scotland, it is protected by the measure within that.

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For us, there are probably three key things that need to be looked at in terms of ensuring that the universal service in the UK, and in Scotland, is maintained. First is the continuation, and the speed, of Royal Mail’s modernisation, which has started. The second is fairer and lighter touch regulation. The third area is ensuring that, in the transfer between ourselves and Ofcom, the process doesn’t get stalled and that we can move forward quickly. That is all I would like to say in terms of opening remarks.

**Jonathan Thompson:** I am Jonathan Thompson. I am director of strategy at Ofcom, and I am also leading the integration of post into our responsibilities. I would echo everything that Tim has said regarding Bill. Under the draft of the Postal Services Bill, I think it is very clear that the universal service is our primary duty, and our primary responsibility will be to ensure the ongoing delivery of the universal service. We are obviously new to this, so we are working very closely with Postcomm to ensure that we understand the issues and that we get up to speed, and we are committed to trying to ensure that the transition is as smooth and as effective as possible so that customers and stakeholders have continuity of regulation. In terms of the points that you’ve raised, I would largely echo what Tim said. It is vital that the universal service is a priority within the Bill and that we have the powers to ensure that that can be delivered. Core to that, obviously, is the modernisation programme that Royal Mail is leading and that we have the powers required to ensure that the regulatory regime supports that and supports an effective marketplace.

**Q264 Chair:** Can I just clarify why there are two of you? Are there two regulators?

**Tim Brown:** No, there is only one regulator at the moment, which is Postcomm, and we are the regulator until the Bill is passed—if the Bill is passed. At the point of Royal Assent, there is a transition process from ourselves across to Ofcom. So Ofcom is, in a way, picking up what we start, hence why we are working quite closely to ensure that that is seamless.

**Q265 Chair:** So we have Christmas past then, or rather Christmas passing. Christmas present is the new man. Can I just start by asking you about the Universal Service Obligation? Clearly, you’ve stressed the fact that it will remain, but it could remain on the basis of Postcomm, and we are the regulator until the Bill is passed—if the Bill is passed. At the point of Royal Assent, there is a transition process from ourselves across to Ofcom. So Ofcom is, in a way, picking up what we start, hence why we are working quite closely to ensure that that is seamless.

**Tim Brown:** In terms of where we are, the universal service for Europe is set out in the postal services directive. That says that delivery is five days a week, and it doesn’t include uniform price. You’re absolutely right on that. The Bill has six days a week for mail, five days a week for parcels, and a uniform price. So that protection is set in the Bill itself. Our duty now, and that of the regulator going forward, is to help to ensure that that is sustained.

**Q266 Chair:** But with respect—which, as I’m sure you’re aware, is what people usually say when they disagree—the legislation also says that Ofcom is required to review this within 18 months.

**Jonathan Thompson:** The Bill requires us to do a review of the universal service within the first 18 months of our powers taking effect but, as Tim said, that review goes to the Secretary of State. If it goes any further than the set of minimum requirements that are set out in the Bill—the six days a week, affordability and universal pricing—that’s not a decision for the regulator. It would be a decision for Parliament. In any recommendations that we make or review that we do of the universal service—which is based on users’ needs, which is the core responsibility in our functions and responsibilities—any assessment to reduce the USO beyond that is ultimately a decision for Parliament and not for the regulator.

**Q267 Chair:** Can I just be absolutely clear about this? Again, that is not the information that I have. In that case, I don’t see why you’re being asked to review it in 18 months. If in the legislation—the Act—it says six deliveries, six collections and a minimum price, that is immutable. What then are you reviewing?

**Tim Brown:** The review is in terms of looking at how it is provided, and the needs of users. One of the big issues that we find is how people use the post is changing over time, and you can imagine that in a number of years’ time the universal service that is required will be different to that which is provided now.

**Q268 Chair:** Sorry, run that past me again. How could it be different from six, six, and a minimum price?

**Tim Brown:** Number one is that any change is a matter for Parliament and not for the regulator. The work required of the regulator is to understand what customers need, and I suppose that the nearest thing in terms of looking at something fairly similar is within telecoms, when the universal service used to be “number of phone boxes.” Now, 20 years on, something different is required about universal service, and other discussions are taking place. So, what the Bill allows for is a review and a discussion about what is needed—plus or minus—by users all over the country, including Scotland, from a universal service. This gives the ability to do that. To change it, however, is a matter for Parliament, not for the regulator. It is having that constant research about what people need and want, and about how that is developing, that’s important for us to understand.

**Q269 Chair:** I just want to be absolutely clear and specific about this, as we will ask the Minister about it. You’re saying to us that the six, six and set price
can be changed only by a specific vote in Parliament—specific legislation—and it would be your role, presumably, to trigger off a report to Parliament saying, "On refection, we think that the USO should either be improved or reduced." You would be acting only as the trigger.

Jonathan Thompson: Exactly. Based on what Tim said, we do a review of how the market is changing and users’ needs. If we believe that there might be a case for changes to the USO—and that could be up or down—the ultimate decision to make those changes lies with Parliament. So you are absolutely right. We are effectively the reviewing body that would make a recommendation or suggestions to Parliament, which would then decide on the changes.

Q270 Chair: I’m glad to have that, because one of the papers that I’ve been given as a briefing says that Ofcom does not have to come back to Parliament to change or weaken the USO, and you’re saying that that is not correct.

Tim Brown: The issues on which to be clear are the six days a week collection and delivery, and the uniform price, but in terms of the products within it—Chair: A h, right. So what products?

Tim Brown: When the universal service was first established as part of the regulatory framework 10 years ago, every single Royal Mail product was classified as a universal service. Over time, as needs have changed, some of those products have come out and some have changed. So there is some flexibility within the product content—and that is more within the gift of the regulator—but not in the fundamentals of a uniform price, which our research has shown is the most important thing that people want from a universal service.

Q271 Chair: Again, to be clear, on clause 30, are you saying that none of that can be changed except by an Act of Parliament? The clause includes delivery of letters and other postal packets, collections, services at affordable prices, registered items service, insured items services, services for the blind and partially-sighted, and legislative petitions and addresses. Can none of that be changed by yourselves in any way whatsoever without coming back to Parliament specifically?

Tim Brown: Not without coming to the Secretary of State, and without the Secretary of State taking it through the process.

Chair: Fine. You can understand why we want to clarify this.

Jonathan Thompson: What you have just said is absolutely right.

Q272 Mr Reid: Thanks for coming. We had evidence from Royal Mail that Postcomm, as the regulator, takes into account downstream access and that Royal Mail has made losses in that part of the business. Can you explain why?

Tim Brown: Certainly. The access conditions that we have at the moment were actually set based on negotiations between Royal Mail and UK Mail. We, as the regulator, were sitting watching that debate, but before we had to intervene to make a determination, they agreed a price. The price that was set was higher than we thought was appropriate, but it was agreed between the parties and it included a profit target. What has happened over the period is that Royal Mail’s efficiency has not achieved what was expected at that time, so we also recognise, as Royal Mail has pointed out, that Royal Mail now makes a loss on access. However, that wasn’t an intention of regulation. We didn’t set out to set a regime that deliberately forced them to take it at a loss.

Q273 Mr Reid: On those efficiency targets, did Royal Mail say to you that it could meet them?

Tim Brown: In the debate, we set a target of 3% per annum. Royal Mail, at the time of discussion, said that it could achieve 1.5%. If Royal Mail had achieved its 1.5%—there is falling volume to take into account, because it is very difficult for a business to take cost out when it’s losing volume, so it is recognised that it is a challenge for Royal Mail—it would be between £400 million and £500 million better off now. So actually, there wouldn’t be an issue in terms of loss on access if it had achieved that efficiency. However, I will say again that there are two things: first, it is difficult to take cost down in a declining market, and we recognise that; secondly, the pace of change and modernisation in Royal Mail has really ramped up in the last two years and we are beginning to see some big improvements. We also announced at the beginning of last month a decision, supported by Royal Mail, to increase the price of access to a level which is closer to cost.

Q274 Mr Reid: That is something that Royal Mail has agreed with—

Tim Brown: Royal Mail has made a proposal to us, and we go out to consult on what customers’ views are and so on, but we have what we call a mind to accept that decision.

Q275 Mr Reid: We also had evidence from Royal Mail that it was not allowed to compete with private companies in the market of collecting bulk mail from companies. Is that correct?

Tim Brown: There is a mechanism called Headroom, which is a limit between the price people pay to access what we call the final mile, and the price at which Royal Mail charges its big customers. Headroom provides protection for competition from margin squeeze and anti-competitive behaviour from Royal Mail. That was set in 2006, and we reviewed it again in 2007. Royal Mail was unable to provide costing information to change that. We have now, in this set of recommendations, reduced that protection by about 27%.

Q276 Mr Reid: Sorry, by reduced the protection, what do you mean?

Tim Brown: Reduced the headroom within which competition plays. So, it is actually beginning to turn the playing field back towards Royal Mail. One reason that it is now and not earlier is that we have actually had two Hooper reviews, two Bills and an election, and that has really slowed things down. As of April 2010, we should have had a new regulatory
framework, so there has been some delay. We recognise that the regulatory framework we have now is not appropriate for the marketplace we have now, which is why we are very keen to change it, and why the way that things are transferred to Ofcom is very important in order to make sure that that doesn't stop.

Q277 Mr Reid: So is the handover going to hold things up?

Tim Brown: From Postcomm’s point of view, in terms of the early stages in that process, I don’t think so. We are working very closely to make sure that Ofcom understands what we’re doing and what the issues are, and we understand how it wishes to act under the new Bill and how it does things, so at the moment I wouldn’t say that the transfer should hold things up.

Q278 Mr Reid: Thanks. This question is for Ofcom. We had a discussion earlier about a possible dilution of the USO. We heard evidence from the CWU yesterday. It was concerned that Ofcom might use section 32 of the Bill, particularly subsection (3), where it allows geographic exceptions.

Chair: That is 32(3)(b).

Q279 Mr Reid: Thanks, Chair. The CWU was concerned that that would be used by Ofcom to mean that large areas of Scotland would be exempt from the daily delivery, and it wondered what Ofcom’s response to that suggestion was.

Jonathan Thompson: Tim will be able to answer in more detail, but this clause actually replicates part of the framework and what is currently proposed for regulation. There are certain circumstances in which exceptions are made for delivery where it is effectively impossible to deliver on a six-day-a-week basis—for example, certain islands in parts of Scotland. There are certain exceptions that can be made in those circumstances.

Q280 Mr Reid: Are you saying that when you come to regulate you will only use this clause in cases where it is virtually impossible to deliver?

Jonathan Thompson: I think our approach will be consistent with how Postcomm has applied it to date. Tim, do you want to talk about how it applies currently?

Tim Brown: There are about 1,400 exceptions for delivery in Scotland and a total in the UK of just under 3,000. They are usually for four reasons. One is physical access—that it is difficult to do six days a week. The second one is long-term health and safety issues. Third is short-term health and safety issues, and the fourth is customer request. Before this came into play—before 2003—there were over 4,000 exceptions. There are 2,900 exceptions across the country. While 1,400 in Scotland is still a large number, it’s only 0.01% of all deliveries, and it’s in those circumstances that those exceptions take place. Royal Mail has to apply for those.

Q281 Mr Reid: Is Ofcom intending to keep this part of the regulation comparable with what’s there at the moment?

Jonathan Thompson: It would be wrong of me to pre-judge decisions we’re going to make before we actually take over the powers. My understanding of how this part of the Bill works is broadly consistent with the powers that Postcomm currently has, so I don’t see any reason why we wouldn’t apply this part of the regulation in broadly the same way.

Tim Brown: We’ve had only six complaints in seven years.

Q282 Chair: We are worried about this. I remember seeing an advert about “exceptional Argyll”. If it defines itself as exceptional, would that then allow you to make a difference? Particularly if somebody came along as a private sector operator and said, “Look, this is costing us huge amounts of money because we’re cross-subsidising it. We’re going to collapse—doom and gloom.” That could be deemed to be exceptional.

Jonathan Thompson: An economic reason for not being able to deliver is slightly different. This is more for physical reasons of lack of delivery.

Q283 Chair: This is the point. It doesn’t say that. It says “do not need to be met in such geographical conditions or other circumstances as OFCOM consider to be exceptional.” Other circumstances could very well include the economic situation of the company.

Jonathan Thompson: What I was getting at is, if there is a view from Royal Mail that the burden of the universal service is becoming uneconomic for it, there are other parts of the Bill that are put in place to try and deal with that situation. So I don’t envisage that we’d be using these clauses to try and address those situations. There are other parts of the Bill that try and deal with those circumstances. If it’s helpful, I can talk about it in a bit more detail. But I think it’s unlikely that this would be the clause that would be relevant.

Q284 Mr Reid: There is one final area I want to ask a question about. We had evidence from Mull Community Council. I know that Postcomm and the previous chairman and staff were on Mull two or three years ago to meet the local community. The community said that it would rather get 80% of its mail on the first ferry of the day rather than, as happens at the moment, 100% of the mail on a later ferry. Royal Mail had said it couldn’t do that because of Postcomm regulations, and Postcomm, despite coming to Mull and meeting people, refused to change the way that it was regulating. Is there any way in future regulation that exceptions could be made by agreement with the local community?

Tim Brown: You are absolutely right that in 2008 my chair at the time visited Mull to have a look at that. The issue is that all the mail isn’t there for the earlier ferry, therefore you get much less, so the quality of service to Mull would be a lot lower than it would be elsewhere.

Q285 Mr Reid: Well, the community disagrees.

Tim Brown: I understand that. In some of the work that we did and looked at, in terms of some of the
sending people who had paid for the service, their claim to us was, "We expect a next-day service." So there is an element of balancing both the paying sender as well as the receiver. That is part of where we are. But it is open for Royal Mail and the local community to look at whether there are alternatives. I know that they have looked at whether they can open delivery offices closer to the ferry terminal and things like that, which has not proved to be cost-effective at the moment. But there are, even now, mechanisms on which that could happen. We have not had any request from Royal Mail to change that.

Q286 Mr Reid: So this could be reopened if there was a request from Royal Mail?
Tim Brown: If Royal Mail put forward a request on that basis.

Q287 Dr Whiteford: I want to ask a more general question. What do you see as the potential risks and benefits of these proposals for remote and rural communities?
Tim Brown: Talking in terms of part 3 of the regulation piece, there is the continued support of the USO, which is probably stressed more greatly in the new Bill rather than in the old one. Ofcom will have greater powers than we currently have, so it has a bigger toolkit to do what it does. The aspect that is in this Bill, which wasn't in the previous one, is the compensation arrangements and the ability, if Royal Mail cannot deliver universal service economically, for mechanisms that allow Ofcom to intervene, either through subsidies or contracting alternative mechanisms. Those things are, I think, strengthening the potential for universal service in Scotland.

Q288 Dr Whiteford: So you don't see any risks at all from a community perspective?
Tim Brown: Not from the Bill. I think the general risks, which are across the board for anybody within the United Kingdom, are the continuing decline in mail. Therefore, to be economic, mail relies on the big users of mail. We may call it junk mail, but direct mail bills and statements are those big users of mail that give the volume to underpin it. I think the changing market and people's behaviour are bigger issues for the long-term sustainability of the USO for the United Kingdom, rather than the Bill.
Jonathan Thompson: I would agree with all of that. I think both Richard Hooper's reports have clearly highlighted the pressures on the universal service and the postal market more broadly. I think Tim is absolutely right. I don't think we have any concerns about the Bill as it is drafted, in terms of giving us the powers necessary to try to ensure the ongoing delivery of the universal service, which is our primary duty. But clearly this is a market that faces a lot of pressure. What is important, from our perspective as the regulator in terms of what we can do, is that we have all the tools and powers that we feel we need to try to ensure that we meet our primary duty. I think this piece of legislation is stronger in theory than existing legislation, so I think we are comfortable with it with regard to that.

Q289 Dr Whiteford: Some of the evidence that we have heard in recent days pointed out that people in rural and remote communities are more dependent on postal services than people in areas that perhaps have easier access to them. Do you think that there are sufficient safeguards in the Bill to prevent the easy bits of the business being cherry-picked, and the difficult areas for delivery being left to struggle on an increasingly uneconomic basis?

Jonathan Thompson: The clear focus of the universal service and the minimum grant that we talked about earlier in terms of affordability, the six-day-a-week service and a uniform price across the entire country do as much as a Bill can do to protect those things. Just to repeat what I said, we are comfortable that how it is currently set out secures that for the future.

Q290 Cathy Jamieson: Can I go back briefly to the Bill itself and the universal provision? A gain, in some of the evidence that we have seen, clause 34 will allow Ofcom to designate more than one provider of universal postal services. Clause 34(7)(b) will allow the regulator to consider what (if any) designated USP conditions should continue to apply to each of the universal service providers. Can you see a situation in which you would have different providers in Scotland? If so, what would that be?
Tim Brown: I think the exercise of that power is if there is issues in either the administration for Royal Mail or the compensation fund, rather than when you are looking for mechanisms to divide the universal service if Royal Mail was unable to do so economically. I see that being reflected more as a back-stop case rather than being a primary focus.

Q291 Cathy Jamieson: Are you saying that that would only be the case if something drastic happened to Royal Mail and it couldn't provide the service? Would you then look to another provider? It seems to me that that clause, as written, gives you the scope to be more proactive and to go out seeking other providers. I just need to be absolutely clear on that.
Tim Brown: In terms of how paragraph (a) relates to section 43, we talked about the fairness of bearing the burden of the universal service in the context if it is deemed to be unfair, how would you then support and deliver the universal service? So the Bill is about ensuring a universal service and that is provided as its primary focus. The current provider is Royal Mail and therefore it doesn't have to be Royal Mail if there are problems.

Q292 Cathy Jamieson: Can I just press a couple of points on that? It seems to me that the way that this is written opens up the prospect of two or more providers. For example, because we are focusing in Scotland, we could, perhaps, have a provider in Edinburgh and another provider in the north of Scotland. It appears to me that the way that this is written suggests that the designated UPS conditions could be different for each of those providers. How does that then become a universal service if you have different providers working to different conditions? Do you have any concerns about how that is written, in terms of outcomes for customers?
Q293 Cathy Jamieson: Can you explain how those circumstances, we have—unfair burden on the current provider, Royal Mail. In worth clarifying, from our perspective, how this part Just to add to that, it may be Jonathan Thompson: rather than a risk. better at answering, that I read that as a protection about that was, and maybe the Department would be better at answering, that I read that as a protection rather than a risk.

Jonathan Thompson: Just to add to that, it may be worth clarifying, from our perspective, how this part of the Bill works. As Tim said, there may be circumstances where the universal service becomes an unfair burden on the current provider, Royal Mail. In those circumstances, we have—

Q294 Chair: Can I just come back to the question of exceptional Argyll? It would be appropriate now for Royal Mail to come back and say, “Look, we cannot make money out of Argyll. It is not possible to make money out of Argyll. We therefore require it to be transferred to somebody else, or we require a subsidy for it.” Similarly, the Western Isles, whole parts of rural Sutherland and all sorts of areas are clearly not financially viable.

Q295 Fiona O’Donnell: I am really confused. Why would you ever then get to the situation where you identify that one part was unprofitable if there’s cross-subsidy?

Tim Brown: If we look at the past few years, three or four years ago Royal Mail lost about £350 million on the universal service products. Now, if that was an inefficient Royal Mail ongoing, then no company, publically owned or privately owned, could sustain losing £350 million a year. At that point, you look at how to help support providing the USO. Partly, it may be just a subsidy. Part of it maybe saying, “Actually it is very high cost in ‘x’” and, to be honest, the highest cost place of delivery is in London, not in the highlands and islands. So if they looked and found an operator to provide it more efficiently, is that a way of going forward? So, once you have established that the USO as a whole is not economic to provide, then what are the mechanisms you use to try and provide it and for it to continue to be done?

Q296 Fiona O’Donnell: What if the provider says that the compensation that you’ve identified isn’t of interest to them, so they don’t want to provide that part of the service any more?

Tim Brown: Then the compensation fund comes in and Royal Mail will be compensated to continue to provide it. So you look at the various options. Can Royal Mail provide it efficiently? Can somebody else provide it? The key test is to try to continue to provide it, and how do you look at those bases?

Q297 Fiona O’Donnell: Presumably, there has to be some negotiation there. I’m just thinking about bus routes we have lost in rural areas because, despite being offered a subsidy by the council or the Scottish Government, they say, “You know what? We’re not interested in providing this service anymore.”

Tim Brown: The designated USO provider is Royal Mail. So the default provider is Royal Mail and if it cannot provide it economically there are mechanisms, including compensation, to enable them to provide it.

Q298 Fiona O’Donnell: Can it force them to provide it?

Tim Brown: I believe so, yes.

Q299 Chair: To say, “I believe so” is not the same as “yes”.

Tim Brown: My answer is yes, but I am not a complete expert on every clause of the Bill, so my view in terms of it currently is yes, and I will check. I can ask BIS if there is any reason why that is not the case.

Q300 Cathy Jamieson: The crucial issue for me is this: is there potential for Scotland to be disadvantaged? That is what this Committee is looking at.

Tim Brown: I understand that.

Q301 Cathy Jamieson: For example, if Royal Mail were to say that over the whole area of Scotland certain things were unsustainable, would, in those circumstances, this Bill—and again, this is just for the record—give you the power, essentially, to say that another provider would be brought in?

Tim Brown: As one option, or compensation. Whereas that is not in the current legislation. So, currently—

Q302 Cathy Jamieson: So this is new. It is not there now. This is something that has been added to the situation and it gives you a power that you did not have before.

Tim Brown: Correct. It is in the case of failure and let’s hope we never reach there. But yes, that is an additional power to what Postcomm has. We cannot
do that, and it is also consistent with the third postal services directive that recognises compensation-type measures will be appropriate for postal services.

Q303 Chair: Let us be clear though. Even in the case of financial collapse of part or all of Royal Mail, the Universal Service Provision—[Interruption.] There is a Division in the House. You can think about an answer and we’ll hear it when we come back. Sitting suspended for a Division in the House.

On resuming—

Chair: Right, answer that question!

Tim Brown: Yes. We have a couple of points of clarification from earlier—it was good to have a break.

Jonathan Thompson: I think it was a question about whether we can require or impose universal service requirements across the whole country on Royal Mail or whoever the provider is—we absolutely can. That is clearly set out in the Bill, so we have those powers universally across the entire country. There was another point that I was just going to make about the compensation fund. It is worth clarifying whether we can require or impose universal service providers lies with the Secretary of State. We make recommendations to the Secretary of State, but he would ultimately make that decision. That is set out in clause 43 of the Bill.

Q304 Chair: Could I just turn to the question of post offices, which is the other main issue about which we are concerned? Could you clarify for me the extent to which you have powers to maintain standards of access?

Tim Brown: In the current Bill and in the previous one, we set standards of access to postal services. So, we place a condition on Royal Mail about minimum access criteria.

Q305 Chair: Where are these?

Tim Brown: They are in Royal Mail’s licence. We have a licence, which we have from Royal Mail, and that sets those standards. It is for Royal Mail to decide how it discharges them, and they currently discharge them through post offices.

Q306 Chair: Where are they now, then, for the new bidders and so on? We have seen the access criteria in the BIS document. Are those the criteria?

Tim Brown: Yes, in terms of distances and service access.

Q307 Chair: Right. The difficulty for me is that, as I understand it, those criteria could be met with 7,000 post offices, as distinct from some 11,000 that we have at the moment. So, going to those criteria could mean 4,500 closures.

Tim Brown: It’s really a matter for Royal Mail to decide how many it actually needs and exactly what that would meet, so I can’t confirm those numbers.

Q308 Chair: We have a certain number of post offices at the moment. The access criteria could allow a network of far fewer post offices than in the existing provision. As I understand it, that would be about 4,000 fewer. I think we would be a bit anxious if the access criteria that are in the BIS document went through, because that would automatically allow 4,000 closures and would still be within the terms of the legislation. Can you clarify if I have got that correct?

Tim Brown: I don’t know the number, but I can try to find out whether the number is. I can’t confirm or otherwise whether that would be 4,000 fewer or not, but I understand that the principle is that we don’t set, as a number, that all 11,900 offices have to provide postal services.

Q309 Chair: The problem for us of your giving us information later on is that we have the Minister coming to see us in a little while and, as you will probably be aware, he is a very slippery character. So, we want to make sure that we can pin him down on this particular issue.

Tim Brown: To clarify, we don’t insist that Royal Mail have to provide access to postal services across all 11,900 offices, but I can’t give you a figure for what the number is to meet these criteria.

Q310 Chair: In terms of post offices being of different types—main post offices as distinct from Locals, Outreach, Essentials and all the rest of it—can I clarify whether there are access criteria for main post offices, which offer the whole range of services, because I do not remember having seen that in the BIS document?

Tim Brown: There are access criteria set for access to all Royal Mail services. We don’t set them according to whether they are for main, Locals or whatever the types are.

Q311 Chair: The difference between mains and Locals is that some offer a smaller range of services than others. What we are not clear about is whether or not all your access criteria could, in fact, be met by the provision of nothing but Essentials, with Essentials being the technical term for sort of half-post offices, as it were.

Tim Brown: We don’t regulate post offices, so it is difficult for me to answer in a lot of detail—I know you had Paula earlier. If Essentials offer and meet the requirements of the access criteria for postal services, we are neutral on whether a post office is an Essential, a Local or a main. From a Royal Mail and a mail point of view, we are interested in access to all postal services.

Q312 Chair: A access to all postal services?

Tim Brown: Yes, to all postal services.

Q313 Chair: “All” is the complete range. That would effectively mean every postal service that is offered and being supplied in every unit. That looks completely ridiculous.

Tim Brown: Universal service products.

Q314 Fiona O’Donnell: Perhaps I can recap, because it will be handy now that the Minister is here, as he will know exactly what you have committed him to
do in the Bill. So, we have a USO guaranteed six days a week, which cannot be changed unless it comes back to Parliament. We have a price that cannot vary across the country unless, again, that comes back to Parliament, and so is guaranteed under the Bill. You said that some of the products within the USO may not be available. Could you just give us an idea of what those would be?

**Tim Brown:** Some examples, in terms of looking back about what we have done over the past few years; for example, special delivery on account for account customers is not in the universal service, but special delivery for individuals is. We have taken some of those things out, and part of the reason is that there is competition. Royal Mail wants to be more commercial so it is giving it more freedom, and it makes sense for that not to have to be provided. Access to a special delivery-type service for consumers, however, is essential so we kept that in. Certain bulk mail products are not in the universal service, because we don't believe it is a requirement for consumers to have access to some or most bulk mail. At the moment, however, we have kept some smaller products for bulk mail for SMs, because there is no choice for access. We have looked at what the needs and requirements are and what we have to put in the universal service.

**Q315 Fiona O'Donnell:** When you say bulk mail services, does that mean that if a small business in an isolated, remote rural location wanted to do a large mailing to promote its products, Royal Mail could decline to provide that service?

**Tim Brown:** We have kept some—a few—bulk mail products in the universal service to address those requirements.

**Q316 Fiona O'Donnell:** Sorry, I don't know whether that means yes or no.

**Examination of Witnesses**

Witnesses: Edward Davey, Parliamentary Under-Secretary of State, BIS, and Mike Whitehead, Assistant Director, Shareholder Executives, BIS, gave evidence.

**Q319 Chair:** Good afternoon, Comrade Minister.

**Mr Davey:** Good afternoon, Commissioner Davidson.

**Chair:** Commissar, I think. We notice that you have come with far fewer supporting staff than the regulators. We think that is an interesting point for us to be aware of. You're obviously confident enough not to need that degree of supporting staff.

As you know, we are looking at the Postal Services Bill as the Scottish Affairs Committee, so we are particularly interested in the delivery of the Universal Service Obligation in Scotland and also the network of post offices; questions of ownership, pensions and so on we see as being UK responsibilities and not really our focus. The two particular areas that we are interested in are the universal service and post offices, which are what we will probably want to pursue most of all with you.

Our concern first of all about the universal service is that although we see it set down in clause 30, clause 29(4) states that it is to be reviewed within 18 months. As you can imagine, that causes us some anxiety. Assuming the worst—usually a realistic position to take, because then you are not disappointed—we would envisage perhaps that Ofcom or someone else would then change that downwards. We have just had reassurance from the regulators that any change to the universal provision would need to come back to Parliament, and so is guaranteed under the Bill. You said that although we see it set down in clause 30, clause 29(4) states that it is to be reviewed within 18 months.

**Tim Brown:** It means yes for the small business. For larger businesses, in terms of not being in the USO, at the moment there is a host of providers and the market is quite competitive for that business. The question we ask is whether we need to protect them to do that. We only introduce the universal service or keep products in where we need to protect consumers, including small businesses.

**Q317 Fiona O'Donnell:** Do Ofcom regulate other providers such as TNT as well?

**Jonathan Thompson:** There are certain conditions that we can put on other regulators through the legislation, for example, in relation to protecting consumers in terms of their postal services. We can and will apply those to Royal Mail, and we can apply them to other providers as well. There are certain conditions that the Bill allows us to put on all postal providers.

**Q318 Fiona O'Donnell:** And would you deal with complaints against another provider? **Jonathan Thompson:** Again, the Bill allows us to put in place conditions on postal operators—to deal with consumer complaints, for example—and to require postal providers to be part of a redress scheme, so that if consumers have a concern and they haven't been able to deal with it with their postal operator, they can then go to a third party who will act independently.

**Chair:** As you'll appreciate, you're just the second starter. Now that the main course is here, I think we'd rather move on to the Minister, unless there is a question that anybody is absolutely bursting to ask. No? Thank you very much, and we'll move on to the Minister.
The universal service has three tiers. As you will be delighted to know, there is a European postal directive, which lists minimum requirements that universal service providers in member states have to provide. Those requirements are significantly less than what we have in clause 30. Under the European postal directive, you only have to deliver five days a week, and there is no requirement for uniformity. As the previous Government did, and as has been the case in Britain for many years, we have gold-plated the European directive, so clause 30 sets out in law the minimum requirements that the UK Government have decided, which go beyond the postal directive.

On top of that there is something called the Universal Postal Service Order. The order-making power is detailed in clause 29(1). The order mirrors the current framework from the 2000 Postal Services Act, which I think was referred to by Tim Brown. Under the 2000 Act, Royal Mail has a licence with Postcomm, and the conditions that would be in the Universal Postal Service Order are similar to the conditions in the current legislation for the Royal Mail licence from Postcomm. When you read “Universal Postal Service Order” in clause 30, you have to see it as a higher level of universal postal service regulation, which links into the current framework with the licence. To change the postal directive, there would have to be a new postal directive in Europe; and to change the minimum service requirements set out in clause 30 there would have to be measures in Parliament.

Q321 Chair: When you say “measures”, what do you mean by that? That wouldn’t be just an order, would it?
Mr Davey: Let me take you through that. Clause 33, entitled “Review of minimum requirements”, basically sets out three safeguards. The first is that Ofcom would have to do a review of users’ needs and make recommendations. The Secretary of State would have to accept those recommendations and decide that he wants to change the minimum service requirements. The Secretary of State would then have to come to Parliament with an order, which would have to be agreed by both Houses. But that order, if a Secretary of State were so minded after an Ofcom review, would not be allowed to change the uniformity of price and service. So unless there was another Act of Parliament, under clause 33, even if an order was made, which I don’t think is likely, it couldn’t change the universal service in respect of the uniformity of price and service.

Chair: So—
Mr Davey: I haven’t quite finished. This is a long answer, but it is a complicated subject and I am glad that I have a chance to set it out in a clear way.

The Universal Postal Service Order, which links to the licence at the moment, sets a higher level for universal service. That can be changed by Ofcom, it is true, but the reason we put in the 18-month review is not so much that we want Ofcom to change it, but that, although Ofcom is going to be pretty busy as it takes over from Postcomm during the transition, at some stage it has to set a Universal Postal Service Order and, in effect, renew the Royal Mail licence as in the previous statutory regime. By doing it after 18 months, it is actually more likely to keep the arrangements in the Royal Mail licence at the moment. That’s deliberate. In no way is it a threat to the conditions of the Royal Mail licence; in a way it is the best way of doing it.

Q322 Chair: You can understand our anxieties, which reflect those of people who have been to see us. If I may, I will run through some of those things, just to be absolutely clear. To change from collecting letters six days a week, with one price for everywhere, the clause specifies that the matter has to come back to Parliament and has to be the subject of an order that is voted upon in both Houses, so there is no way of slipping out of that.
Mr Davey: Yes.
Chair: That is very helpful.
Mr Davey: Can I just add that that is much stronger than the current position and the provisions of the previous Government’s 2009 Postal Service Bill? When I looked at this and asked how the minimum service requirements can be changed, I was eventually told, “Under the European Communities Act 1972, where a member state has requirements that are above the European directive, a Secretary of State can, by negative resolution, reduce those minimum service requirements down to the European level.” In other words, the safeguards prior to this clause were less, so the clause has increased the safeguards for the minimum service requirement. It has increased the safeguards for the universal postal service.

Q323 Chair: I think we are probably, on balance, not against that, in as much as I understand it. Can I clarify again our understanding of clause 32(2)(b), which Alan picked up in a previous session? It refers to waiving the requirements of the USO if it considers geographical or other conditions to be exceptional. We are seeking assurances that it is not intended for, and will never be applied to, an area like exceptional Argyll—a whole area of the country. We accept completely that there will be some circumstances where a particular house cannot be serviced under these terms—we’re not unreasonable. What we want are assurances that it will never be the intention that part of the country, either for geographical reasons or, particularly, for economic reasons, will have a different standard applied to it.
Mr Davey: I can give you those total assurances. I can also refer to how we discussed this in the Bill Committee, when a parliamentary colleague tabled an amendment to delete that subsection. I described his amendment as the Milk Tray amendment, because Royal Mail postmen and women would have to act like the man in the Milk Tray advert who swings down from a helicopter.
Chair: That is quite an old one actually.
Mr Davey: It is quite an old one, but I thought you would remember it.
Chair: We didn’t have a television then, but I heard about it.
Mr Davey: Touché. Imagine severe conditions that would put postmen and women in danger. There clearly have to be exceptions. There are exceptions when someone decides that they want to have a
dangerous dog loose in their garden, making it very difficult for the postman to go up and down the path. There are also exceptions in a number of places based on geography: for example, if an island has only a once-a-week ferry, there is no way you can ask the universal service provider to charter a ferry especially once-a-week ferry, there is no way you can ask the universal service provider to charter a ferry especially once-a-week ferry, there is no way you can ask the universal service provider to charter a ferry especially once-a-week ferry. It also reflects the current situation. It is not some sort of get-what was in the Postal Services Bill 2009. It also reflects the current situation. It is not some sort of get-what was in the Postal Services Bill 2009.

Chair: I open the floor to my colleagues on the discussion of the Universal Service Obligation, rather than going over a number of other areas.

Q324 Mr Reid: I have a general question. How has Royal Mail performed during the recent bad weather in Scotland in terms of letters, parcels and cash delivery to post offices?

Mr Davey: It has actually done really well. When there is extreme weather, it is not able, as we have discussed, to necessarily guarantee its usual high performance, but it is investing £20 million especially to ensure that its delivery services, which have been hit by some of the severest weather for 30 years, can be maintained. If you compare them on, say, delivery of parcels with some of the private operators, which are having some real problems, Royal Mail with its Parcelforce partner is really trying to deliver a high-quality service despite the conditions. I would like to put on record my thanks to Royal Mail and particularly its staff who, under very difficult conditions, are delivering for people.

Q325 Mr Reid: Are you satisfied that once the Bill goes through and Royal Mail is, say, in private hands, it will still be in a position to deliver the same high level of service?

Mr Davey: Yes, because the service quality comes down to the regulation. The regulation in part 3 of the Bill, which is similar to part 3 of the 2009 Bill, is strong. If anything, we have made it stronger in this Bill, compared with the previous one. If a private universal service provider— which I presume is a private Royal Mail—were to fail to meet its regulatory obligations, it would be liable for fines.

Chair: On post offices—

Mr Reid: On post offices—

Chair: Let’s stick with the Universal Service Provision, because I see that a number of other people want to come in on the USOs.

Mr Reid: It is to do with the USOs.

Chair: Okay.

Q326 Mr Reid: Clause 30 refers to the Universal Postal Service requirement to collect six days a week from access points. Clause 28(5) defines an access point, which means a post box or a post office. Clause 28(4) states that Ofcom has to “secure the provision of sufficient access points to meet the reasonable needs of users”. What assurances can you give us that that definition of “reasonable needs of users” will allow small rural post offices to stay open?

Mr Davey: Ofcom has a number of duties to consumers that come from the Communications Act 2003. When one reads the duties that Ofcom has in the current Bill, one has to read the 2003 Act side by side. In section 3 of that, I think, there is a whole series of duties to consumers, to which Ofcom must have regard when it is carrying out its duties as a regulator. They include duties to the elderly—there are a number of vulnerable categories, including the disabled. It has to consider the needs of ethnic minority communities, the needs of rural and urban communities, and the needs of people who are living in all parts of the country. The legal duties on Ofcom through the 2000 Act are very strong, and it will have to apply those duties to how it carries out its duties as the postal services regulator. I am strongly of the view that Ofcom, in thinking about how it goes about its duties under clause 28(4) in relation to access points, has some strong duties to which it must adhere.

Mr Reid: An important part of the USO is this six-day collection. If a pillar box were to be removed, or a post office were to be closed, it would dilute the USO. So would there be statutory procedures that must be gone through to close a post office, or to take away a pillar box?

Mr Davey: They are not statutory procedures, but clearly if something such as the closure of a post office is going to happen, as we all know from the closure programmes of the previous Government, consultation is required. The consultation requirements and the framework for those are set out in a code of practice that has been agreed between Post Office Ltd and Consumer Focus, which is the independent watchdog of consumer needs.

Fiona O’Donnell: Can I follow on from that?

Chair: Can I take Eilidh’s question now? A number of people want to come in directly on this.

Q327 Mr Reid: Can I take Eilidh’s question now? A number of people want to come in directly on this.

Mr Davey: Ofcom has a number of duties to consumers that come from the Communications Act 2003. When one reads the duties that Ofcom has in the current Bill, one has to read the 2003 Act side by side. In section 3 of that, I think, there is a whole series of duties to consumers, to which Ofcom must have regard when it is carrying out its duties as a regulator. They include duties to the elderly—there are a number of vulnerable categories, including the disabled. It has to consider the needs of ethnic minority communities, the needs of rural and urban communities, and the needs of people who are living in all parts of the country. The legal duties on Ofcom through the 2000 Act are very strong, and it will have to apply those duties to how it carries out its duties as the postal services regulator. I am strongly of the view that Ofcom, in thinking about how it goes about its duties under clause 28(4) in relation to access points, has some strong duties to which it must adhere.

Q328 Dr Whiteford: Good afternoon. You will appreciate that there is a lot of anxiety in rural communities about the impact of these proposals on what are already eroded and depleted mail services in many areas. I am still looking for clarity—I’ve not had it yet—about whether the Universal Service Obligation in a privatised Royal Mail will ever be commercially viable in areas such as the one that I represent. It gives me particular concern that the Bill will allow parts of the USO to be broken up. I am afraid that the easy bits will be cherry-picked and the difficult bits, such as Argyll, Aberdeenshire, or the Highlands and Islands, will be left with poor services, which nobody wants and which will never be commercially viable on their own.

Mr Davey: Let me totally reassure you on this. The core policy objective behind the Bill and our overall policy is to protect the Universal Postal Service to make sure that it is financially viable. Without the Bill, the Universal Postal Service is under threat. Let’s be absolutely clear and understand where Royal Mail is at the moment. Last year, it had a cash flow negative position of £500 million. Its pension deficit is £8.3 billion. Disastrous—that’s the largest pension deficit of any UK organisation. Its letter volumes last year—
Let me take your specific point about your concern that it could be broken up. I assume that you are referring to clause 34—"Designation of universal service providers". That makes it very clear that there are very limited circumstances in which there could be more than one universal service provider. There are two, which are set out under subsections (3) and (4).

The first case is when Ofcom has done a review about whether the Universal Postal Service is an unfair burden on the universal service provider. If it is deemed to be an unfair burden, Ofcom can make recommendations to the Secretary of State about how that could be addressed. Unlike the previous Bill, which only had one option—the compensation fund—we put in three options. We think that's better as there is more than one option to deal with the unfair burden.

The options are to look at the minimum service requirements, the compensation fund and the idea of a procurement of a service in the area where there is deemed to be an unfair burden on the universal service provider. It is unlikely that we will get to that situation—these are safety nets. To get to that situation, you will have had to have a major review by Ofcom. It will have to make recommendations and the Secretary of State will have to make a decision on how to go forward.

Yes, there is the procurement option, but I don't think it would lead to the break-up of Royal Mail in the way that you envisage. Royal Mail could win the procurement. More important, the area where the unfair burden could happen—in the event that it happened—is likely to be small. If you talk to Royal Mail, it believes that being the universal service provider is its USP and a key part of its brand. My view is that a private owner would want to protect that, so I do not think that we would reach that situation.

The other case set out in clause 34(4) is that of postal administration. If we reach that, we are into calamity and total collapse. The business has effectively gone bankrupt. We really do not think that that will happen but, as in the case of the water industry when it was privatised and other utilities, one has to provide in legislation for what would happen in that circumstance. Part 4 of the Bill sets out how a postal administration order would work. If the Secretary of State were dealing with a collapse in the universal service provider and having to ensure, under the European legal obligations, that a universal service is still provided, we are allowing the Secretary of State to have more than one provider. I hope that I have shown, by taking you through those two subsections, that the chances of getting to a point where there is more than one universal service provider are very, very limited and very, very unlikely.
Mr Davey: Yes. It is not as nuclear an option as administration, of course, but if it got to that point, the Bill wouldn't have achieved its main objective.

Q334 David Mowat: Just to be even clearer then, there will not be a market in postal services with several providers unless clause 34 is triggered, and that would require the regulator to say that it is deemed to be unfair to the incumbent.

Mr Davey: Let me try to answer that in as broad a way as I can to ensure that there is no misunderstanding. At the moment, there is competition in parts of the mail system. You have your upstream access—the collection of the mail. You have the transportation of the mail, the sorting of the mail and the delivery of the mail. There are already private competitors in the collection, the transportation and the sorting of the mail. There are almost no competitors at the delivery end. Royal Mail delivers 99 point whatever percent, of letters in this country.

Under the current legislation—forget the Bill—it is possible for a company to set up, if they wanted to, to do delivery. There is nothing stopping them in the legislation. They could do it, but they don't, because they can't do it as efficiently as Royal Mail, and they couldn't compete with Royal Mail. You have people who deliver unaddressed letters and pizza leaflets and that sort of thing, but you don't get them delivering addressed letter mail. The Bill doesn't change that. It doesn't ban end-to-end competitors. They could come in if they wanted to. You can't do that now. But you wouldn't.

Chair: For the avoidance of any doubt on this—I will not use the term “Warrington”; let's come to Glasgow—nobody would be able to say, “We will compete with Royal Mail for the delivery of the last mile in Glasgow”. As they would not be able to access the flow of mail all the way through. They would, however, surely be able to set up a company that said, “If you are in Glasgow, and if you give mail to us, we will then be able to deliver it in Glasgow.”

Mr Davey: They can now.

Q338 Chair: For the avoidance of any doubt on this—I will not use the term “Warrington”; let's come to Glasgow—nobody would be able to say, “We will compete with Royal Mail for the delivery of the last mile in Glasgow”. As they would not be able to access the flow of mail all the way through. They would, however, surely be able to set up a company that said, “If you are in Glasgow, and if you give mail to us, we will then be able to deliver it in Glasgow.”

Mr Davey: No. We already have a very liberalised postal market. It's just that it's quite difficult in the economics of the postal industry to have competitors in the last mile.

Q339 David Mowat: The specific evidence that we were given by the union was that the nature of this privatisation is different to, for example, what happened in Germany, where it was privatised wholesale and remained wholesale. You're saying that as far as you understand it, it is going to be privatised wholesale and remain wholesale, so it is not different in that regard.

Mr Davey: No, not at all.

Q340 Chair: Ah, that's right. But they would not have access to any mail that had been fed into the Royal Mail system.

Mr Davey: No.

Q341 Chair: Fine. I just want to be clear, as you will understand. So coming back to the point, private sector companies collect it from banks, do a pre-sort, and then split it into the Royal Mail system. Once it is in the Royal Mail, it never comes out, so to speak.

Mr Davey: That's right.

Chair: Fine. I think that effectively clarifies it all.

Q342 David Mowat: My final point is: am I right in saying that there is nothing in the legislation that would prevent the whole thing from being bought by Canada Post within a year if that is what it wanted to do?

Mr Davey: We haven't put any restrictions on ownership in that way. What we have not set out in the Bill quite deliberately is how the transaction is going to happen, because we want to be as flexible as possible. We learnt from the problems that the last Government got themselves into, when they couldn't sell because they put a lot of restrictions on themselves. We want to make sure that we don't make that error, so we have not restricted when or how we sell, whether we sell through an IPO, through listing it, or go with a trade partner, have an auction process or get private equity in. You have to look at all those.

Q343 David Mowat: So after you've sold it, will it be a quoted plc, so anybody could buy it? Or would that depend?

Mr Davey: It might not be a quoted plc.

Q344 Jim McGovern: Just again on the subject of ownership, I made this analogy yesterday. The buses in Dundee used to be run by Dundee Corporation, which became Dundee City Council, but it was still totally publicly owned and publicly run. Eventually it
was privatised, and now the bus company is saying that certain routes are not profitable, and so it will not run buses on them. What is to say that if Royal Mail is privatised, it will not eventually say that it is not profitable to go to Argyll and Bute or the Western Isles?

Mr Davey: It is very simple. Mr McGovern. There is no regulator of bus transport services in Dundee, but there is a regulator of the market here. The regulator has legal powers, so that if the privatised universal service provider doesn’t meet its legal obligations, it can be fined.

Jim McGovern: It can be fined?

Mr Davey: Yes.

Q 345 Jim McGovern: What difference is that going to make to it, if it’s making millions of pounds a year?

Mr Davey: Well, 10% of turnover is quite a big fine. If Royal Mail were fined 10% of turnover, it would have to pay about £635 million. That figure is from memory and might not be absolutely correct.

Jim McGovern: I’m taking a note of it, even as you speak.

Mr Davey: I’m sure that we can get the exact figure if you want it. The potential ability for the regulator to fine the universal service provider if it is not meeting its legal obligations is an asset. 7

Q 346 Jim McGovern: I’m intrigued. I never realised that there was nothing to regulate transport in that fashion, that they can just do what they want, withdrawing buses and scrapping routes.

Mr Davey: I’m not au fait with the situation in Dundee; I’ve got to be absolutely clear about that. My understanding is that presumably there is someone who franchises out the routes, and if someone’s not prepared to run that route for that franchise, unless the local or transport authority puts in more subsidy—

Q 347 Jim McGovern: It’s absolutely impossible for that to happen with the Bill as proposed.

Mr Davey: Yes, because of Ofcom.

Chair: We’ll move on. Given that you haven’t bothered to brief yourself on the transport situation in Dundee, we’ll not labour that—[Laughter.]

Q 348 Cathy Jamieson: I’ll resist the temptation to be mischievous by welcoming your support for better regulation of transport in Scotland.

I’m looking for a further bit of clarification in relation to clauses 34 and 43. I questioned Ofcom on clause 34, and I think that you have now gone some way towards explaining that it would be only in exceptional circumstances—when things keeled over, essentially—that there could be more than one provider of Universal Postal Services, and that perhaps if we got to that stage a different type of service would be being supplied. However, Ofcom said that clause 43 was a protection in relation to that. The CWU in particular has raised some concerns that clause 43 could also be linked to the carrying out of a review under section 33. I am looking for clarification on that. Does clause 43 and the ability to change the Universal Service Obligation relate only to the provisions in clause 34? Sorry for being so technical about it, but it’s so important.

Mr Davey: No, no. No. That’s a very good question. Some of you should have been on the Postal Services Bill Committee, and given me a hard time.

Cathy Jamieson: Flattery will get you nowhere: I just need an answer please.

Mr Davey: Actually, in this world we say, “Philately will get you everywhere.” Anyway, in clause 43(6) it does say that the “recommended action”—a recommendation that Ofcom would make—“may consist of one or more of the following”—(a) the carrying out of a review under section 33 (review of minimum requirements)”. That is one of the three things that could happen if Ofcom had done a review and found that the financial burden on a universal service provider in a particular part of carrying out that duty was unfair. But the decision would be made by the Secretary of State.

Q 349 Cathy Jamieson: Can I just clarify that? If, in a situation before Royal Mail or whoever keeled over, Ofcom did a review and found that the financial situation was precarious or that it had concerns about it, it could make recommendations to the Secretary of State that there be more than one provider or that the Universal Service Obligation be changed, potentially.

Mr Davey: Yes. If it does the review and finds that there is an unfair burden it can make recommendations to the Secretary of State, but the Secretary of State then has to decide what he wants to do. So, say that we chose a review under section 33, he would have to go and look at the review and then come to Parliament if he wanted to reduce the minimum service requirements. Parliament would still have the say-so.

Cathy Jamieson: Okay. That’s helpful. Thank you.

Q 350 Chair: Could I perhaps turn to the question of the post office network, which is the other main issue that concerns us? A higher percentage of Scottish post offices are in rural areas than in the UK as a whole, and we would, therefore, generally take the view that Scottish post offices are more likely to be at risk. You’re nodding, so I presume that you accept that.

Mr Davey: No, not the “at risk” bit. You’re right that—

Q 351 Chair: Okay, well it’s very helpful if you don’t think that any of them are at risk, but my understanding is that so far this year 22 of them have closed in Scotland, and a number of others are on long-term temporary closures, which seems to be a euphemism for closure. There are also 57 of them up for sale. In that context, things are fluid all the time and as you possibly heard us discussing earlier on, we have issues about access. As I understand it, the rules on access to which the regulators are working are the rules that are in the BIS outline that we had earlier on about 90%—you’ll know the figures better than I do.

My understanding is that those figures determine that there would be 7,000-odd access points, whereas in fact at the moment there are around 11,000. There is therefore a potential fall of 4,000-odd before the criteria on access are met. Obviously we would reckon 7 Ev 108
that a disproportionate number of those would be in Scotland, because of the rurality and so on and so forth. What assurance can you give us that if you stick to these access criteria, that does not become a maximum figure that is provided and all the rest simply go?

**Mr Davey:** Let’s be clear. The policy of the Government is “no closure programme for post offices”. There can be, of course, because it is outside our control and outside POL’s control, occasions when a post office closes because a sub-postmaster retires or decides they don’t want to go on any more and they have not been able to find anyone to take over their business. Remember, 97% of post offices are privately owned or privately run. In that situation, POL will see whether it can find someone else to reopen it and will have to make a decision on that. Our policy of no programme of closures—which is a very strong policy and I will deal with some of the details behind that in a second—can’t prevent an individual post office from closing or a postmaster from trying to sell it. It is impossible to do that.

Q352 **Fiona O’Donnell:** Would it not be possible to do that by setting a minimum number of post offices in the Bill?

**Mr Davey:** The problem if you do that is this. Imagine there were 11,500 post offices—it is slightly over that, as it happens—and you said, “Right, there must be 11,500. Put it in legislation.” If a private individual decided that they wanted to retire or they died, suddenly there would be a legal obligation. You would have broken the law and it wasn’t your fault. So you wouldn’t want to put a legal obligation in the statute which you couldn’t control. That would be a rather unfair thing to do, I’d have thought.

Q353 **Chair:** Can I be clear then about the status of the access criteria?

**Mr Davey:** I’m coming to those. We basically borrowed what the last Government had for the access criteria. There is no change in them. We have not downgraded them. They are exactly the same. In our control and outside POL’s control, occasions when a post office closes because a sub-postmaster retires or decides they don’t want to go on any more and they have not been able to find anyone to take over their business. Remember, 97% of post offices are privately owned or privately run. In that situation, POL will see whether it can find someone else to reopen it and will have to make a decision on that. Our policy of no programme of closures—which is a very strong policy and I will deal with some of the details behind that in a second—can’t prevent an individual post office from closing or a postmaster from trying to sell it. It is impossible to do that.

Q354 **Chair:** I find some difficulty in understanding how that ties in with the point that Fiona was making, to which you responded that if somebody dies you don’t want to be tied to a particular number.

**Mr Davey:** There is a big difference between a legal contract where they can come to us and say, “We are trying to find someone else to put back in there. They’ve died. It was unforeseen. We are doing our best to replace them.” and a statutory duty where they commit an offence and you can be fined. That is rather different from you, in carrying out a legal agreement with your partner, saying, “We’re trying to meet that but give us a few months to find a replacement.” This is such a strong commitment that we have made in this Government, far, far stronger, I have to say, than the last Government when 7,000 post offices closed.

Q356 **Chair:** You’re trying to provoke us.

**Mr Davey:** No, I’m not. I’m just saying that the policy of the last Government, which had the same access criteria, led to 7,000 post offices closing. Under ours we have made a commitment, funded by £1.34 billion and a whole set of policies that are set out in this document, to say that we want 11,500 post offices for you to deliver. I think it is a pretty strong statement, backed up by serious money.

Q357 **Chair:** Can I come back again to the discrepancy between the numbers that will be provided for under the access criteria, which I believe to be some 7,500, and the 11,500 figure that you are mentioning now? I do not understand how those two come together. Am I making myself clear?

**Mr Davey:** I understand.

Q358 **Chair:** The figures that I have—the access criteria in the BIS document—could be met by 7,500, yet there are 11,500. If 11,500 is the legal agreement, what is the specification about where those should be? If you have 7,500 being met by the criteria, you obviously do not need the rest.

**Mr Davey:** I think you’re getting there. If you did not have the access criteria—I am taking it to the extreme—you could have 11,500 post offices in London and no post offices anywhere else. The access criteria ensure the geographical dispersion, so that communities, including remote, rural communities in Scotland, have to have post offices that meet those access criteria. That is why the two work together. We have a legal agreement. We want 11,500 and we have given them the money, but they need to make sure that the post offices are geographically dispersed, to meet the access criteria.

Q359 **Fiona O’Donnell:** Just to clarify, what are the access criteria in a rural part of Scotland? How near to your home do you have to be able to access services?

**Mr Davey:** I’m going to have to check, if that is all right.

Q360 **Chair:** I’ve got it. The BIS document, “Securing the Post Office Network in the digital age” says: “99% of the UK population will be within three miles of their nearest post office outlet; 90% of the population to be within one mile of their nearest post office outlet; 99% of the total population in deprived urban areas across the UK will be within one mile of their nearest post office outlet; 95% of the total urban population across the UK to be within one mile of their nearest post office outlet; 95% of the total rural population across the UK to be within three miles of their nearest post office outlet.” It also says: “In addition, the following criterion applies at a local level
to ensure a minimum level of access for customers living in remote rural areas. 95% of the population of every postcode district to be within six miles of their nearest post office outlet.

Mr Davey: That's exactly right.

Q361 Fiona O’Donnell: That’s the postcode down to how many letters?
Chair: I don’t know. The Minister knows that.
Mike Whitehead: The first three or four characters.

Q362 Fiona O’Donnell: The first three. For example, EH16?
Mike Whitehead: There are 2,800 postcode districts across the UK as a whole.

Q363 Fiona O’Donnell: We have established what the access criteria are. If a post office is going to close, because someone dies or wants to retire, which then means that the access criteria cannot be met, how is the service provided?
Mr Davey: Then Post Office Ltd has to ensure that those access criteria are met. It would have to find another person to run a post office to enable it to meet the criteria. The fact is that now, those criteria are more than met. We are not on the cusp. If we have 11,500, which are guaranteed over the next four years because of our legal contract and the money, I cannot envisage a situation where we will breach the access criteria.

Q364 Fiona O’Donnell: I am confused as to why you say you cannot enshrine it in law. Why can’t you enshrine that in law? That seems to be what you are saying to me. You are saying that Ofcom has to provide the service.
Mr Davey: I think we have much better protection here in our system. I will compare it with other countries in a minute, because that was raised in the Standing Committee. We have protections in the Bill, which we referred to earlier—I think it was my hon. Friend the Member for Argyll and Bute. Under clause 28(4) it states: “OFCOM’s duty under subsection (1) includes a duty to carry out their functions in relation to postal services in a way that they consider will secure the provision of sufficient access points to meet the reasonable needs of users of the universal postal service.” That is the statutory protection, which the regulator, Ofcom, has to ensure is met. Over and above that we have the access criteria, which is the overall agreement with Post Office Ltd. And above that we have the legal contract. We have three sets of protection. In the Postal Services Bill Committee, the argument was made that we should adopt the German model. The Germans have enshrined it in legislation. Do you know what the German legislation says about the protection for the access criteria?

Fiona O’Donnell: You won’t be surprised to hear that I do not know.

Mr Davey: No—exactly. [Laughter.] Regarding the access points in rural areas in Germany, there should be a post office every 80 sq km. If we enshrined the German rule in our law, you would see a lot of post offices closing across Scotland. The point about Germany has been made by some Members of the Committee. Really, they should have looked at what the Germans had enshrined in legislation, because it is not a good model.

Q365 Chair: To be fair, there’s nothing wrong with the model. It is the figures that you are criticising, isn’t it?
Mr Davey: I guess what I’m saying is that you can put things in law, or in contracts, and so on, but ultimately the reason why post offices will stay open is that they are commercially viable, either because they are getting subsidies or they are getting business. The whole of our strategy is to try to ensure that we get more business through the post office network. Ultimately, businesses do not survive because Parliament has legislated that they will survive; businesses survive because they are doing business.

Q366 Fiona O’Donnell: We have an assurance about the access criteria—that Ofcom will have to deliver that service. The number is guaranteed at 11,500 post offices?
Mr Davey: Post Office Ltd has to deliver a post office network over the four years of our contract with them that is at least 11,500.

Q367 Fiona O’Donnell: Right. And you were critical of the Government cutting 7,000 post offices. If you believe those post offices should have stayed open, why haven’t you made it a higher number?
Mr Davey: That is a very good question. We have inherited an incredibly difficult situation. I explained that we inherited Royal Mail, which has a pension deficit of £8.3 billion, and that it is losing money. Post Office Ltd is losing money and has to have a big subsidy that is growing and growing and growing. We have to turn that situation around. I am afraid that we cannot do it all in the first year, but I believe that the strategy that we are putting together—whether it is the Bill, the spending review, or the particular policies that we will no doubt come to—will enable us to turn that around.

Q368 Chair: Can I just be clear though? What you are stating as the Government’s policy does not in itself stop the closure of particular sub-post offices. You could still have the network minimum being met, which I think is met by 7,500, and you could have some closing in one part of the country, some opening in another part of the country, and that remains the 11,500 figure. Is there not a guarantee to anybody out there that their particular post office will remain open, because life is fluid and there will be changes.

Mr Davey: I think you’re seeing it in a different way. Your idea that some would be closed down, I don’t think that is something that we would implement, as we saw in the last Parliament. That is not happening.

Chair: I understand that.

Mr Davey: What could happen is that an individual sub-postmaster could die, or they could hand in their keys and retire, or they could sell their business. You mentioned that a certain number of post offices are up
Mr Davey: different points counts as five access points? That shows that there is still a healthy market in sub-post offices.

Q369 Chair: I understand that, but I just want to be in a position where we are not going out of here telling people that all their post offices are safe, because there will be some situations, say in Argyll, where there are two post offices within an area that meet the criteria, as it were. One of those could close and that would not necessarily require action by Royal Mail to reopen another one. I understand your point about the 11,500 post offices, and I am not suggesting that you would move them from there to here, but given that you have a target and that there will be new towns developing, population shifts and all the rest of it, that target can possibly be met by places—

Mr Davey: There is no upper target. If they want to expand the network, they can go ahead and expand the network.

Chair: Fine. Fiona, you wanted to come in.

Q370 Fiona Bruce: Thank you. I wanted to ask about Outreach post offices and where they fit into the criteria of access points. I am interested generally in how you see Outreach post offices working in the future. In addition, however, playing devil’s advocate I will point out that 39 of them are mobile in Scotland. Are we saying that if a post office van tours around various postal code areas it constitutes an access point, or how will that work?

Mr Davey: We’ve used exactly the same definition for what counts as a post office as the last Government. We have not tried to change definitions or anything like that, and my understanding of the definitions used by the last Government, which I presume colleagues would support, is that if you’re producing an Outreach service, that will count as an access point.

Q371 Fiona Bruce: What about mobile services, where they are providing a service at some point during a week?

Mr Davey: That’s a good point. I think if there’s one mobile service, that is one access point. The fact that it opens up for one day here, one day there and one day somewhere else does not mean that it amounts to three access points. That’s my understanding. If I’m wrong on that, I’ll get back to you, but my understanding is that if there’s one Outreach service, that is one access point.

Chair: I’m sure a member of your staff can change that for you. I think it’s a question of priorities. Meeting a Select Committee is obviously one of them. Mr Davey: Of course it is. Can I say that you’ll be finished with me by 6? Chair: I’m in the hands of my colleagues. I certainly hope so.

Mr Davey: Okay.

Q374 Dr Whiteford: I have real concerns about that, because although there has been some really good innovation around providing services in rural areas, I keep getting very mixed messages about the mobile services. It seems to me that people who are sitting in offices assessing them have a very positive view of them. People who have to stand outside them cold, damp and wet have a very poor view of them. They’re concerned about the technical problems with them. They’re concerned about the very limited access they get for two hours a week, or whatever. Generally speaking, they feel that the service is very inadequate, I’m concerned that it’s actually driving people away because they find other ways to transact their business, so it’s driving business away from the post office, rather than towards it. That, for me, is a very serious issue that doesn’t seem to be being heard by the people managing the service.

Mr Davey: There may well be mixed views about it, but a lot of people and a lot of communities really value the Outreach service. I’ve seen very positive evidence of that. Our strategy isn’t built on turning the Post Office Network into one big Outreach service. Let’s be absolutely clear about it. Our core strategy is around Post Office Locals, sometimes known as Post Office Essentials—

Q375 Chair: But we’re interested particularly in rural issues and difficulties in rural areas. [ Interruption. ] We now have a Division in the House.

Mr Davey: Am I allowed to come back? How are we doing on time for you?

Chair: We’re fine, thanks. I don’t have to be anywhere until 10 o’clock tonight, so as far as I’m concerned, we’re fine.

Mr Davey: I have a meeting at half-past 5, but I’m very—

Chair: I’m sure a member of your staff can change that for you. I think it’s a question of priorities. Meeting a Select Committee is obviously one of them.

Mr Davey: Of course it is. Can I say that you’ll be finished with me by 6?

Chair: I’m in the hands of my colleagues. I certainly hope so.

Mr Davey: Okay.

Q376 Chair: Can I pick up the questioning about the access points while we’re waiting for other people to come back? This is genuinely new to us. I had not appreciated that a minibus travelling around the country with some first-class stamps and second-class stamps in the back and stopping at 25 different places during the course of the week could be considered to be visiting 25 access points. This seems to me a potential means by which the provision in rural areas could be drastically undermined.

Mr Davey: Let me reassure you, because that’s not what the 11,500 contract is about. That’s about Government put in the £1.34 billion to secure the 11,500 post offices.
making sure we have at least 11,500 post offices. You should be welcoming that, because that’s a high level of guarantee of the number of post offices funded. On these mobile post offices, let’s be clear, our policy is not about massively expanding this service. In almost every circumstance—it is our intention to follow the previous Government’s policy—it’s the last resort. When a sub-postmaster dies or retires in a village or a hamlet and there’s no one else to provide that service, in such circumstances our experience is that communities welcome the fact that at least there is this model that provides some services.

Q377 Chair: I do understand that. I understand why communities in some circumstances would prefer that to nothing at all. I completely understand that. However, you can see how, if there are financial pressures on post offices— they become financially unviable and close—the service is replaced by a peripatetic van, which meanders and does a tremendous amount of mileage, actually. Is there a minimum criterion for how long an access point has to be open? It could be open for an hour, so in a day the van could possibly do five different stops. You could end up having a single van doing 25 access points a week.

Mr Davey: I will get back to you with the criteria that the previous Government used. We are not doing anything different from the previous Government in the access criteria with respect to these Outreach services.

Q378 Chair: With respect, the previous Government were not privatising it.

Mr Davey: We’re not privatising Post Office Network.

Q379 Chair: We’re potentially in a different situation.

Mr Davey: We’re in a much better situation; this is the whole point. I understand the direction of your questions, but it totally misses the fact that post offices have a much brighter future, not least because we have given this guarantee of a no-closure programme. We have found the money. We have a set of policies in here that you haven’t yet discussed, which set out to make sure that business, such as Government services and financial services, is going through the Post Office Network. This is the point that it’s really critical to think about, because this is why the National Federation of SubPostmasters came out in favour of the Bill. It has been so positive about our policy—it wasn’t about the previous Government’s—because the policy set out in here gives a real prospect of real business being done over the Post Office Network. That is how we are going to make sure that we get a sustainable and financially viable network.

Q380 Chair: I understand that. Can I just clarify with you about the range of services that will be offered by the peripatetic van? Presumably, it will not be offering the whole range of services. Can you clarify whether things such as paying bills, paying by cheque, applying for passports and driving licences, sending larger parcels and international mail will all be dealt with by the wandering van?

Mr Davey: I am very happy to get you the detailed breakdown of all the services that are provided by the wandering van. I presume the same level of service is provided by the wandering van as in the previous Government’s policy. Because it relates to this, and because our policy isn’t about extending these Outreach services in some sort of dramatic way until we somehow meet our access criteria by the back door, our focus is on trying to get the post offices in set locations that people use and recognise as post offices to be more viable. They have to have more business going through them, and we have to change the underlying structure. That’s why we are focusing in this document on Post Office Local.

I know you had an exchange with Postcomm over that and they weren’t able to help you so let me help you, because it relates directly to this point about the services. From our pilots— there are about 52 across the country, including some in Scotland— we believe that about 86% of the services that you currently get in a main post office will be accessible through the Post Office Local. When one looks at the number of transactions that that involves, 97% of transactions at a main post office will be available through the Post Office Local.

All the research we have done on this Post Office Local model—we are piloting it to make sure we deal with the teething problems—shows really high levels of customer satisfaction and really high levels of operator satisfaction. Some of the research—the headlines of it— is put out in this paper. That’s why we think this model is extremely positive. We think it will deal with the underlying problems of the Post Office Network in terms of its underlying economics, and turn that around. That’s why I am so confident to be able to come to this Committee and say, “If we can develop these policies, if we can get Post Office Local and if we can get the Government services, the Post Office Network has a really, really positive and prosperous future.”

Q381 Chair: I understand much of that, and I think we are supportive of moves that would provide a service as distinct from no service. Can I just clarify whether the wandering van to which I referred would be providing the same service that you outlined there as being provided by Post Office Local? There is not a tier of provision whereby the wandering van would actually have further reduced services compared with the Post Office Local, is there? I had previously understood, perhaps erroneously, that Post Office Local was going to be in a single location.

Mr Davey: It is, yes.

Chair: So the wandering vans are something different.

Mr Davey: Oh yes, totally.

Chair: Sorry. So you are going to clarify for us later on the percentage of services—

Mr Davey: From the wandering van.

Chair: Fine.
Q 382 Lindsay Roy: You talked about new business streams. How confident are you, and what are the key things that are going to deliver in terms of bonuses to the Post Office Network? Why did you reject the Post Office Bank?

Mr Davey: There are two issues—the Government services and the financial services. First, on the Government services, we have already announced in this policy paper one or two of the pilots that we now want to push forward. There is, for example, the processing of pension credit applications that the DWP wants to pilot. There is also the print on demand of Government forms, which you can print at your local post office before completing them and handing them over. Those are some of the pilots and one or two others are mentioned in this paper.

The key way that we are dealing with this is that we are going across Whitehall and we are talking to local authorities. I had a meeting today with Sheffield City Council, Post Office Ltd and the LGA to try to get that engagement at the local level as well. What we are doing is saying, “There are three generic applications that we think are potentially helpful for you, the Government Department, and you, the local authority, in doing your business which will save you money and allow you to transfer your service to the Post Office.”

The first is the identity verification application, which is already being used by the DVLA. It is working very well with a technology infrastructure. We think it should be really appealing for other applications to the DVLA and to the DWP, particularly in relation to fraud. So we think that this identity verification application is a potential winner for getting big streams of income into the Post Office Network. Clearly, we need some more pilots. Of course, there will be a tender by the Department or the local authority, but we think that the Post Office Network will be in a very good place to win on that.

The second application is what we call in this document, “processing,” which is about trying to ensure that citizens who want to hand in a form or some sort of Government document can be assured that, when they have filled it in correctly and it will get through as quickly as possible. It is a bit like the check and send service that you have with passports at the moment. We think that can be extended far more. The pension credit pilot speaks to that, but there are many other applications for both local and national Government where they can make savings and revenue can flow to the sub-postmaster.

The final application is called “pay-out.” There are a number of forms of working it, but the main one is when the individual is sent a letter with a barcode on it. They take the barcode to the Post Office and it is scanned there. That is then the authority for the sub-postmaster to pay out money. That’s had a number of applications, including with credit unions. I know you have a credit union in Pollok in your constituency, Mr Chairman.

Those are the three applications and we think that, as we engage with Government Departments and local authorities, we are getting huge interest. That is why I think we can deliver on the Government services. Clearly, the proof of the pudding will be in the eating, but we are making some real headway, and I hope we will be able to announce in due course some more pilots.

Q 383 Lindsay Roy: It will be available in Post Office Local and beyond, but we are not sure about the exact nature of services in the wandering van. Can you clarify that?

Mr Davey: I’m told, and I have inspiration here, that mobiles provide a full range of core services—of bill payments, benefit payments and mail services. We can, of course, write with a detailed list, but I hope that reassures you that core services are available from the wandering vans.

Q 384 Chair: Ideally they would do everything all the time in locations. That’s very helpful, but it would be helpful if you wrote to us.

Can I be clear about this question of picking up Government business? As I understand it, the Government are putting work out to tender with, for example, the green gyros. The Post Office might not win that contract. Isn’t there an issue here about joined-up government and whether particular Departments like the DWP will go for the lowest tender in all circumstances and maybe pay something through PayPal, or whether there will be a coherent Government policy about trying to direct stuff through post offices? How is this being tackled?

Mr Davey: I can confirm that we are a joined-up Government; it is helpful to get that on record. But like the last Government, we still have to abide by—you will be delighted about this—EU procurement rules.

Chair: It is always useful to have my prejudices confirmed.

Mr Davey: If Department X has a service and wants to put it out, it has to tender it. The real question is—this goes into the Local model—is the Post Office in a fit place? Is it being modernised so that it can win some of these tenders? There are a number of issues about that, such as cost structure, obviously, because cost is a big part in tenders, and also quality of service. What the trial with the Post Office Local model shows is that, on average, post offices are open an extra six hours a day. That has an impact on the people who can use them and on queues. So, overall, customer service is much better. If you are a Government Department or a local authority thinking, “Shall I contract with Post Office Ltd?”, if they have a lot of sub-post offices that are now open for longer hours with shorter queues and a better customer experience, you are much more likely to go with that. Part of the strategy in the modernisation of the network is aimed at putting the Post Office Network in a position that is likelier to win contracts in the future.

Q 385 Fiona O’Donnell: Lindsay rightly identified that part of the security for the National Federation of SubPostmasters was about new work from the Government. The other part was about the IBA. Now we’ve had Moya Greene say that she is happy to sign one for 10 years. That’s what the sub-postmasters are saying they want. Are you supportive of 10 years?
Mr Davey: We have said very clearly that this is a matter for Post Office Ltd and Royal Mail, just as it has been in the past. In the past, the Government did not intervene in the negotiations, which can go into a huge amount of detail. I am told that the contract was well over 100 pages—but I haven’t seen it, and I’m not allowed to—the last time Royal Mail and Post Office Ltd struck a contract. Post Office Ltd and Royal Mail, going forward, can enter into a new contract, but that is for them. We are putting nothing in the way. It is totally up to them to negotiate and agree on a contract.

Q386 Fiona O’Donnell: But Ian Mckay from Royal Mail said that it is unthinkible that the two of them could be separated.

Mr Davey: No. If he was quoting Moya Greene, she didn’t say it would be unthinkable that they could be separated, but that it would be unthinkable that Royal Mail wouldn’t use the Post Office Network.

Fiona O’Donnell: We will look back at the transcript. I remember thinking that it was kind of ironic that he said that when that was precisely what the Government were doing.

David Mowat: I think that was the meaning of what he said.

Q387 Fiona O’Donnell: Yes. In any case, Royal Mail is a public service, even though it is going into private ownership. I can hear that you’re committed to maintaining that level of service, but how can you sit on the fence on the length of the IBA when the Federation of SubPostmasters is saying that that is core to the sustainability of the Post Office Network?

Mr Davey: Because you don’t write into law detailed, negotiated contracts between two independent companies. If you want to find me a legal precedent, which you won’t be able to, I’d be interested.

Q388 Fiona O’Donnell: I’m not asking you to put it into law. I’m just saying: can’t you even express an opinion or tell us why it has not been signed yet? Why don’t we have that agreement?

Mr Davey: There is an agreement at the moment, and it runs for several more years. Let me express an opinion, as you invited me to. I was delighted when the chairman of Royal Mail Group, Donald Brydon, said in evidence to the Postal Services Bill Committee—I am not sure that this is a verbatim quote—that before separation, they would negotiate and those shares are traded, potentially they could.

Mr Davey: The Bill makes it clear that it will be at least 10%.

Q390 Fiona O’Donnell: At least 10%. Will those shares be protected? Will they remain in employee ownership, or is it possible that the employees will all sell the shares?

Mr Davey: We’ve left how we deliver on the 10% flexible, and there is a reason for that. We want to ensure that Royal Mail employees, and future investors and so on, can be part of the discussion about how that is delivered, but it is fair to say that I, personally, and the Government are keen to ensure that there is longevity in employee share ownership.

Fiona O’Donnell: Good.

Mr Davey: I would be concerned if we did anything that resulted in employees not having a long-term interest through their shares in Royal Mail. That is what we want to deliver.

Q391 Fiona O’Donnell: Have you considered the Post Office Network owning a percentage of the shares and protecting that for them in a similar way?

Mr Davey: I think we’ve gone further with the Post Office Network to the extent that we’ve made it possible in the Bill, in clause 7, for there to be a mutual Post Office Network. Let me be clear about what that is, because it is sometimes confusing for people. Post Office Ltd is the national body, which has the franchises and hands them down to the individuals or groups. It has the intellectual property, the contracts and so on, and it earns money from things such as websites. That is currently in 100% Crown ownership. The individual post offices are individually owned by a private entrepreneur or, as agents—the Co-op has a range of them, as does WH Smith, and there are a few community-owned post offices. We are not changing their ownership. Mutualisation is about only the national mutual—the mother mutual, if you like.

Q392 Fiona O’Donnell: Sorry, I don’t think you’ve understood. I was asking about share ownership of Royal Mail by the Post Office-operated mutual.

Mr Davey: It was a long way to answer you, so I apologise. It is important that people aren’t confused about mutualisation. I was trying to say what we envisage from the mother mutual—Post Office Ltd. We are getting advice from Co-operatives UK and it will then go out to national consultation. Let me express an opinion, as you invited me to. I was delighted when the chairman of Royal Mail Group, Donald Brydon, said in evidence to the Postal Services Bill Committee—I am not sure that this is a verbatim quote—that before separation, they would negotiate and so on, can be part of the discussion about how that is delivered, but it is fair to say that I, personally, and the Government are keen to ensure that there is longevity in employee share ownership, or is it possible that the employees will all sell the shares?

Mr Davey: We’ve left how we deliver on the 10% flexible, and there is a reason for that. We want to ensure that Royal Mail employees, and future investors and so on, can be part of the discussion about how that is delivered, but it is fair to say that I, personally, and the Government are keen to ensure that there is longevity in employee share ownership.

Fiona O’Donnell: Good.

Mr Davey: I would be concerned if we did anything that resulted in employees not having a long-term interest through their shares in Royal Mail. That is what we want to deliver.
coalition agreement, is for employee shares and not for shares in another organisation.

Chair: I think that we have just about thrashed everything to death. Are there any other questions? I thank you all for coming along. I will let you go just in time for your meeting at 6 o’clock. You have been very frank in your answers, and we have all appreciated it.
Written evidence

Written evidence from International Flower Essence Repertoire

ROYAL MAIL & PARCEL FORCE SERVICES IN RURAL & REMOTE AREAS OF SCOTLAND

In 2003 I relocated my business from Hampshire to the Isle of Gigha. This was not without its challenges and costs, but one of the key elements which enabled me to make the move was the existence of the daily services of the Royal Mail and Parcel Force on the island. The simple fact is that if these services were to be curtailed, I would have to relocate my business to the mainland.

Ours is primarily a mail-order business, though we also provide our goods to shops across the UK. For example two days ago we dispatched 120 bottles of our flower essence sprays to Helios Homeopathic Pharmacy in Tunbridge Wells by Parcel Force. There is no cost-effective alternative for getting such a box from our island to Kent. For all other couriers we have to take the box over to the mainland ourselves. Whereas with Parcel Force we simply drop the box at our local Gigha Post Office. We incur no price penalty for our island location. But for all other couriers in effect our added costs are such that we virtually never make use of them.

Even for our export sales (which have grown by over 30% per annum over the past two years) are primarily dispatched via Parcel Force, as well as the Royal Mail.

We are in the midst of sending out our annual mailshot, which currently goes out to 18,000 customers across the UK and Europe. We keep our local Post Office busy, although the Royal Mail doesn’t know this. The Royal Mail decided to have a specific item-count during one week in September this year, amongst the various west-coast island Post Offices. But that week was not one of our busier weeks, whereas during the past fortnight we have dispatched in excess of 9,000 envelopes 2nd Class (franked) via the Gigha PO. Although our entire mailshot is handled by the Royal Mail, and departs Gigha via our local Post Office, yet the Royal Mail has no means it appears of recognizing that this volume is actually going out via our local PO.

Personally, I doubt the Royal Mail’s own statistics on mail volume. The idea that email has led to a decrease in letters may be true, but web shopping has led to a massive increase in posted small parcels. We typically send out over 12,000 small parcels a year from our small island base, and 96% of these are sent via the Royal Mail, while 4% are dispatched with Parcel Force but this via our local rural island PO. A very few larger shipments are exported using other couriers, such as a pallet-load of 800 bottles of our sprays which is currently awaiting uplifting from Tayinloan to make its way to our Distributor in Canada. But these exceptions are very few, compared with the daily use we make of the Royal Mail and Parcel Force services.

7 November 2010

Written evidence from the Communication Workers Union

SUMMARY

— Despite declining mail volumes there remains strong demand for postal services in Scotland which are highly valued by both businesses and consumers.
— The proposed privatisation of Royal Mail and its separation from the Post Office jeopardises the future of the universal postal service and the Post Office network.
— A privately-owned mail operator will seek to reduce the financial burden upon it by reducing the universal postal service. Rural areas—where the universal service is most expensive to deliver—will suffer disproportionately.
— Royal Mail is modernising successfully in the public sector. Privatisation will not help or speed up the modernisation process.
— Separation from Royal Mail threatens the Post Office’s main revenue stream and puts the network at risk. Less economically viable branches in urban-deprived and rural areas will be most likely to face closure.
— Proposals on the mutualisation of the Post Office are not well developed and leave fundamental questions over the future of the network unanswered.
— The provision of Government and financial services at the Post Office must be expanded. We are disappointed by the lack of detail and ambition in the Government’s recent policy document on the Post Office.

OVERVIEW

1. The Communication Workers Union (CWU) represents around 215,000 employees in the postal, telecoms and related industries. We are the recognised union in Royal Mail Group for all non-management grades including those responsible for the collection, sortation and delivery of letters and parcels.
2. The Scottish Affairs Select Committee is seeking views on the importance of postal services for individuals and businesses throughout Scotland, in urban and rural areas, and how these might change in the future.

Demand for postal services in Scotland

3. While mail volumes have fallen steadily since 2005, it is important to recognise the continuing strong demand for postal services in Scotland, as in the rest of the UK. Recent research indicates that 49% of consumers in Scotland send mail every week, with the same proportion of consumers visiting Post Offices at least once a week; 80% of consumers in Scotland feel the Post Office plays an important role in their local community.1

4. Further mail volume decline is expected; however, we believe the importance of postal services for both businesses and the public in Scotland will remain high. 46% of customers in Scotland state that the amount of mail they receive is increasing—compared to 35% of consumers in England—and that the balance of mail volumes is shifting with parcel and packet volumes growing and being forecast to continue increasing in the coming years.2

5. In line with this trend 43% of people in Scotland surveyed by Consumer Focus thought they would do more of their shopping online in the future and 34% of people in Scotland surveyed in Postcomm’s research stated that they would buy more goods online or by telephone, if it was easier to get them delivered.3

6. Mail also clearly remains integral to businesses—the Federation of Small Businesses report that 98% of their members use mail services on a weekly basis and repeated research from Postcomm has shown that businesses place a high value on daily collections and deliveries and would resist changes to the basic universal service provision.4

How the range of services provided by Royal Mail Group could be expanded to include government, local government and financial services

7. There is clearly significant potential for Royal Mail Group, in its current form, to expand its range of services to include government, local government and financial services in Scotland. The post office network in Scotland comprises 1,446 branches—almost 70% of which are in rural areas—which far exceeds other networks such as RBS, with around 320 branches, or the Citizens Advice Bureau, with around 200.5

8. Expanding the services available at the Post Office is essential to safeguard the network going forward. Last year Post Office Ltd (POL) made an operating loss of £80m before a Government subsidy of £150m to compensate it for maintaining unprofitable branches—this year POL expects to make an operating loss of around £130m before subsidy—and the Chief Executive of POL has stated that only 4,000 branches, from a network of just under 12,000, are currently commercially viable.6

9. Post Office Ltd’s financial position is a particular issue for Scotland, given that 70% of branches are in rural areas, where revenues are significantly lower than average. POL’s figures show that less than 23% of rural branches generate over £40,000 per annum in remuneration, compared to 69% of urban and 65% of urban deprived branches.7

10. The National Federation of Subpostmasters has also reported that in 2009 almost a fifth of Scottish subpostmasters received nothing at all in wages from the Post Office.8 Therefore, while the Coalition Government has stated that there will be no programme of post office closures, the Select Committee should be conscious of the financial risk to many existing branches. There is no guarantee in the Postal Services Bill to keep the network at its current size or that there will be any duty to sustain the network in the future. Post Office closures will continue as subpostmasters leave and are not replaced.

11. The Government’s recently-announced £1.3bn funding package for the Post Office will not mean an increase in the annual network subsidy payment which supports the unprofitable parts of the network.9

12. Whether new services are provided through the Post Office is largely dependent upon Government will. We are seriously concerned over media reports which have suggested that Post Office Ltd may lose out on the contract for “green giro” benefit payments to PayPal.10 While the contract itself is worth around £70m over 10 years to PayPal, the Post Office’s network could provide these services to many more people than PayPal’s in rural Scotland.

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1 Scottish Postal Services: Consumer Survey 2010, Consumer Focus
2 In its evidence to the BIS Select Committee Report into Post Offices in 2009 Postcomm reported that Royal Mail was forecasting packet volumes to grow by around 20% from 2007-2017.
3 Residential Customer Needs from a Universal Postal Service in the UK, Postcomm, November 2010.
5 Scottish Postal Services: Consumer Survey 2010, Consumer Focus.
6 Paula Vennells, Chief Executive of Post Office Ltd, stated this in her evidence to the Postal Services Bill Committee on 9/11/2010.
7 Postcomm’s Tenth Annual Report on the Network of Post Offices in the UK, 2009-10. Table 8, p 24.
9 The network subsidy payment has been £150m per annum in each of the past five years and will be £180m, as announced by the previous Government, in 2011/12. Following this, based on figures in the BIS Policy statement ‘Securing the Post Office in the Digital Age’, it will be around £155m per year.
five years, which may seem modest, it involves a potential 400,000 transactions a week and generates significant footfall for the network. Given the extent of Government subsidy to POL and the proposed strategy to turn it into the “Front Office for Government”, we believe that removing this business from the Post Office would make little sense and would further weaken the network.

13. We are also concerned over plans to transform 2,000 sub-post offices into “essentials” or “local” post offices by 2014, offering only a proportion of Post Office services. In many instances this slimmed-down provision will be provided through other shops and business premises. We do not believe that this model of limited services and facilities will be able to act as the “Front Office for Government” and we are concerned that this shift is a blueprint for the future and heralds a significant downgrading of the network.

14. We have also consistently campaigned as part of the Post Bank Coalition for the expansion of financial services available at the Post Office and for the Government to establish a publicly owned Post Bank. We believe that the current joint venture between the Post Office and the Bank of Ireland—the vehicle through which current Post Office financial services are provided on a 50:50 profit-sharing model—is now holding the Post Office back and will not deliver the step change that is necessary to help secure the future of the network; after almost seven years the vast majority of subpostmasters in Scotland still earn nothing at all from joint venture products.

15. As with Government services we are disappointed that BIS has provided little detail regarding how the Post Office will capitalise on the potential to expand its offering on financial products and instead appear to have taken a step back.

The Post Office network in Scotland and its role

16. In 2009/10 there were 1,446 branches in Scotland, including around 90 Outreach services (which may be mobile or home delivery services provided in conjunction with a subpostmaster). Of these branches, 68% are in rural areas, 21% in urban and 11% in urban deprived areas. The proportion of rural branches is significantly above the UK average of 55% and the proportion of urban branches making up the network is significantly below the UK average of 34%.

17. The Scottish Government’s Diversification Fund is helping some post offices launch new business activities with a view to improving their financial sustainability. 49 Post Offices are reported to have so far received awards of up to £25,000. Local authorities have also sought to support local post offices.

18. Nevertheless, the network in Scotland is in a precarious position financially, with rural branches typically being less well remunerated and less economically viable. It is clear, however, the post office is a vital public institution in Scotland. Just under half of those surveyed by Consumer Focus (49%) in Scotland visited the post office at least once a week, with 87% of respondents visiting it at least monthly.

19. It is important to note that potentially vulnerable groups are more likely to use the Post Office regularly, with over 60% of people aged 65 and over, disabled people and those earning less than £15,000 per annum doing so on a weekly basis, compared to the national average of 49%. The Post Office remains an important public service playing an essential role in the community.

The Postal Services Bill and the Universal Service Obligation

20. The proposed privatisation of Royal Mail and its separation from the Post Office jeopardises the future of the universal postal service and the Post Office network.

21. Privatisation is not necessary for the modernisation of Royal Mail. The business is modernising successfully in the public sector, underpinned by the Business Transformation Agreement between the CWU and Royal Mail. The business’s modernisation programme is fully funded and any funds raised by the sale of Royal Mail will not go to the business.

22. On completion of the modernisation programme in 2012/13, Royal Mail expects to be making close to the maximum level of profit it would be permitted by the regulator. By the end of this process the Hooper review recognises that in terms of automation Royal Mail will be close to leading European operators.

23. Alongside privatisation the Government is proposing to remove Royal Mail’s pension deficit, which will save the company close to £300m per year. Further change to the regulatory regime is needed to enable Royal Mail to compete. Such changes would have a significant effect on Royal Mail’s financial position and the sustainability of the universal service; neither proposal requires privatisation.

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**Universal Service**

24. Royal Mail has consistently argued that universal service obligation (USO) imposes a significant financial burden on the company and restricts its ability to compete. The cost of providing the USO is likely to increase as mail volumes decline as these lower volumes are not matched by falling costs.

25. A privately owned Royal Mail will necessarily seek to reduce the scope of the USO in line with its commercial interests; this trend has been seen in the Netherlands where, a year after full liberalisation of the mail market took place, the private USO provider TNT—which has been discussed as a potential investor for Royal Mail—labelled the obligation “a kind of Jurassic Park [which] we should get rid of”.16 TNT now plans to move from six deliveries of business-to-business and business-to-consumer mail a week to three and will deliver only the legal minimum and we would anticipate similar moves in the UK after privatisation.17

26. The Postal Services Bill purports to protect the universal service by setting out a minimum universal service obligation in the form of six deliveries and collections a week at an affordable and uniform tariff. We have serious concerns over the range of clauses contained in the Bill that provide opportunities to reduce the scope of the USO.

27. Firstly, the definition of the universal service is a bare minimum and does not cover all postal products currently contained in the universal service under Royal Mail’s licence. Current USO products such as bulk mail—which many small businesses depend upon—may be dropped by the regulator without any form of Parliamentary approval and are likely to come under pressure from a private operator.

28. We believe that the removal of products from the USO could have a particular impact on areas in Scotland. As Royal Mail’s failed attempt to move to zonal pricing for retail bulk mail products indicates, there is pressure to align costs to pricing and, with greater distances to cover and lower population density than the rest of the UK, Scotland could suffer from similar moves by Royal Mail on products which are free from USO restrictions in the future.

29. Secondly, with regard to prices, while the Bill requires services to be “affordable” and in line with a “uniform tariff” the potential for significant changes to the current service remains. The Hooper report stated that the average weekly spend on postal services by residential households was 58p which arguably leaves significant scope for price rises.

30. With each possible reduction to the USO we believe that mail services in Scotland are at particular risk. We note that Parcelforce and other parcel providers feed parcels into Royal Mail’s network for delivery to the Highlands and Islands given the additional financial burden that accessing these areas presents. Any reductions in the service based on cost are likely to hit these regions first and hardest.

31. We are also concerned that the Bill allows for the universal service to be split up among different mail operators, opening up the possibility of the sort of “cream-skimming” which has been seen with the loss of bulk mail contracts by Royal Mail to downstream access operators. With competitors able to take the more attractive areas of the universal service—deliveries in densely populated urban areas—Royal Mail may be left with the more expensive rural delivery routes reducing the business’s ability to recoup the cost of the universal service. Again, despite the purported safeguards to the USO, this opens up the possibility of provision varying across the country with rural and less accessible areas likely to suffer.

32. Finally, the Bill imposes no restrictions on ownership of Royal Mail in the future and there has been significant speculation in the financial press that the more profitable parts of the business such as GLS and Parcelforce, which are relatively discrete units, will be sold off to make a quick return for an investor, mirroring the asset-stripping seen in private equity deals.

**Impact upon the Post Office Network**

33. The proposed separation of the Post Office from Royal Mail fundamentally threatens the future of the Post Office network. The survival of the Post Office, in anything like its current state, is dependent on its relationship with Royal Mail. Mail products, and the customer footfall they generate, are the Post Office’s largest and most important revenue stream: in 2009/10 the Post Office received £343m in revenue directly from Royal Mail businesses and mails account for just under 37% of turnover and generate around 50% of business conducted in branches.

34. With POL making an operating loss of around £100m a year before Government subsidy, it is clearly essential for the Post Office to retain this business in the future; however, this will inevitably be more difficult as a separate business, rather than a subsidiary of the Group.

35. In private ownership Royal Mail will inevitably look to reduce its costs and the inter-business agreement with the Post Office would be no exception. Given its financial position, it is difficult to see how POL could compete should Royal Mail seek to reduce costs on the current agreement; the relationship will therefore come under immediate threat from the Government’s plans.

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16 International Post Corporation, Market Flash, April 2010
17 TNT Post to cut deliveries as well as jobs, Dutch News.nl, June 2010
36. There will also be significant costs arising from splitting the businesses and undermining the current natural synergies that exist in Royal Mail Group. Royal Mail’s Chief Executive, Moya Green, has stated that Royal Mail currently undertakes a number of central functions on the Post Office’s behalf worth around £150m per year for which no payment is made.

37. The rural branch network is likely to be at particular risk should the relationship with Royal Mail weaken. There is nothing in the Postal Services Bill to guard against this, either by ensuring the continuation of the inter-business agreement or by requiring the maintenance of the post office network.

38. Given the heightened risk to post offices in Scotland, and while we clearly oppose the Bill, we believe the Bill must be amended to increase the role of the devolved parliaments, for instance by extending the requirement for an annual report on the Post Office and Royal Mail to be laid before them.

**Mutualisation of the Post Office**

39. The Postal Services Bill includes provision to transfer the Government’s holding in the Post Office to a mutual organisation. The provision in the Bill does little to specify what form a mutualised Post Office would take, making it difficult to assess the impact a mutualised Post Office may have.

40. The Bill leaves important questions on basic issues unanswered—from structure and membership, to the role of any mutual body—and we are concerned that the Bill includes wide-ranging provisions for the disposal of the public’s holding in such a valued institution, with almost no detail or requirements for parliamentary approval.

41. The most important area of uncertainty, however, is how the post office is to be made sustainable—an issue which is necessarily prior to any proposed mutualisation. As outlined above, we believe that the separation of Royal Mail and the Post Office seriously jeopardises the achievement of this goal.

42. The Government has also acknowledged that there is likely to be a need for a continuing subsidy to the Post Office to keep open certain unprofitable branches in the future. It is unclear how this, or the statements that the Post Office will become the “front office for Government”, fit with the proposal to end Government ownership of the network.

18 November 2010

**Written evidence from the Federation of Small Businesses**

**Introduction**

The Federation of Small Businesses is Scotland’s largest direct-member business organisation, representing around 20,000 members. The FSB campaigns UK-wide for an economic and social environment which allows small businesses to grow and prosper. This response has been submitted by the FSB’s Press and Parliamentary Office in Scotland on behalf of its Scottish members.

The FSB has already provided written evidence on the Postal Services Bill to the Bill Committee. Some of the information provided below therefore mirrors our previous submission.

What is the demand for postal services in Scotland and how might this change in future?

Demand is still high for postal services amongst the small business community. Below is some feedback from our members via 2009 and 2010 member surveys about postal services.

**Views of Scottish members**

— 56% of Scottish FSB members rely on the Royal Mail and post office services for between 80 and 100% of their business post.

— A higher percentage (33%) of Scottish members rely on Royal Mail for 100% of their business post compared with the whole of the UK (28.2%)

— 16% of Scottish FSB members have no available alternative carrier in their area.

— Of those who have access to alternative carriers, around 41% of Scottish members consider their services to be too expensive.

— 61% of Scottish members said that changes to the postal service could have a negative impact on their cash flow.

— 71% of Scottish FSB members would be prepared to pay more for stamps and other postal services in return for improved services from Royal Mail.

**Views of all our members (including Scottish members):**

— 59% of FSB members in the UK want to continue to receive mail deliveries six days a week.

— 94% of our UK members want a UK-wide postal service.

— 82% want to keep the single, UK-wide pricing structure
How could the range of services provided by the Royal Mail Group be expanded to include Government, local government and financial services?

Post offices may have a more prominent role in providing a link to services, particularly online government services, for those who do not or cannot access the internet. There are many in remote communities whose access to the internet is at best limited and at worst non-existent. A significant proportion of the UK population (around 9.2 million according to the latest figures from the Office of National Statistics) has still never accessed the internet. In terms of FSB members, around 11% of Scottish members indicated that they did not use the internet at all in 2009. This indicates that there are still a few small Scottish business owners who appreciate opportunities to access hard copy forms or obtain assistance in submitting information electronically.

A dedicated business counter for business transactions and business post in post offices would be beneficial for our members, particularly in improving efficiency of service. The FSB has campaigned for the establishment of a publicly owned Post Bank, operating through post offices and offering a full range of banking services, because at least 38% of our members indicated that they would switch their account to a Post bank tomorrow for business banking if available. A further 18% would have switched if its establishment were proved successful. We therefore regret that the option was rejected at this time and would urge Government to reconsider its position in the near future.

Post Offices in local communities are uniquely placed to gather the views of local users. The House of Commons Business and Enterprise Committee's report in 2009 highlighted the potential of the postal network in local and central government consultation and information dissemination. For example business advice and signposts to resources to support businesses such as Business Gateway in Scotland and local authority economic development activity would be useful.

Financial services should continue to be delivered by post offices and the options expanded. These services are particularly valued by individuals and small businesses in remote locations.

Is the number of post offices and availability of postal services in Scotland in a) urban, b) rural and c) remote areas right?

Post office closures must be halted. Currently the majority of business users in Scotland are reasonably content with access to post office services currently available, although there is room for improvement in the quality and breadth of services. The latest round of closures still sought to ensure a distance from the nearest post offices of no further than 6 miles. Travel time and cost to and from post offices are deterring factors for any further closures. The longer and more money and fuel spent trying to get to and from post offices by more people the higher their carbon footprint, and the lower their productivity. This is true in either rural or urban settings. Where rural areas have limited access to internet, the reliance on the post office for a wider range of services is also a factor.

Is the number and role of sub post offices and outreach services effective in providing postal services in Scotland?

There are more than 1,400 post offices providing postal, financial and other services in Scotland. By and large this is a satisfactory number and geographical spread according to the recent Consumer Focus Scotland survey, Consumer Survey 2010.

What are the implications of the Postal Services Bill for the universal service obligation?

The Bill is not clear about what defines the universal postal service and there appear to be several clauses which allow for a withdrawal of what is currently understood to define the universal service. The FSB is concerned that any step back from current expectations would further disadvantage small businesses, especially in rural and remote areas where geographical location, population and other factors already exert pressures.

Some particular areas for concern in the Bill are set out below.

Part 3, Clause 28–29: OFCOM’s duty to carry out their functions in such a way that they consider will meet the needs of users of the universal postal service.

The wording of the clause leaves the possibility of OFCOM deciding what consumers should want or need. FSB believes that OFCOM should be required to consult business customers—particularly small businesses—to determine what constitutes reasonable needs of users. The same goes for Clause 32, (2b), page 18 line 8–9 which states that minimum USO requirements do not need to be met in such geographical conditions or other circumstances as OFCOM consider to be exceptional.

Part 3, Clause 28: efficiency and financial sustainability are named as factors that the service would be subject to.

This suggests that were it less efficient and less financially viable to provide a service to a particularly remote area, the service might be suspended, thereby negating its “universality”. Businesses and consumers in remote areas, particularly islands, are already at a disadvantage relative to their more urban mainland
counterparts. Some carriers refuse to deliver to islands and others impose a much higher cost on the consumer for delivery because of the distance and remoteness of the address. Reliance on the universal service here is therefore far greater.

Similarly, Part 3, Clause 30, sub-section 1(b) makes a provision for OFCOM to designate identifiable points for the receipt of postal packets which indicates that a withdrawal from delivery to every address in the UK 6 days a week might be possible under proposed legislation.

This clause may relate to collection of parcels when delivery is not possible due to no-one being home, or delivery to another designated point at the request of the recipient, but it could also be otherwise interpreted. The Bill must not be worded in such a way as to allow for withdrawal of the service to customers. Should the Bill wish to encourage the designation of additional points at the behest of customers, this should be legislated for elsewhere, rather than amending the minimum standards of service.

Part 3, Clause 30 lines 28, 35 and 39 refer to affordable prices.

The FSB considers that the term “affordable” should be determined by the business community whose mail requirements are the most time critical and cash-flow dependent. The prices should be affordable, minimal and universal. This too applies to Clause 35 (4-5), lines 13–22.

Part 3, Clause 33, page 18 refers to a review of minimum requirements of the universal service which would be carried out by OFCOM.

The FSB believes that this Clause should include consultation with businesses and others who depend on the postal network as an integral part of any review.

What benefit might a mutually owned or community run Post Office have for Scotland?

The FSB is not best placed to take a view on the benefits or otherwise of various business or governance models for the post office or its services. Our priority is that the services, whatever model used, meet the reasonable needs of the small business customer.

Comments on the work of Parcelforce and the delivery of parcels to remote areas in Scotland

The FSB seeks a level playing field for all Scottish businesses regardless of their location and continuation of the Parcelforce service and standard pricing is key to this aim. Some other carriers charge far higher tariffs for delivery to and collection from remote and rural areas, thereby disadvantaging rural businesses in comparison to their urban counterparts. Some carriers do not even provide a service to areas beyond the Scottish mainland, which means that island communities and businesses rely even more heavily on Parcelforce.

What is the impact of postal services in Scotland on businesses?

Our statistics above show that small businesses such as our members still rely heavily on the postal service for receipt and distribution of payment by cheque to and from both suppliers and staff. Changes to the postal services, particularly the universal service obligation cause concern amongst our Scottish members who are only too aware of the significant impact delays in receipt or dispatch of payment can have on small businesses with limited cash-flow. The impact is proportionally more adverse than for large business and in Scotland where 93% of the private sector is made up of small businesses with fewer than 10 employees, this should be particularly considered.

The wider economic impact of postal services in Scotland on rural communities

Businesses in remote areas in many ways represent the lifeblood of those areas and have a proportionally larger impact on community and economic resilience than similar businesses in more urban settings. Improvement in efficiency of the postal service should facilitate—not present an obstacle to—commerce in remote areas. There are opportunities to maximise the positive effects the postal services can have on small rural businesses as outlined above, but a further withdrawal and contraction of the service’s reach could contribute to disastrous outcomes for these same businesses, and could ultimately lead to greater community dependence on the public purse, thereby negating any efficiencies gained by the reduction of service.

18 November 2010

18 Scottish Corporate Sector Statistics 2010
Written evidence from Graham Neal

It was very interesting to note from your article in the press that you are looking for comments as to how the Royal Mail Group could expand its services when our Post Office in this village was closed about eighteen months ago. The current provision is totally unsatisfactory.

Before the closure, at a public meeting in the village, we were addressed by [a Royal Mail employee] who at best could be described as condescending. She tried to explain that closure was necessary due to a fall in customer numbers.

As many of the services had been removed from Post Offices such as payment of pensions, benefits, TV licence renewal and with other services such as payment of utility bills, incurring such horrendous charges, it guaranteed that customers would be using other methods for payment leading to falling numbers at the counters.

We were promised a mobile unit which would replace the Post Office which would have all the facilities including waiting space for a number of customers.

In reality, we have a small LDV van for a very limited number of hours and with no waiting space which affords any privacy for customer’s transactions. Waiting outside the van for service in winter in North East Scotland is no joke.

So, the only sensible suggestion can be the re-instatement of a permanent service with the full range of facilities that we all enjoyed some years ago and putting “SERVICE” back into the equation. These sentiments I am sure will be echoed in many communities small and large throughout the U.K.

19 November 2010

Written evidence from the National Federation of SubPostmasters

1. Executive Summary

1.1 The post office network plays essential social and economic roles providing access to mails services, government services, cash and banking, shopping facilities and informal advice and support.

1.2 Almost everyone uses a post office; but people living in rural areas, older people, disabled people and those on low incomes use post offices most frequently.

1.3 Small businesses are particularly dependent on post offices for their postal services, and post offices are often essential to the functioning of local economies.

1.4 The Post Office has reached a critical point in its history. One in three UK post offices closed in the past decade, and sub post office income is very low and continues to reduce.

1.5 This autumn the government published the Postal Services Bill and a government policy paper detailing plans for the future of the post office network. The government also announced new funding for the post office network.

1.6 The National Federation of SubPostmasters (NFSP) is particularly concerned about the government’s proposal to separate Post Office Ltd (POL) from Royal Mail. One third of post office income and over half of all visits to post offices come from Royal Mail business. The NFSP is concerned that this unprecedented separation may adversely impact on the post office network. The NFSP would like to see a minimum 10 year agreement guaranteeing that POL continues to act as Royal Mail’s exclusive retail outlet.

1.7 The government also proposes POL should become a mutual company. The NFSP welcomes this proposal, but warns that prior to mutualisation the post office network must be stabilised and new services secured for the future.

1.8 The NFSP endorses plans to establish the local post office as a “front office for government”. However, we are concerned that previous trials of government services at post offices delivered strong results but were not followed up. The NFSP believes post offices need to provide a comprehensive range of services on behalf of central, devolved and local government.

1.9 The NFSP is disappointed that the government has decided against setting up a state-backed Postbank at the Post Office. We support proposals to increase access to high street bank accounts through the post office network, but hold that a comprehensive range of transactions through all high street bank accounts should be available at post offices. We also support the extensive range of Post Office financial products provided through the Bank of Ireland, but warn this range of services contributes relatively little to the income of most sub post offices.

1.10 The NFSP believes there will continue to be significant demand for postal services and post offices. To ensure the future of our national post office network, mail services through the Post Office must be secured and the proposed new sources of revenue from government services and financial services need to be brought to fruition.
2. Introduction

2.1 The National Federation of SubPostmasters (NFSP) is the trade union and membership organisation which represents the interests of subpostmasters in the UK. Subpostmasters are independent business people who run sub post offices, which make up 97% of the national post office network. Subpostmasters act as agents to Post Office Ltd (POL), which is currently part of Royal Mail Group.

2.2 This is the NFSP’s written evidence to the Scottish Affairs Committee inquiry on postal services in Scotland. We have focused on the issues listed in the terms of reference which are most directly relevant to the post office network.

3. Number of Post Offices and Availability of Postal Services

3.1 At the end of March 2010 there were 1446 post offices in Scotland. Of these post offices 68.2% are based in rural areas, 10.5% in urban deprived areas and 21.3% in urban non-deprived areas. This represents a higher proportion of rural post offices than in the UK as a whole where only 55% of post offices are located in rural areas.\(^1\)

3.2 Of the total number of post offices in Scotland 140 (10%) are provided by outreach services. This includes 39 mobile services—provided over a post office counter in a van at fixed times each week by a subpostmaster from a nearby post office. There are 71 “hosted services”—a subpostmaster from a nearby post office visits the community at fixed times and offers service from a host location, such as a community hall or shop. Nineteen outreaches are “partner services”—a local business runs a post office from their premises, mirroring regular business hours, under the supervision of a nearby post office. Eleven outreaches are home delivery services—a subpostmaster offers a limited service to registered customers, delivering to their door.\(^2\)

3.3 Outreach services are primarily designed for rural areas where the importance of a Post Office service is clear, but low transaction levels lead POL to conclude that a full-time conventional post office is not sustainable. Scotland has a particularly high proportion of Post Office outreach services due to its large rural areas. Consumer Focus reports that the public is “broadly satisfied” with outreach formats, although 33% of outreach users say they use post offices less since their traditional post office closed. The main reported drawback of outreach services is the restricted hours and days of opening. A reduction from five and a half days a week with the former post office, to three part days per week at the outreach is typical.\(^3\)

4. Demand for Post Offices and Postal Services

4.1 Post offices provide individuals and small businesses with an unrivalled range of mail, government, banking and retail services, as well as informal advice and support, in a trusted local environment.

4.2 In Scotland, 82% of the public visit a post office at least once a month, and nearly half (49%) use a post office every week. Post office use is highest amongst people living in rural areas—58% of those living in accessible rural areas and 67% in remote rural areas visit a post office once a week or more.\(^4\)

4.3 Post offices are also used most by the more vulnerable members of society. Older people and disabled people are the most frequent users. In Scotland 63% of people over 65, and 63% of disabled people, visit a post office once a week or more often. People on low incomes are also frequent users—54% in socioeconomic group DE visit a post office at least once a week, as do 61% of those with incomes of less than £15,000 a year.\(^5\)

4.4 Mail services are by far the most widely used service at post offices. In Scotland, 83% of post office users had sent letters or parcels from a post office and 77% had purchased stamps within the past year.\(^6\) A recent UK-wide survey confirms 68% of the public regularly use post offices for posting their mail.\(^7\)

4.5 Post offices play a significant role in providing face-to-face interface with government. This function is particularly valued by the more vulnerable members of society. For instance Age Concern (now Age UK) described a sense that the post office is the “local representative and link to wider civic society”.\(^8\) Research finds 54% of UK households use a post office for picking up forms or leaflets, 50% for paying car tax, 27% to apply for a passport, driving licence, EHIC or fishing licence.\(^9\) Document checking services are extremely effective—for instance the National Audit Office found the Post Office “check and send” passport service had 3% error rates, error rates are 15 times higher for postal applications.\(^10\)

4.6 Post offices are key providers of access to cash and banking. In the UK £86bn of cash passes through the Post Office every year. For every £1 transacted in the UK, 14p is handled through the post office network.\(^11\) UK post offices make £24bn of benefits payments every year and in Scotland 86% of European looking for post offices in the last year to pay bills.\(^12\) A rural survey revealed 43% of older people use post offices to access cash.\(^13\)

4.7 Post offices are important providers of local shopping facilities. Eight in ten post offices are run alongside a shop. These shops are often the only shop in the area—an estimated 57% of rural subpostmasters provide the only retail outlet in their village.\(^14\) These shops are very much co-located with the Post Office part of the business; research by the NFSP finds in Scotland two thirds of attached businesses would be unlikely to remain open if the Post Office part of the business closed.\(^15\) In rural areas 71% of older people buy stationery, newspapers, food and household goods at the post office.\(^16\)
4.8 Post offices are also sources of informal advice and support, in a trusted local environment. It has been estimated that two thirds of rural subpostmasters “keep an eye on” more vulnerable residents.27 Post offices have been described by Help the Aged (now part of Age UK) as “crucial outreach points” helping older people to go on managing their own affairs.18

4.9 Research for the regulator Postcomm in 2009 calculated post offices’ “social value” at up to £10bn and concluded that the network “provides a major social net benefit to the UK population”.19 The social role of post offices displaces some of the cost to government—as a “key institution in the local community encouraging social interaction, [it] can help reduce social care and health care costs, enabling people to live independently for longer.”20

5. **Impact of Post Offices and Postal Services on Business**

5.1 Small businesses are extensive users of postal services. Postcomm, the regulator, finds in the UK 91% of SMEs use a post office, and 59% of all small businesses using a post office use it once a week or more often.21 The Federation of Small Businesses (FSB) finds 88% of SMEs use a post office to purchase stamps and send letters, 77% use post offices to send parcels.22 The FSB comments that although “there is a common perception that generally all things postal have gone electronic”, this is not the case in the small business sector. Small businesses do not in the main charge customers for goods and services or receive payment online. Instead, they send bills and invoices via the post and they receive payment for goods and services by cheques sent through the postal system.

5.2 In depth studies carried out in 2006 confirm the essential role post offices and postal services play in supporting local businesses in the most remote parts of rural Scotland. The consumer watchdog, Postwatch (now Consumer Focus) confirmed that many rural businesses conduct a significant amount of trade by mail order. When asked how they would cope if the local post office closed some businesses said they would use an alternative courier service, however, this was often not a satisfactory alternative as it did not guarantee next day delivery. Other businesses would have to make lengthy and expensive journeys to alternative post offices. Some businesses declared it “impossible” to continue trading should the post office close.23

6. **Wider Economic Impact**

6.1 Post offices play an essential part in supporting local economies. At a local level small shops clustered together rely on each other for survival. Outlets such as post offices, newsagents, butchers and grocery stores may all depend on each other to attract people to a location rather than any one specific shop. The loss of a few of these shops may render a local shopping trip unviable for customers and lead to further closures—a domino effect. Post offices are particularly key because of their unique social value and the sheer diversity and range of services provided which distinguishes them from other retailers. The post office is also highly valued and trusted compared with other retailers. NFSP research finds 45% UK of post offices are located in a row of shops or village with between one and three other shops.24

6.2 In rural and deprived urban communities post offices are frequently the only local place to take out cash. Evidence shows in general cash is often spent near to where it is withdrawn. People who make cash withdrawals spend 50–67% in nearby shops.25

6.3 A study by the New Economics Foundation (NEF) emphasises the role of post offices as an anchor for local communities and their economies.26 Based on detailed analysis of Manchester post offices, NEF concluded each post office contributes around £310,000 to the local economy each year, of which £120,000 is direct spending on local goods and services. In addition, NEF’s analysis reveals that each post office saves small businesses in their direct vicinity around £270,000 a year.

7. **Current Context**

7.1 Despite the huge demand for post office services and the enormous social and economic value of the network, the post office network has reached a critical point in its history. Two major government closure programmes, the withdrawal of many key government services and other social and economic changes have resulted in 7,000 UK post office closures— one third of all post offices—over the past decade.

7.2 The strength of the post office network lies in its depth and reach—the network remains bigger than all the bank and building society branches together. It is essential the post office network stabilises now, as an ever reducing network would inevitably undermine its future viability.

7.3 Sub post office income remains worryingly low, continues to reduce and must be tackled as a priority. A survey undertaken by the NFSP in 2009, found average net Post Office pay for Scottish subpostmasters was £2,377 a month. From this sum subpostmasters had to pay for the running of their office including any mortgage or rent payments, bills and staff wages. On average subpostmasters in Scotland took personal drawings (salary) of £828 a month from their Post Office pay, and 19% took nothing at all.27 New work urgently needs to be brought into the post office network, increasing income for the remaining post offices and ensuring they can continue to serve local communities. Polling by the NFSP in May 2010, indicates that UK subpostmasters have seen further reductions in their Post Office pay and that three-quarters of subpostmasters experienced a drop in pay over the last financial year.
7.4 It is in this context that the government’s proposals for the post office network and the UK’s postal services should be viewed. This autumn has seen the publication of the Postal Services Bill and a government policy paper both of which will prove to be critical to the future of the nation’s post offices.28, 29

8. IMPLICATIONS OF THE POSTAL SERVICES BILL FOR THE POST OFFICE NETWORK

8.1 The Postal Services Bill details a number of key proposals. These include the privatisation of Royal Mail; the separation of POL and Royal Mail; the possibility of POL becoming a mutual company; the overhaul of postal regulation; and the assumption of Royal Mail’s pension deficit by the government.

8.2 There are some aspects of the Postal Services Bill which the NFSP supports, including the government’s proposal to take on the Royal Mail pension deficit, and the plan to transfer regulation from Postcomm to Ofcom. The NFSP does not take a view on whether or not Royal Mail should be privatised. However, there are other aspects of the bill about which we have significant concerns.

Separation of POL and Royal Mail

8.3 The issue within the Bill of most significance to the post office network, and of most concern to the NFSP, is the proposed separation of POL from Royal Mail. Currently, POL and Royal Mail are both part of Royal Mail Group, which is owned by the government. The Bill proposes to retain POL within public ownership, and to separate it from Royal Mail, which will be privatised. However, to our knowledge, there is no known international precedent for separating a mail company from its retail arm.

8.4 Under the current Inter-Business Agreement (IBA) between the two companies, income from transactions carried out in post offices on behalf of Royal Mail accounts for one third of POL income (£343m in 2009/10) and one third of subpostmasters’ pay (which the NFSP estimates at £240m in 2009/10). Of this, around 60% is variable income based on the levels of transactions undertaken; while 40% is fixed income, based on post offices providing bricks and mortar access points for the public to use postal services.

8.5 Mail business generates more than half of all visits to post offices.

8.6 In addition to the central role which footfall and income from Royal Mail transactions provide throughout the entire network, there are 900 “mailwork” sub post offices in the UK, where the subpostmaster provides premises, facilities and supervision for Royal Mail delivery staff. These are overwhelmingly located in rural areas—around one in seven rural UK post offices is also a mailwork post office. Mailwork subpostmasters are paid according to the number of postmen and women they supervise. This pay is frequently around 25% of a mailwork sub office’s total Post Office income.

8.7 The NFSP is concerned that the separation of POL and Royal Mail will mean that current business arrangements between the two companies may well change. As a separate company, Royal Mail may seek to renegotiate existing contracts, or may reconsider whether POL should remain as its exclusive retail outlet.

8.8 Any changes to Royal Mail, and to the relationship between Royal Mail and POL, that adversely impact on the post office network will unquestionably risk further widespread post office closures. Many sub post offices already urgently need new sources of income to remain viable, and would not survive further reductions of income as a result of loss of Royal Mail work or changes to remuneration for this work.

8.9 The NFSP believes that in order to avoid further post office closures, existing levels of Royal Mail work at post offices must be maintained with a minimum 10 year IBA between the two companies following separation.

8.10 A minimum 10 year IBA would guarantee that POL will continue to act as Royal Mail’s exclusive retail outlet; and that customers could continue to access Royal Mail services at post offices. It would allow time to stabilise the network and if necessary seek alternative revenue streams to ensure both POL and the network are less reliant on Royal Mail income.

8.11 Advice received by the NFSP leads us to believe that suggestions that a 10 year IBA between POL and Royal Mail would be in any way in breach of UK or EU procurement or competition law are erroneous. We believe that this is more a question of political will on the part of ministers to permit this. The NFSP is concerned that a fear within government that Royal Mail may generate less income if tied to a 10-year IBA with POL may lead to attempts to prevent this.

Other mail services at post offices

8.12 Subpostmasters have an unrivalled specialisation in mails, and post offices should continue to serve the public and business as one-stop-shops for all mail needs.

8.13 The NFSP supports new mail services being introduced at the Post Office, such as Local Collect which allows people to collect undelivered parcels from nearby post offices.

8.14 Postcomm suggests that new mails operators may want to use the size and geographic coverage of the post office network to sell their products and services to domestic customers and small businesses. The NFSP agrees that if this is how postal competition develops, post offices must act as dropping off and collection hubs.
for mail companies—increasing convenience and access for the public. To maintain the network’s integrity, this should be agreed on a network-wide basis, rather than by arrangements with individual post offices.

8.15 To date POL has contracted with one alternative mail company: since summer 2009 the DX Group has offered a collection service of undelivered DX Group mail items at local post offices. However, while this new work is welcome, we caution about arrangements with other mail companies bringing individual post offices additional income. New business from other mail operators is likely to be at the expense of losses of Royal Mail business.

**Mutualisation**

8.16 The Bill contains provision for POL to become a mutual company. Ministers are consulting on what kind of mutualisation might work best for POL. Ministers indicate the full realisation of mutualising POL is likely to take the duration of this parliament.

8.17 The NFSP welcomes these proposals. Increasingly, the interests of POL and of subpostmasters are no longer aligned. Subpostmasters have an estimated £2bn of their own money invested in the network, through their initial purchase and ongoing maintenance of and investment in their post offices, and should have a far greater say in how the network is run.

8.18 We understand that mutualisation can take many forms, and we look forward to actively contributing to the process of ensuring the right model is developed for the business, the network, subpostmasters and their customers.

8.19 However, the NFSP strongly believes that any plans for mutualisation are worthless unless urgent and significant action is taken to turn POL around. POL continues to run as a heavily loss-making company. It has only technically been in profit for the last two years (£72m in 2009/10, £41m in 2008/9) due to the government’s £150m subsidy payment. Performance figures for the six months up to 26 September 2010 show that the company’s external revenue decreased by £28m compared to the same period in 2009; and its operating profits for the period fell from £41m to £20m.

8.20 The NFSP believes that this can only be remedied with a minimum IBA with Royal Mail; a funding programme which delivers long-term sustainability for the network rather than short-term survival; and contracts to allow post offices to become the front office for government.

**Community-run post offices**

8.21 The government indicates support for the “community-run” post office model, which may be defined as post office businesses which reinvest their surpluses in the organisation or community. The government states that the experiences of the increasing number of community-run post offices “have shown how well the mutual model can work at a local level, allowing communities to tailor the services to their particular needs”.

8.22 However, the NFSP is concerned that the community-run model may have significant drawbacks. Research into existing community shops that offer Post Office services finds the goodwill and volunteer hours contributed by the community is an essential component. A survey of 70 such enterprises found 81% of staffing was provided by volunteers, 34% had received grants, 23% had taken out loans. A round a quarter reported a financial loss in the last financial year. Moreover, subpostmaster remuneration was often regarded as being too low to support the viability of the post office outlet.

8.23 The NFSP would be concerned about any plans for widespread community-run post office provision. We are concerned that the model would not be cheaper to run overall than a traditional post office. There are also questions to be asked about whether such models would be viable in many areas of the country, such as deprived areas; and questions about stability and long-term viability. We note that very few voluntary agencies providing direct services to the community are run entirely on a voluntary basis. Citizens Advice Bureaux (CABx) and Oxfam shops, for example, are run by professional paid managers. Moreover organisations such as CABx commonly have difficulties with recruitment of volunteers, retention, staff supervision and development and having a sufficiently large volunteer base to provide regular hours.

**Expansion of Service Range**

9.1 The government’s policy paper published in November sets out specific plans for the future of the post office network. The government identifies two areas with “real growth potential”—i) increasing the number of government services offered at post offices, with the Post Office acting as a “front office” for government; and ii) boosting the number of financial services provided at post offices.

**Government services**

9.2 The NFSP endorses the government’s plan to establish the local post office as a “genuine front office for government”. We have long asserted that post offices are the natural home for all forms of central, devolved and local government transactions, verification and information, providing a local and trusted environment for citizens to interact with the state. This also offers potential cost-savings to government by enabling it to cut back-office functions.
9.3 The government proposes a number of government services post offices could offer. These include identity verification, which could cover document verification and scanning, photos and signature recognition. This could also develop into services for helping government manage changes of circumstances with the Post Office acting as a channel for data collection and dissemination.

9.4 The government also says there is scope to substantially increase the number of assisted applications that the Post Office carries out, building on the current “check and send” services. This has the potential to support the move to “paperless” back offices, where government departments receive electronic information from multi-channel inputs.

9.5 The government also highlights the potential to increase the number of cashless payments that people can make at post offices, and use of the Post Office’s “payout” service where citizens receive a unique identifier that allows them to claim a payment from central or local government.

9.6 However, the NFSP is concerned that previous trials of government services at post offices, such as YourGuide (in 2002), have delivered strong results but have not been followed up. These schemes need to be developed beyond trial status and the government must ensure that funding is earmarked to allow the nationwide roll-out of these services across the country on a permanent basis.

9.7 In addition, the NFSP believes that as well as providing value-added work for government departments which only necessitate occasional or one-off visits to the Post Office, the government must continue to provide transaction-based volumes of work at post offices (such as the Post Office card account and Green Giro benefit cheques) which result in regular and frequent customer visits.

9.8 The government has also set out plans to look at greater local authority involvement in “the planning, delivery and level” of Post Office services. POL and the NFSP have therefore been asked to work with Sheffield City Council in a pilot scheme to make post offices the “front office for government” in the city. Sheffield’s citizens will be able to pay their council tax and rent at any of the city’s 78 post offices, rather than at the single cash office. This is predicted to save the council £240,000 a year.

9.9 The NFSP strongly supports proposals to encourage local authorities to make far greater use of post offices. We believe all relevant council payments, information and services should be accessible through every local post office. This would allow residents to pay for and access council information and services in their local area; would free up administration for local authorities, particularly regarding residents who need or wish to make very frequent low value payments; and would provide vital income and custom for post offices. A very wide range of services could be paid for at post offices including council tax, council house rents, Social Service bills, leisure centre passes, school meals and music lessons, parking fines and permits, local travel tickets, court fines. Council information available at post offices could range from public consultations, planning applications, the Electoral Roll to tourist information and details of local events.

9.10 Over the last few years a number of local authorities expressed the intention to reopen post offices through local funding mechanisms. However, the NFSP is firmly of the view that local authority ownership is not a genuinely viable model for post offices. Subpostmasters are hard working, self-employed business people who work long hours in a unique example of a public/private partnership—if they can not make an individual post office outlet run profitably, there appears to be little chance that a local authority could do so. Local authorities can have far greater impact in supporting post offices by ensuring that all local authority transactions, services and information are available through post offices in their local area. Locally-run and funded post office outlet run profitably, there appears to be little chance that a local authority could do so. 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subpostmasters’ income. For example in March 2009, NFSP found that amongst Scottish subpostmasters 96% earned nothing at all from Post Office Credit cards; 93% of subpostmasters earned nothing from Post Office Home Insurance; 86% of subpostmasters earned nothing from Post Office Vehicle Insurance; and 99% of subpostmasters earned nothing from Post Office Life Assurance.36

9.15 The government also says there will be increased access to high street bank accounts through the network. The Royal Bank of Scotland (RBS), including NatWest, is to allow its customers to access current accounts at post offices. This means that almost 80% of UK current accounts will allow free cash withdrawals at post offices, with only Santander and HSBC still refusing to allow access. However, the NFSP remains concerned that the banks do not offer access to all types of transactions for all types of accounts, and that the types of transactions available at post office counters vary from bank to bank. Currently the banks do not advertise their post office accessibility; and the restrictions on the number of accessible accounts and the range of transactions make it a difficult message for POL to promote. The NFSP believes a comprehensive range of transactions through all high street bank accounts should be available at post offices.

10 Funding

10.1 On 27 October 2010 the government announced £1.3 billion of funding to secure the long term future of the Post Office. The government says the funding package will enable the Post Office “to improve its offer and win new revenue streams”. The funding allocates £180m for 2011/12; £410m for 2012/13; £415m for 2013/14; £330m for 2014/15. Nearly half of the funding is earmarked as the “network subsidy”.

10.2 Just over a third (37%) of the funding package is to go on modernising the post office network. This includes making “significant investments” in about 4,000 main post offices based in town and city centres. In addition, POL is to convert around 2,000 sub offices to the new “Post Office Local” model. Under this model 86% of Post Office services are offered, for all the hours the shop is open, in an open plan setting alongside the retail till.

10.3 Whilst the new funding is a welcome step in the right direction, the NFSP warns that additional guarantees on the future relationship with Royal Mail and on new government work are also essential if the post office network is to have a sustainable future.

10.4 The NFSP was delighted when the Scottish government deployed £1 million in 2010/11 to establish a Post Office Diversification scheme to help sustain and develop the small businesses which are built around post offices. The scheme closed for applications in September and awards of up to £25,000 were made to 49 post offices based in Scotland. A range of projects from setting up an internet café to selling local produce were funded. The NFSP notes that evaluations of other post office grant schemes show they result in increases in customer numbers and increased sales turnover.37, 38 The Scottish government scheme follows that provided by the Welsh Assembly government. The Welsh Assembly government has been funding diversification grants for post offices since 2008, and has offered three rounds of funding.

10.5 In Scotland, the NFSP has also welcomed the financial assistance offered to post offices through rates relief, the Small Business Bonus Scheme. This is provided on a sliding scale with businesses with a combined rateable value of up to £10,000 receiving 100% relief. Individual properties with a rateable value of up to £18,000 can receive 25% relief. The NFSP continues to argue for 100% rates relief for all UK post offices.

11 Future Demand for Services

11.1 There has been considerable recent discussion about the future of postal services in the UK. Figures show an ongoing decline in the number of letters sent, with a 7.3% fall in letter volumes in 2008/09.39 The number of parcels continues to rise due to dramatic increases in online shopping. However, both the public and small businesses will continue to need local venues in which to undertake their mails transactions—both posting and collection. The parcel collection services that post offices currently offer, such as Local Collect in which undelivered items can be picked up from the local post office, are likely to expand in the future.

11.2 The NFSP believes that the case for replacing more traditional face-to-face and paper-based services and communications with electronic alternatives, is often overstated. Face-to-face, locally accessible channels remain particularly crucial for the most vulnerable members of society. Government figures show that 35% of all households have no internet connection, and it is predicted that the proportion of digitally excluded adults in the UK will be 31% in 2015, with the highest proportions among older people and low income groups.40, 41 Moreover even many of those with internet connections will still need help navigating through systems and interpreting official information.

11.3 Local face-to-face provision of government services will continue to be needed. In part this is to complement online services for those who have no online access or need assistance in finding or interpreting official information. But also some services can only be carried out face-to-face, such as identity verification and application checking.

11.4 In addition, local access to cash and banking will continue to be needed for the foreseeable future. With the retreat of high street bank branches from many rural and deprived areas, post offices present the ideal low cost solution.
11.5 In geographical terms the post office network is Scotland and the UK’s most accessible face-to-face channel for mails, banking and government services. The NFSP sees no reason why the demand for post office services should not experience a considerable increase, providing post offices: i) retain their role as the local outlet for mail services; ii) offer comprehensive access to major central and local government services and transactions; iii) provide a comprehensive local banking service, including full access to all high street bank accounts.

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1. EXECUTIVE SUMMARY

1.1 The Association of British Credit Unions Limited (ABCUL) welcomes the opportunity to provide evidence to the Scottish Affairs Committee's Inquiry on Postal Services in Scotland. ABCUL is the main trade association for credit unions in Scotland, England and Wales. As a co-operative, ABCUL is owned and democratically controlled by its member credit unions, who in turn serve around 80% of Scotland’s credit union members.

1.2 Credit unions are financial co-operatives owned and controlled by their members on a “one-member-one-vote” basis. They offer safe savings products and affordable loans, with larger credit unions offering an increasing range of other services including insurances, current accounts, cash ISAs and mortgages.

1.3 Credit unions operate within a “common bond” which determines who can join. This can be based on living or working within the same area, belonging to the same association (such as a trade union or religious group) or working for the same employer.

1.4 It is widely recognised that to be sustainable in the long term, the post office network in Scotland will be required to provide a wider range of services than at present to maintain footfall and generate higher value transactions than those which make up the bulk of post office business at present. ABCUL believes that there is great potential for expanding the availability of financial services through the post office and that this would be best achieved through a partnership with the credit union sector. We are taking this opportunity to outline to the Committee how this could be accomplished.

1.5 Internationally, there is a proven model for credit union development which—following professional development, strengthened governance and the flexible and proportionate application of regulatory and legislative frameworks—rests on the development of centralised shared services to enable credit unions to benefit from economies of scale whilst retaining their localised nature and autonomy.

1.6 With such a back-office system in place in Britain, all credit union services could be made available through the Post Office network. This would greatly increase the accessibility and visibility of credit union services whilst providing a new source of revenue to the Post Office network and boosting its sustainability.

1.7 The development of the back-office system and Post Office partnership require a one-off capital investment of a few million pounds. Given its potential to address several key areas of Government policy, this represents significant value for money. The system would increase diversity and competition in banking and address the present lack of universal financial services provision, as well as providing a valuable new source of custom for the Post Office.

2. CREDIT UNIONS IN SCOTLAND—BACKGROUND

2.1 British credit unions are legally constituted under the Credit Unions Act 1979. They are regulated deposit takers under the Financial Services and Markets Act (2000) with a specialist regulatory sourcebook in place which sets the prudential framework within which credit unions operate. Deposits held with a credit union are guaranteed up to £50,000 (soon to be £85,000) under the Financial Services Compensation Scheme and complainants have recourse to the Financial Ombudsman Service.

2.2 The credit union sector in Scotland, England and Wales has grown rapidly over the past 15 years or so. In the decade to 2007, savings, loans and assets held by credit unions had grown four-fold and membership trebled.20 As at the end of March 2010, credit unions in Great Britain were providing financial services to 761,708 adult members and held almost £600 million in deposits with around £475 million out on loan to members. An additional 107,077 young people were saving with credit unions.21

2.3 Credit unions have been especially successful in the West of Scotland, and in particular in the city of Glasgow. The 34 credit unions based in Glasgow have a total of 135,000 adult members plus an additional 11,500 “junior savers”, and Glasgow’s credit unions have combined assets of £185 million.22 Although a small proportion of these members are drawn from outside the city, it is nonetheless fair to say that around 1 in 5 residents of Glasgow are credit union members.

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2.5 However, there is a great deal of potential for the continued growth of credit unions in Scotland. In countries such as the United States, Canada, Ireland and Australia, credit unions are leading providers of

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20 Figures from unaudited quarterly returns provided to the Financial Services Authority
21 Figures from Glasgow City Council
22 Figures from Demos, November 2007, Web I’m 64
23 See P. A. Jones, Breaking Through to the Future, Liverpool John Moores University, 2008: http://s.coop/breakingthroughtothefuture
3. Financial Services through the Post Office

A BCUL believes there is great potential for the provision of a wider range of financial services through the Post Office. However, the financial services currently available at the Post Office, through the Bank of Ireland, do not meet the needs of people on lower incomes. The Post Office Card Account (POCA) provides a very basic service to allow for the collection of benefits, but does not give people the tools to use the account for many other purposes.

2. The minimum loan available through the Post Office from its link up with the Bank of Ireland is £2000. Loans of below this level are not generally available from mainstream providers and people on lower incomes in need of short term, small sum credit generally have few affordable options on the high street. A loan from a home credit provider can cost as much as ten times more in interest than a credit union loan. High street rent-to-buy firms also end up as an expensive option for lower income consumers who are in need of large items for their homes.

Enabling credit union services to be available through the Post Office network would ensure that appropriate and affordable financial services would be accessible for all users of the Post Office. This would assist the Post Office in meeting the needs of all vulnerable groups at the same time as increasing footfall in Post Offices and thereby increasing the sustainability of the network.

Many credit unions have close links with their local Post Office outlets and credit union members—especially those in rural areas or those who may be excluded from mainstream banking for a variety of reasons—often use and greatly value both services. Many credit unions have arrangements in place with local sub-postmasters to enable credit union members to access cash at local Post Offices, and there are examples of even closer co-operation such as in Glasgow, where Pollok Credit Union and the local Post Office are run together from shared premises in the busy Silverburn Shopping Centre.

We believe this existing natural synergy and the potential for credit unions to fill the gaps in the Post Office's existing financial services provision makes a convincing argument for facilitating such a formal partnership. This would require the establishment of a credit union back-office.

4. A Credit Union Back-office

Shared back-office systems are commonplace in the most developed credit union sectors around the world. By pooling back-office resource, credit unions are able to tap into otherwise unattainable economies of scale whilst retaining their local nature.

Those services which the back-office might provide include:

- A common accounting platform for credit unions enabling central treasury and liquidity management;
- Central loan processing, credit control and marketing resource;
- Human resources, legal and compliance services provided centrally;
- Significant cost reductions in providing more sophisticated products, including current accounts, prepaid debit cards, insurance, ISAs and mortgages;
- Potential for centrally managed internet and telephone banking.

A back office for the credit union sector could allow many of the 450 credit unions currently working in Britain to link up with 11,500 Post Offices through the Post Office Horizon System. This would allow consumers to:

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4.3.1 Walk into any Post Office branch and join their credit union and/or carry out a wide range of transactions in real time;

4.3.2 Respond to Post Office advertising and join a quality credit union locally. The Post Office is a trusted brand for people on low incomes and would be able to help individuals comply with off-putting identity regulations for opening a “bank” account;

4.3.3 Access affordable credit. Where appropriate, Post Office staff could provide instant, responsible loans. Credit union staff could pre-approve very small lines of credit (£30—£400) that were affordable and convenient.

4.4 This would mean a member of any of Scotland’s credit unions using this back-office would be able to perform real time transactions on their account not only in the 1400 Post Offices in Scotland, but in any Post Office across the UK.

4.5 In Scotland alone, the number of “branches” or “collection points” where people could join or make credit union transactions would increase thirteen-fold overnight. A greatly scaled-up credit union sector would help meet the Government’s commitment to promote greater competition in financial services and to support a greater role for mutuals as part of a diverse sector.

4.6 Making small sum affordable credit accessible through the visible and trusted Post Office network has the exciting potential to transform the financial services market for low income people. It would challenge the high cost credit market which currently takes hundreds of millions of pounds in interest from those on lower incomes.

4.7 A collaboration with the Post Office, too, would make inclusive, ethical financial services available through the network which is already the leading provider of financial services to those most in need of access to fair financial support through the POCA. Pensioners, benefits claimants and small businesses are the main users of the Post Office’s services, and credit unions have a strong role to play in serving these groups.

4.8 Each transaction carried out by the Post Office would produce a transaction fee, creating a new revenue stream for the network in addition to the increased incidental sales caused by a general increase in footfall.

5. Conclusion

5.1 Expanding the range of financial services available through the Post Office has an important role to play in securing the sustainability of the network. For some time now, ABCUL has been talking to Post Office Ltd about the possibility of credit union services becoming available through the Post Office network on a much larger scale than currently happens.

5.2 A back office for the credit union sector would allow this to happen. As well as meeting Government aims of increasing diversity in financial services, it would increase footfall in Post Offices and greatly increase the availability of affordable credit.

19 November 2010

Written evidence from Consumer Focus Scotland

About Consumer Focus

Consumer Focus is the statutory consumer watchdog for postal and post office services. We have statutory functions to investigate the number and location of public post offices23 and responsibility mandated from the UK Government to independently assess post office provision against specified minimum access criteria. Royal Mail’s Licence requires it to provide us with an extensive amount of information, much of which is not publicly available, allowing us to monitor its performance in a wide variety of areas including service standards, complaints handling and mail integrity. Consumer Focus also has powers24 to deal with postal cases on behalf of vulnerable consumers via our Extra Help Unit. Consumer Focus Scotland is part of Consumer Focus, and our organisation’s structure reflects the devolved nature of the UK.

1. The Importance of, and Demand for, Mails Services in Rural Areas

1.1 Postal services remain a critical form of communication for individuals and businesses25, especially the most vulnerable26. Their importance as a logistics system for fulfilment mail is increasingly apparent27. However, no market remains constant and the postal market faces huge challenges from e-substitution28.

23 Consumers, Estate Agents & Redress Act, 2007; Section 16
24 Ibid; Section 12
25 94% of businesses and 85% of individuals in Scotland say they will always need to send items by post: Consumer Focus and Postcomm research into Residential and Business customer needs from a sustainable universal postal service (2010). 95% of consumers receive mail each week and 84% send mail at least each month: Consumer Focus Scotland, Scottish Postal Services Consumer Survey (2010)
24 For example, across the UK, 92% of rural residents state they will always need to send some things by post: Consumer Focus and Postcomm research into Residential and Business customer needs from a sustainable universal postal service (2010)
27 53% of businesses in Scotland expect customers to order more products online in the future: Ibid
26 Across the UK, 69% of residents and 60% of businesses say their use of online communications has increased over the last three years, and 50% of residents believe they will send/receive less mail from friends/family in the next three years: Ibid
The postal service has an extremely important role in Scotland, particularly in rural and remote areas, where:

- consumers have to travel long distances to access face to face services and the Universal Service Obligation (USO) therefore provides a vital lifeline service;
- it plays an important social role, offering regular and reliable contact with every household, including with vulnerable people;
- broadband penetration is often less well developed than elsewhere in the UK, and consequently there is a greater reliance on mails services; and
- the growth in online retailing offers significant benefits but only if the post (and telecoms) infrastructure is in place to support this.

At present, Scottish consumers receive a broadly similar level of postal services to elsewhere in the UK. Royal Mail’s licence requires the next day delivery of 93% of first class mail, and 91.5% in each postcode area. This requirement applies to 13 of Scotland’s 16 postcode areas, the exceptions being ZE (Shetland) KW (Orkney), and HS (Western Isles).

The USO means that customers across the UK pay the same tariff regardless of where they are sending a letter to, and requires Royal Mail to deliver mail once every working day to every address in the UK. This clearly has benefits for consumers in more remote areas. In certain exceptional circumstances, Postcomm exempts Royal Mail from making daily deliveries to a property—for example, because the address is difficult to access, or because of a health and safety risk to Royal Mail staff. Around half of these exceptions are in Scotland (1,700), but the tight criteria that determine whether a property is considered too remote brings significant benefits for many consumers in rural Scotland, as it ensures these receive deliveries even if this involves a diversion from the main delivery route.

Implications of the Postal Services Bill on the USO

Consumer Focus is pleased that the Bill specifies minimum requirements for the USO, including the delivery and collection of letters six days a week, and the requirement for uniform pricing across the UK. However, there is scope to extend the USO to require delivery and collections of parcels six days per week, which would reflect the increasing economic importance of fulfilment mail. Whether privatised or not, adequate safeguards need to be in place to protect the provision of the USO and, more generally, the consumer interest.

We welcome those safeguards that are put in place by the Bill to protect the minimum requirements of the USO in future, not least the need for Ofcom to conduct a review of users’ needs in advance of any proposed changes. Consumer Focus would like to see the Bill require Ofcom to consult with representatives of residential and SME customers, especially vulnerable customers, when conducting such a review.

In undertaking such a review, the needs of rural users require particular attention: the introduction of zonal pricing tariffs, reducing the number of days when mail is delivered or collected, or loosening the criteria through which Royal Mail could exempt properties from receiving daily deliveries of mail would each hit rural Scotland disproportionately hard.

In its current form, the USO appears sustainable for the immediate future. However, should any future review of the USO take place, this should be assessed in the context of the wider communications needs of consumers and businesses, taking into account the availability and take-up of current and next generation broadband, and the particular needs of consumers in rural Scotland.

Consumer Focus is concerned that the Bill does not require Ofcom to impose essential conditions on postal operators, including requirements on mail integrity, or require operators to provide information to the regulator and Consumer Focus on mail integrity and delivery and collection exceptions. Such requirements are currently enshrined as obligations on Royal Mail in the existing licensing system and allow for effective scrutiny in areas of potentially serious consumer detriment. The Bill should be amended to suitably incorporate these necessary safeguards.

Delivery of Parcels to Remote Areas

The growth in online retailing and parcel delivery offers significant benefits for consumers in more remote and rural areas, providing them with access to goods and services they might otherwise be unable to access. However, many parcel operators apply surcharges to deliveries in certain parts of Scotland, or consumers there may face other conditions including longer delivery times compared to consumers elsewhere in the UK. These restrictions vary depending on which parcel operator is used, but many online retailers do not always offer a choice of which parcel operator to use to make a delivery.

It is not always straightforward for consumers to find out about surcharges in the early stages of making

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29 Ofcom Communications Report (2010)
30 The Bill specifies that letters will be collected and delivered Monday-Saturday, but only requires packets and parcels to be collected and delivered Monday-Friday.
31 For example, Parcelforce operates a uniform pricing system for the Scottish mainland, the “Intra-Scotland” rate, but applies higher charges for the Scottish islands.
4. The Importance, Distribution and Role of Post Offices in Scotland

4.1 The Post Office (PO) network offers unparalleled access to services of general social and economic interest, including mails services; access to pensions and benefits; government services; and bill payment.

4.2 POs have a critical role to play in supporting sustainable communities in Scotland’s remote and rural areas, and in its deprived urban communities. While POs fulfil this role in many areas across the UK, the remoteness of many rural locations, and the nature and concentration of urban deprivation in areas of the Central Belt and elsewhere, makes the viability of the PO network of particular importance to consumers in Scotland.

4.3 There are 1,441 POs in Scotland, comprising 12% of the network across the UK and making it Scotland’s largest retail chain. Two-thirds of PO branches are located in rural areas with 171 branches in the 20% most deprived wards in Scotland. Over the last decade, the PO network in Scotland has been badly hit by closures: since 2000, the network in Scotland saw an overall reduction of 28% and the urban network contracted by almost half.

4.4 Although competitors such as Paypoint now have more outlets than the PO network in Scotland, the PO offers unparalleled coverage in remote and rural areas. It therefore remains uniquely well-placed to offer universal access to services of general social and economic interest in Scotland.

5. New Services Through the Post Office Network

5.1 There is the potential to significantly extend the range of products that the post office network offers to its customers, face-to-face, in their local communities. Increasing, for example, the range of government services and financial products on offer at the post office would improve access to these important services for consumers and would help to support a growing, thriving and sustainable post office network—which would clearly be in the interests of all its customers.

5.2 It is, however, essential that the devolved context is properly reflected in this debate. Responsibility for the delivery of a wide range of government and other public services in Scotland is devolved to the Scottish Parliament. It is therefore for service providers in Scotland, in addition to the UK Government, to decide whether and how the post office network can help to support the delivery of services under their respective jurisdiction.

5.3 We welcome the UK Government’s recent announcement that it intends for the PO network to become a “front office” for its services. With uncertainty over Post Office Ltd’s (POL) contract with Royal Mail, and as other UK Government departments open contracts for work currently undertaken through the PO (for example, the DWP is currently tendering the cheque exceptions service), we are concerned that, unless there is a more significant expansion of both government and financial services, the long-term future for the network is not secure.

5.4 PO-based banking offers a major opportunity to reinvigorate the post office network and put banking services, delivered by a trusted provider, back into communities. A greater role in financial services for post offices would benefit all post office users, but could particularly help low-income customers, small businesses, and those in rural and deprived urban areas, where there are fewer bank branches. Closer partnership between credit unions and the PO would deliver particular benefits in Scotland: we would strongly support measures that would allow consumers to access credit union savings and loan products through post office branches.

32 Consumer Focus Scotland, Parcel Deliveries: Current Practice and Possible Solutions (2010)
33 Consumer Focus and Postcomm research into Residential and Business customer needs from a sustainable universal postal service (2010)
34 80% of consumers in Scotland consider the PO to play an important role in their community, with 82% of consumers using the PO network at least every month, and 49% use it every week. Usage is highest among people aged 65 and over (63% of whom use a PO every week); people who are disabled (63%); and people earning less than £15,000 per annum (61%): Consumer Focus Scotland, Scottish Postal Services Consumer Survey (2010)
35 Between 2000 and 2010, the urban PO network reduced from 591 to 308 branches, a contraction of 48%. The PO network in urban deprived areas fell by 19% during this period: Postcomm Annual Report on the Post Office Network (2010)
36 The post office network receives subsidy from the UK Government for the provision of services including: mails services, vehicle licensing and identity verification, access to pensions and benefits, access to cash, bill payment, and access to Government services
37 Research undertaken for Consumer Focus finds that 83% of low-income consumers in Scotland consider the PO to be a safe place for their money, and 70% would consider opening an account there. In contrast, 47% of low income consumers do not trust the High Street banks with their money. ICM research for Consumer Focus on Low-Income Banking Solutions at the Post Office (2010)
5.5 In January 2010, Consumer Focus published Opportunity Knocks\(^\text{38}\), which revealed nearly one million of the poorest people in the UK could be lifted out of financial exclusion if a new, simple-to-use, bank account was launched by the PO network—this includes many of the 440,000 consumers in Scotland who currently receive payments into a Post Office Card Account (POCA). The report calls on the UK Government to introduce a tailored bank account product as part of its plans to introduce banking services through the PO. This would be offered as a successor to the existing POCA and would offer an expanded range of transactional banking features including universal ATM access, debit card functionality and a modified bill payment facility\(^\text{39}\). This facility would enable low income consumers to benefit from cheaper bill payment options but with greater control and certainty over payments than conventional Direct Debit facilities allow.

6. Implications of the Postal Services Bill on the Post Office Network

6.1 The Bill proposes the formal separation of Royal Mail and POL. There are considerable advantages for POL—for example, it would be managed by a Board that was better aligned against its commercial objectives and would no longer be a junior partner in group decision-making.

6.2 However, there are also significant potential risks and challenges for the PO network resulting from separation. The UK Government has already announced that it will seek a refreshed Interbusiness Agreement (IBA) between Royal Mail and POL. The IBA is the contract through which Royal Mail uses the PO network as the access point to mails services. This contract accounts for 1/3 of POL's turnover, some £343 million of POL's revenue last year. However, following privatisation of Royal Mail, subsequent contracts would require a competitive tender process with no guarantee that POL would retain this contract.

6.3 There are strong arguments against seeking to maintain the contractual relationship between POL and Royal Mail in perpetuity. However, for the foreseeable future, the loss of the mails contract, even on a partial basis, would significantly undermine the integrity of the PO network, with a disproportionately negative impact for consumers in rural and remote Scotland.

6.4 Even if Royal Mail continued to use the PO in rural areas only, the ability of the network to cross-subsidise from its profitable urban branches would be lost. The future of many POs, particularly the 981 largely loss-making post offices in rural areas, would therefore be in doubt. This would threaten access to mails services but also the wider range of social and economic services made available through the PO network.

7. Outreach Post Offices in Scotland

7.1 As part of the last closure programme 102 PO branches in rural and remote parts of Scotland were closed and replaced with Outreach POs. Outreach services are provided by a visiting sub-postmaster, typically on a part-time basis, in premises such as village shops, community halls or using specially adapted mobile vans.

7.2 We have recently undertaken research that suggests that customer satisfaction with Outreach services is generally positive\(^\text{40}\) and that consumers have adapted well to the new arrangements. However, the PO has failed to promote Outreaches effectively: one-third of consumers were unaware that an Outreach post office actually operated in their village. Improvements are also urgently needed to the reliability and robustness of Outreach services.

7.3 While Consumer Focus is satisfied that services can effectively meet consumers' needs, this will only happen if POL acts in a more responsive way to feedback from its existing and potential customer base: one-third of people not using the Outreach do so because the opening hours or location are unsuitable for them.

7.4 Following the introduction of Outreach services POL has proved slow, and in many cases unwilling, to respond to consumer feedback or to provide appropriate support to its operators who in many cases have been left to sink or swim.

7.5 Consumer Focus is increasingly concerned that the long-term viability of many Outreach services might be compromised unless POL supports its Outreach locations and commits to building their viability.

19 November 2010

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39 Our research suggests that many unbanked consumers in Scotland would open a transactional bank account if it was offered by the Post Office, but would not do so if these accounts were offered by High Street banks—64% of Scottish consumers interested in the account want this to be offered by the Post Office: ICM research for Consumer Focus on Low-Income Banking Solutions at the Post Office (2010)

40 Consumer Focus, Sink or Swim: Post Office Services in the Long-term (2010)
通知书 90

Scottish Affairs Committee: Evidence

I am secretary of Furnace Community Council, Argyll, but this email is from an individual point of view as we won't be having a Community Council meeting before your deadline of 19 November.

In rural communities such as Furnace, the Post Office (which is a daily, half-day service) is essential to residents, many of whom are elderly and others include single parents and those without private transport. Public transport is infrequent and an elderly person who has to get a bus to the nearest available Post Office will have to wait for several hours for the return journey. Where do they wait and in weather which is often cold, wet and windy? Many cannot afford to waste this amount of time.

From the point of view of the economic effect—the Post Office in Furnace, as in many rural communities, is part of the Village Shop and people using the Post Office will also buy groceries and other necessary items. If they have to travel to another Post Office they will do more of their shopping in that town. Village shops, which not only provide a living to the owners, often offer part-time work to other local residents. The existence of the Village Shop/Post Office is a significant factor to people considering buying or renting property in rural areas. Shut the Post Office and there are many other consequences.

Postal deliveries to rural areas is equally important and privatisation of this service would have a major negative effect. Private companies cherry pick and are not interested in more remote places which will not be profitable. At the moment private companies such as TNT who are being given business from companies and other organisations do not deliver in our area—they sub contract the business to the Post Office which then delivers to local businesses and to our homes. If the Post Office ceases to exist, who will deliver to rural areas and islands.

There are some services which are so socially important that profitability should not be the key factor and the tax payer should accept the need to pay. So many of our other previously public services have been sold off and it is difficult to see any advantages, other than financial. In addition, they have been sold to overseas companies who will have no problem pulling the plug as soon as the sums don't add up.

23 November 2010

Written evidence from Andrea Henderson

Universal Service Obligation for Registered Letters and Parcels

Committee Members asked whether the provisions in the Postal Services Bill for six-day collection and delivery of letters applied to registered letters and hence whether this required Post Offices to be open on Saturdays to accept registered letters. Committee Members also asked whether Royal Mail’s current six-day parcel service was a commercial decision or whether it was a statutory requirement imposed by Postcomm.

Clause 30 of the Bill replicates the provisions required of a universal service by the Postal Services Act 2000. Requirements one and two require delivery and collection of letters every Monday to Saturday, and parcels and packets every Monday to Friday. Requirements four and five require a registered and insured items service.

In response to the Committee’s queries we can therefore confirm that the definitions within the Bill are such that a registered letters service must be provided from Monday to Saturday and a registered service for other postal packets from Monday to Friday. We can also confirm that there is no legal or contractual requirement on Royal Mail to provide a six-day parcel service—it is a purely commercial decision for the company.

The Bill replicates the current legislative requirements under the PSA 2000 and the proposals by the last Government in their 2009 Bill. In respect of letters (registered and not), this gold-plates the European Directive which requires a minimum of delivery on five working days a week.

Given the changes in the market identified by Richard Hooper, and the potential threat these pose to the universal service, we believe that now is not the time to hard-wire into legislation any more onerous requirements on the universal service provider than are already imposed. To do so could risk the provision of the universal service.

It is possible for more onerous requirements to be imposed by Ofcom through their Universal Postal Service Order, if this was in line with the needs of users. We believe it is vital that regulatory requirements are only imposed where there is a genuine need, and hence that they are determined by Ofcom in the light of evidence they gather from the market and from users. They must also be in line with Ofcom’s overarching duty to secure the provision of the universal postal service. The Committee may be particularly interested to note that in undertaking all of their activities in relation to postal services, Ofcom will be bound by their statutory general duties as set out in the Communications Act 2003 (although should there be a conflict, their duty to secure the universal postal service will take precedence). Under this they must take into account the needs of a range of users, including ‘the different interests of people in different parts of the UK, including those in rural and urban areas’.

Despite there being no legislative or licence requirement for a six day a week service now, Royal Mail does deliver parcels six days a week anyway—because to do so makes commercial sense. This part of the market
is highly competitive and so, in line with regulatory best practice, we are keen to avoid unnecessary regulation, particularly as Ofcom’s duties will ensure the reasonable needs of users, across all areas of the country, are met.

In terms of what a six day a week registered letters service means for Post Office opening times, Ofcom are required by clause 28(4) of the Bill to carry out their functions in a way that believe will secure the provision of sufficient access points to meet the reasonable needs of users of the universal postal service. So Ofcom will have a statutory duty to ensure that users are able to access the services that are part of the universal postal service.

More broadly, the Government’s recent policy statement on the future of the Post Office network set out both its commitment to no further programme of closures and its long-term strategy for securing a sustainable future for the Post Office. Key to this will be enabling the network to change in response to what customers really want: greater convenience through longer opening hours, quicker service and accessibility in well positioned locations.

During the session we touched on the Post Office Local model, which is in its pilot stage with over 50 pilots across the UK. The Post Office Local model is designed with the consumer in mind and is able to offer longer opening hours and quicker service. The Government believe that this model is particularly appropriate for many smaller sub-post offices across suburban and rural Britain. Initial findings from the pilot locations show that, on average, post office services provided through a ‘Local’ branch have been available for more than six hours extra per day than previously. However, this does not mean a significant reduction in services offered: 86% of post office services are available through Post Office Local, including all core products such as posting letters and parcels, paying bills and collecting pensions and pre-ordered travel money.

GUIDANCE ON RE-OPENING POST OFFICES

The Committee enquired about time taken to re-open Post Offices.

The current approach to temporary closures (as set out in the Code of Practice between Post Office Ltd and Consumer Focus on Changes to the Network in April 2009) is that Post Office Ltd will always work to get the branch re-opened. Post Office Ltd do not put a time limit on this process, although it is realistic to say that if the company have not been able to find a solution within the first 12 months (for example, if no-one comes forward to run the office), the likelihood of re-opening diminishes and the company will prioritise its resources to try and find solutions elsewhere. However, if an opportunity to re-open on a sustainable basis in the locality does subsequently arise, Post Office Ltd will actively consider this. Alternatively, if the company decide that they no longer require a facility in that general location, then they will put that matter to a public consultation in accordance with the Code of Practice. If a closure results in Post Office Ltd being in breach of the access criteria the company is of course under a legal obligation to reopen the branch with no exceptions.

Changes to opening hours may also require a public consultation under the terms of the Code of Practice. The Code of Practice retains necessary flexibility about what constitutes a ‘minor’ change and therefore does not require consultation, but it is highly likely that a change as significant as the ending of Saturday opening would require consultation. This would particularly be the case if Saturday represented a major part of the opening pattern of the branch concerned and/or where there were no very close alternative facilities on Saturdays.

POST OFFICE EQUALITY DUTIES

The Committee raised concerns about access to Post Offices with stairs and we undertook to provide further information on Post Office Ltd’s duties under the Disability and Discrimination Act 1995.

Post Office Limited is itself responsible for compliance with the Act in respect of access for disabled people to its services at Crown Post Offices and subpostmasters are similarly responsible for DDA compliance for the post office services that they provide. Post Office Limited works with subpostmasters to assist them in identifying any problems at their branches and to support them in making adjustments where possible to assist with DDA. Post Office Limited has set up a fund that contributes towards improvements in subpostmasters premises in terms of DDA. In some locations there will however be space, planning or topographical constraints on what can be done to facilitate disabled access.

Additionally, Post Office Limited has recently conducted access audits across the whole of the Post Office branch network. As part of the audit, information on accessibility and other facilities such as low payment counters, induction loops and alternative languages available at Post Offices was gathered.

The information on Post Offices can be found at www.directenquiries.com and forms part of the national access register that they have developed in conjunction with RADAR and the Employers Forum on Disability. By selecting Post Offices as the featured location and then a geographic area a customer can see the Post Offices in that area and the facilities that are offered, enabling them to make decisions on which Post Office to use.

A link to the information is also available through the Post Office Limited website by clicking on accessibility at www.postoffice.co.uk
Written evidence from Royal Mail Group

1. INTRODUCTION
1.1 We are very proud at Royal Mail to be the universal service provider in Scotland and the rest of the UK. The future viability of the universal postal service, however, continues to be under severe threat due to a rapid and continuing contraction in the size of the mail market. The UK postal market, and other postal markets, are forecast to decline by up to 40% over the next five years according to Richard Hooper. Decline in the market, along with increased use of email and texting by large mailers, means that by 2015 Royal Mail’s end-to-end delivery volumes are forecast to have shrunk by 75% in just over a decade.

1.2 The Group faces a range of competitive pressures, including a restrictive regulatory regime. It is expected that 7.1 billion items of Wholesale “access” mail will be delivered over the final mile by Royal Mail’s postmen and postwomen by the end of 2010/11 on behalf of our competitors. The current headroom regulation on this mail guarantees upstream players a margin; it also makes it difficult for Royal Mail to set access prices which actually cover its costs. We are subsidising our competitors when our own finances are severely challenged.

1.3 As the only company able to provide the Universal Service, Royal Mail is managing a number of very significant challenges. These include a very large pension deficit, which is disproportionate to the company’s size, the ongoing burden of the current regulatory regime and a mails market in severe structural decline. To be financially secure and to provide the Universal Service, we need to:
   - Accelerate the modernisation programme,
   - Identify and meet the ever changing needs of our consumers
   - Invest in the future of our business, including a much stronger IT capability and revenue substitution initiatives.

In short, Royal Mail requires urgent access to external capital.

1.4 We need a sustainable business model. This is in the best interests of Royal Mail’s customers, stakeholders, employees and the taxpayer. The Group therefore, very much supports the Postal Services Bill, including the Government’s proposals to resolve the pension deficit, provide access to external capital and a regulatory level playing field. Given the company’s very challenging financial position, action is required now.

2. ROYAL MAIL IN SCOTLAND
2.1 Royal Mail Group is the only postal business which reaches all 2.5 million addresses in Scotland. It is responsible for collecting and delivering letters and provides a universal service at uniform, affordable prices. Post Office Ltd provides a network of approximately 1440 post offices. Parcelforce Worldwide delivers and collects express parcels in an unregulated, commercial marketplace that covers the whole of Scotland. Royal Mail Group is also one of the country’s main employers, employing around 13,700 in Scotland, most of who are employed as postmen and women.

2.2 Royal Mail provides exactly the same services for businesses in Scotland as it does across the UK. Over 90 per cent of rural or small Scottish businesses will rely heavily on the Universal Service for posting and receiving their mail. Royal Mail is proud to play a part in helping the economic development of Scotland and the highlands and is investing significantly in Scotland over the next three years as part of the company’s modernisation programme.

2.3 Royal Mail operates World Class Mail in 10 mail centres in the UK including at its Glasgow mail centre and at the Edinburgh mail centre, which went live this month. It has had a significant impact on safety, and has reduced costs inside individual facilities. World Class Mail helps employees bring skills and talents that they have amassed in other areas to their jobs. Royal Mail believes that World Class Mail has been a very successful tool in helping our people to understand what they need to do to be successful in all aspects of handling and processing of mail. Royal Mail needs to accelerate the modernisation programme in Scotland and across the UK. The Group needs the ability to secure the external capital required, however, to do this.

3. THE NEED FOR REGULATORY CHANGE
3.1 Royal Mail fully accepts the need for a regulatory framework. The current regime has generated significant levels of competition. However, as Richard Hooper pointed out, a balance has to be struck between the generation of competition and the provision of a stable universal service. Addressing the regulatory regime is critical to the future of the Royal Mail and the universal service obligation.

3.2 The regulatory regime within which Royal Mail has to operate is very significant. For example, 86% of Royal Mail revenues are regulated, whereas in many other developed countries only universal service products are regulated. The regulatory regime in the UK is more burdensome than in any other country in a number of ways. Firstly, the requirement that there be mandated access to any part of the Royal Mail infrastructure. Secondly, the access headroom regime which provides a net margin between the price Royal Mail charges its customers and the cost of delivering mail.

41 Not printed.
wholesale customers and its retail equivalent. Thirdly, the extent of ex ante price control on 86% of Royal Mail’s revenue.
3.3 Royal Mail believes that unrestricted competition undermines the ability for it to provide a viable universal service. This is particularly the case where cherry picking by Royal Mail competitors would leave the universal service provider with a significant amount of unprofitable business. In short, Royal Mail needs a clearer regulatory direction that provides confidence to stakeholders regarding the viability of the universal service and the future of the business. While the Bill envisages future regulatory change under Ofcom, it is not yet a reality.

4. Pensions
4.1 Royal Mail Group welcomes the Governments pension proposal. It will protect the benefits earned by our current and past employees and for our pensioners. It will give them the secure pension they deserve and a stable company to work for.
4.2 Royal Mail agrees with Hooper’s view that the introduction of private capital in itself would not help guarantee the sustainability of the Universal Service. He stated his view that the pension deficit; timely access to external capital and the need to transform postal regulation needed to be addressed as well.

5. The Post Office Ltd in Scotland
5.1 The economics of operating a large network are challenging for both Post Office Ltd and sub postmasters in Scotland and elsewhere in the UK. The recent Government funding and policy announcements for POL are a real and tangible opportunity to modernise the network. They will greatly assist in making the network more sustainable and in maintaining its cherished accessibility in local communities. The mutualisation model that the Minister has outlined could help with the alignment, in the widest sense, between those who are operating the post office and the owners. Government has also stressed that there will be no programme of closures.
5.2 Post Office Limited and Royal Mail have a strong commercial relationship and for this to continue is clearly in the interests of both organisations. Royal Mail is committed to obtaining a long term agreement with the Post Office. The Group has its focus on a robust and long term relationship with Post Office Limited.
5.3 The Post Office in Scotland will be looking to Government Services to grow revenue through providing front-of-office services for Government and also through financial services. With the recent agreement with RBS, some 80% of current account customers can now access bank accounts through the Post Office.
5.4 Recent talks have taken place with Scottish Government officials seeking to build upon the success of the £1 million Post Office Diversification Fund provided last year and encourage the provision of government services through the Post Office network. A Ministerial Working Group will look at how this can be developed across Scottish Government departments and potentially to facilitate similar discussions with local authorities in Scotland who are responsible for the delivery of many government services. It is hoped to build on the success of Post Office products in the area of identity and document checking— which have saved considerable sums for local authorities elsewhere in the UK. Previous Scottish examples of joint working include the delivery of certain police services through the Post Office network.
5.5 Separate discussions are due to take place with Scottish Government officials to explore how Post Office Ltd might be involved in the joint UK Government and Scottish Government funded initiative to provide communities with better access to better digital facilities across Scotland, particularly in the Highlands and Islands. Post Office branches are at the heart of their community. They are well placed to provide a hub for such access, avoiding costly ‘reinvention of the wheel’ and presenting a joined-up, locally supportive approach for those communities, as well as helping provide much needed footfall to the branches concerned.
5.6 Despite these new positive developments, there are a number of post office branches in Scotland which are struggling to be viable because of changes in social habits and falling customer numbers. Sometimes when an incumbent subpostmaster resigns, there is no-one who comes forward to take over the business. However, the business has been successful in Scotland in re-opening many services using a wide-range of solutions. We welcome the Government’s statement that there will be no programme of closures.

6. Post Office Outreach Services and how they work
6.1 Post Office Ltd’s has worked very hard to set up outreach services tailored to rural communities. There are currently over 700 of these outlets operating nationwide, serving 50,000 customers every week. A round 170 services operate in Scotland, serving just over 9,000 customers a week. Post Office believes these have been a success.
6.2 Outreach services link local communities to a nearby ‘core’ Post Office which brings the necessary services into the community on a regular basis. There are several variants which include: partner services in local shops which operate at retail bills and are open the hours the premises is open; hosted services in community locations such as village halls, hotels, cafes and pubs; mobile post office services and a home service for very small communities and enables customers to order a reduced range of Post Office® products and services over the telephone. Outreach services receive much support in getting established and they operate with at least the same level of support available to other Post Offices.

7. Post Office Essentials/Local
7.1 In April 2008, Post Office Ltd announced that it would be piloting a new type of outreach service in urban areas, “Post Office Essentials”, now known as ‘Post Office Local’. Post Office Essentials/Local allows operators to offer a core set of Post office services over their retail counter.
7.2 The model reduces the cost of operating a post office, because it enables the integration of both space and staff resource in store, between the Post office and retail business.

7.3 Extended opening hours are a key element of the Post Office Essentials/Local model. Post office services can be offered during the same opening hours as the retail store. Where Post Office Essentials/Local has replaced a standard sub post office in the pilots, the opening times have, on average, increased by 45 hours per week. There are eight outlets of this type being piloted in Scotland. They are in Fraserburgh, Harthill; Greenock, Musselburgh, Cumnock, Symington, Tillicoultry. Auchtermuchty.

8. Government Services

8.1 The recent Government announcement and funding package clearly recognised that the Post Office can become the physical network and act as a ‘front office’ for national and local Government. It can cater for those who are not online by providing accessible service. It can cover those situations where, even in an online process, a physical interaction is necessary (for example checks of physical documents or those circumstances when the physical presence of the citizen is needed). The Post Office can then digitise the appropriate information—so that the Government Department can handle its internal processes in the most efficient manner. This whole ‘front office’ approach is a potential win for the customer, Government and Post Office Ltd.

8.2 Post Office Ltd, the Department for Business, Innovation and Skills and the Local Government Association held a joint conference in January 2010 for local councils. Following this, Post Office Ltd and the Local Government Association published a booklet with case studies, sent to all local councils’ chief executives. This aimed to promote greater awareness of Post Office Ltd’s services; Briefings have also taken place with the Scottish Government on the potential in this area.

(For a full range of services provided in Post Office branches please see Appendix 2).

9. Parcelforce Worldwide in Scotland

9.1 Royal Mail is the only provider of a Universal Parcel service, while Parcelforce Worldwide operates in a purely commercial market place. Over 12 main parcel operators serve Scotland. In many rural areas and on the Scottish islands, it will be Royal Mail which delivers Parcelforce Worldwide parcels.

9.2 In 2005, Parcelforce Worldwide introduced a Scotland Intra rate; this means that if you post from Glasgow to Inverness only one charge applies. Extra charges do apply to the Islands given the distances involved and the transport methods which need to be used. Parcelforce believes that it offers competitive rates for these parcels, given the distance they travel. Other Operators use a zonal system across mainland Scotland. Parcelforce doesn’t charge a southbound charge for parcels from Scottish based locations, assisting Scottish Businesses to trade with the rest of the UK.

10. Conclusions

10.1 Royal Mail believes it is best placed to provide postal services throughout Scotland, as the only postal provider that reaches every corner of the country. It also believes that its network of post office branches can and will continue to provide services to communities across Scotland.

10.2 The Postal Services Bill is a very positive development for Royal Mail in Scotland and elsewhere in the UK. The Group is strongly of the view that if the Bill does not go through, there will be a continuation of what has been chronic problems for Royal Mail. Given the rapid structural decline in the postal markets, the Group needs access to external capital to accelerate the pace of modernisation.

10.3 Post Office warmly welcomes the Government announcement of a £1.34 billion funding package for the next four years to maintain and modernise the Post Office network. The economics of operating a large network are challenging for both Post Office Ltd and sub postmasters in Scotland and elsewhere in the UK. The recent Government funding and policy announcements for POL are a real and tangible opportunity to modernise the network. They will greatly assist in making the network more sustainable and in maintaining its cherished accessibility in local communities.

10.4 Royal Mail needs to be given a fair opportunity to compete for the business that is there; otherwise it will further erode the viability of the Group. The consequences for the universal service in Scotland and the rest of the UK will be even greater. Royal Mail believes that if the current bill is not passed, the quality of the universal service throughout the UK, including Scotland will be endangered. The Group needs clear regulatory direction that will provide confidence to all the stakeholders, regarding the viability and stability of the Universal service and the business in the future.

APPENDIX 1

FACTS AND FIGURES ON ROYAL MAIL GROUP IN SCOTLAND

Royal Mail

— Royal Mail employs around 12,500 people in Scotland, of which 11,600 are postmen/women.
— The Universal Service Obligation delivers to 2.5 million Scottish addresses.
— Royal Mail delivers on average around five million items every working day and around 30 million items every week. At Christmas, Royal Mail in Scotland delivers 180 million items on mail across the country.

42 Not printed.
— Collections from over 10,000 posting boxes.
— In Scotland, Royal Mail is spending a significant amount of money over the next three years as part of the company's modernisation plans.
— There are two world class mail centres in Scotland. One in Glasgow and another in Edinburgh.

Post Office Ltd
— Around 800 direct employees in Scotland— Crown Office staff and managers in the network.
— There are over 446,000 Post Office Card Account holders in Scotland.
— POL serves ~20 million customers a week, conducting ~60 million transactions (including visits from over half of all SMEs every week). 92% of the UK population visit a post office at least once a year.
— There are approximately 1,440 Post Offices in Scotland, of which around 300 were designated as urban, 980 were designated as rural, and 160 as urban deprived.
— Approximately 1,213 sub post office branches and approximately 170 outreach services.
— Eight mobile post offices offer services in small rural communities across the Borders, Dumfries and Galloway and the Highlands.

Parcelforce Worldwide
— Employs 352 people, of which 95% are depot staff.
— Delivers 4.3 million packages in Scotland in a year and collects around 2.5 million.
— Only operator that delivers to each address in Scotland through its partnership with Royal Mail.
— Parcelforce Worldwide has depots in Glasgow, Edinburgh, Aberdeen, Inverness and Perth.
— New world-class depot opened in Glasgow in April 2008.

25 November 2010

Written evidence from James Hall

Until I retired, I was the Operation Controller in the Scottish Region and the operation and future of all our services, particularly in rural areas, were some of my main concerns. I therefore believe that I can reasonably submit myself as an expert contributor, with a wide understanding of all the factors which need to be met to retain a good, acceptable service all round. I have set out my thoughts in accordance with the list you issued.

Demand and How it Might Vary

The postal service ie the Letter and parcel services jointly, can reasonably be classed as essential— much immediate material, letters and parcels, is conveyed, while in rural areas, mail is the prime contact with the rest of the country.

There will always be changes, as there have been since its inception, but competition, such as telegraph, telegrams, the telephone, telex and mobile phones have been overcome. The service is flexible and can, as before, always introduce change as needed. The biggest danger now starting to be mentioned would be loss of Universal Pricing, which would escalate prices in the remote parts to the extent of virtually killing the postal service and with it a great swathe of the rural population. The wrongly structured, wrongly introduced “competition” is the real danger in this respect as at present there is no way that Royal Mail can avoid making a huge loss with this mail. However, if this can be corrected, as it MUST, then traffic should not vary greatly, especially if RM markets its wares as it now appears to be doing brightly under its new head.

How Range of Services Could be Expanded

The Luff Committee made a number of excellent suggestions in respect of Counter services. Regrettably, however, the recommendation made that ALL government departments should urgently seek and introduce services using the Post Office to meet their needs, does not seem to have produced much response. For instance, National Savings display marketing literature at all PO counters but never mention this in the hugely expensive advertising they use on Classic FM radio station. This sensible Committee recommendation MUST be chased up and action taken.

There are indeed many government services which could be offered but the government had already moved some away eg Television Licences; this plus the associated enquiry work to find non-payers was a good source of funds.

There are certainly many services which could be operated for local authorities, eg collection of rents and Council Tax, especially in country areas.

There are already several elements of banking, including a PO Bank, run by Bank of Ireland. Is this really the best we can do, given the financial problems in Ireland at present? When I was a lad, the PO Savings Bank
was a very popular way of teaching children about money. One's own PO Savings Bank book was greatly used and we learned a lot about money. This could be resurrected.

Much of the confusion about how to help seems to come from a misunderstanding about the real purpose of the Counter Network. It is not there as a chain of shops—its prime task is to be the point of access for the public to the two mail services. It is for this reason that it has for a long time been directly a part of the single PO structure, its costs absorbed in the mail receipts. It is to the credit of past generations of postal managers that they set out, and succeeded, to attract, as you are trying to do now, subsidiary services which could help meet the costs of this network, so highly praised in the Luff Report.

So far as the mail services are concerned, it now appears that the new management are alive to the need to maintain good levels of traffic and a number of new ideas are now being introduced.

One service, now floundering, with which I was closely involved—it was almost completely confined to Scotland—was the Postbus service in rural areas. I was in at the beginning of this conversion of our delivery vehicles into passenger carriers. These ranged from mini-buses to small estate cars and four-wheel drive cars. They were very popular locally, but also more widely spread—a considerable number of visitors visited places where they operated and were charmed by the really wonderful scenery they could see from the bus which visited so many places off the beaten track. Many drivers built up a range of tales about their area—I know they were not always strictly accurate…!

The finances of these services were sound. For any service to be upgraded, we simply costed the van service and the replacement bus service and asked the Council to pay the difference. They each had a commitment to provide transport in all areas and were glad to join with us. At one time, there were nearly 200 Postbuses running in Scotland. Since the division of the services, the RM people have been less enamoured with this service and a high percentage have now been ceased despite much local complaint.

We also introduced a local service which we called "Rural Parcels". This carried items which were not normal parcels. Local shops could send unsealed boxes of groceries, TV sets were taken to a local engineer for repair, similarly shoes, etc. There was no set price, but we set out a list of acceptable charges and let local managers, then called Head Postmasters, to fix a price similar to our suggestion. We made regular visits to every "Head Post Office" for general liaison and audit and the income form this service was checked (a matter of a few minutes)—we never found any significant deviation from our suggested pricing. In some places this service was a godsend. In Lewis where the famous tweed is woven in local cottages, we replaced the van which made weekly visits to the weavers with this service on a daily basis. This greatly speeded up the work and proved to be a major factor in helping to save the product which was then in a bit of financial difficulty. Thought might be given to restoring this service, which was quickly withdrawn on the introduction of the bean-counters of the present regime.

**ROLE OF SUB-OFFICES**

I have really covered this above. A Counter should be located wherever there are sufficient people needing the service for information about mails. Also, now, since pension payments are widely collected at Post Offices, there should be an office wherever this traffic justifies it.

For mails, a sub-office should exist to locate one or more postmen (full- or part-time), when the amount of mail—letters and parcels—justifies them. The sub-postmaster will be in charge of them.

**UNIVERSAL SERVICE**

I have already mentioned the dire effect of any reduction or removal of the Universal postage rate. The cost of letters and parcels would soar to a level totally outside the means of the population, except, perhaps any wealthy people residing in large Lodges or mansions. We could close the Post Office entirely then, to the great detriment of the entire population. The effect would be worse than the much-maligned Highland Clearances. I cannot imagine that any government would be so stupid as to cease this essential factor.

**COMMUNITY OR MUTUALLY-OWNED POST OFFICE**

This thought goes back to the recognition of the essential organisation of the Post Office as a whole. Concerning sub-offices alone, then I can assure you that it would have absolutely no effect whatever, since we have had sub-post offices of that very sort in many places, usually tiny villages or clachans. There have also been other venues eg in visitable stately homes where the shop is a sub-office, or in police stations where there has been no candidate for a postmaster vacancy. This is not a serious problem.

**PARCELFORCE IN REMOTE AREAS.**

A gain, this comes back to the organisation of the PO as a whole. The separation of Parcels from Letters was a poor and costly move. Before that split, the two services ran in parallel with maximum use of common accommodation, transport and staff. So the simple answer to this query is simply that parcels should be sent, along with letters to a sub-office to be delivered by the same van (or Postbus?). This is not a major problem.
Impact of Postal Services in Scotland on Business

The short answer is “exactly the same as it has been in England.” Although clock-times might vary eg some mail from Devon might be delivered later in Aberdeen than in Truro, users soon adapt to the timetable as it affects them.

Wider Economic Impact of Postal Service on Rural Areas.

There probably is a greater impact on rural areas in Scotland than in some other parts of the UK, because of the distances involved, a lot of mail does not arrive until 12-24 hours after a similar in the Home Counties for example. It is the case, however, that people have become used to this difference and adapt their practices, indeed their whole life-style, to the difference, of which they are all very well aware.

13 December 2010

Further written evidence from Consumer Focus Scotland

Regulation

Consumer Focus is concerned that many of the hard-won consumer protections enshrined in the current licensing system will be lost in the move to reduce the legislative burden on Royal Mail via the Postal Services Bill. Our concerns, in respect of a discretionary ability by Ofcom to regulate, epitomised by the word “may” several times in the Bill, as opposed to a requirement (“must”) on Ofcom to regulate, centre on three issues: mail integrity, provision of information, and consumer protections.

Mail Integrity

OFCOM should be required to impose essential conditions on postal operators. Essential conditions guarantee mail integrity: confidentiality, security, data protection etc and as such are an absolute minimum requirement for an operator providing a communication and/or logistics service.

Condition 8 of Royal Mail’s licence currently stipulates that all licensed operators comply with the Postcomm Code of Practice on Protecting the Integrity of Mail. Furthermore, Article 5 of the EU Postal Directive 97/67/EC stipulates “Each Member State shall take steps to ensure that the universal service provision meets the following requirements: It shall offer a service guaranteeing compliance with the essential requirements ....”

Residential and business consumers require confidence in the integrity of the postal system and postal operator. Leaving it to Ofcom to determine whether these essential conditions should be imposed on postal operators could lead to significant un-reported detriment and a lack of confidence in the postal system.

Provision of information

Consumer Focus is also keen to ensure that important licence obligations are replicated in a mandatory proposed authorisation scheme. Two licence obligations of particular value are mail integrity figures and delivery & collection exceptions which, under Royal Mail’s current licence, are provided to Consumer Focus and Postcomm. This information is not made public and, as such, Consumer Focus and Postcomm currently provide the only scrutiny in these areas of potential serious consumer detriment. Going forward, this information must be made available to the regulator, Ofcom, and to Consumer Focus (or any successor consumer representative organisation).

The Postcomm Code of Practice on Protecting the Integrity of Mail currently requires operators to submit to Postcomm and Consumer Focus reports which set out:

(a) the number of (or where precise numbers are not known, reasonable estimates of the numbers of) Code Postal Packets during the relevant year which were lost, stolen, damaged or interfered with; and

(b) details of any trends, patterns or other notable features (such as above average incident levels at certain premises) in relation to the incidence of loss or theft of, damage to, or interference with, Code Postal Packets.

All licensed operators must also submit, with each report, a statement of the measures that they intend to take to remedy any failure or patterns of failure to achieve mail integrity objectives and to reduce the numbers of Code Postal Packets lost, stolen, damaged or interfered with.

Condition 2 of Royal Mail’s Licence requires the reporting, to Postcomm and Consumer Focus, of information relating to delivery & collection exceptions.

Consumer protection conditions

A consumer protection condition would cover: complaints handling procedures; dispute resolution and redress schemes; and publication of information about complaint numbers and complaint handling.
The Bill as currently drafted suggests that Ofcom may impose consumer protection conditions on postal operators and may require reporting and publishing of complaint numbers, processes and compliance with complaint handling standards. Ofcom should be required to impose a consumer protection condition on all postal operators providing either a universal service or a service within the scope of the universal service, as under the current system. (Set out in the Postal Services (Consumer Complaints Handling Standards) Regulations 2008 and the Postal Services Regulated Providers (Redress Scheme) Order 2008.)

Article 19 of Directive 2008/6/EC stipulates “Member States shall ensure that transparent, simple and inexpensive procedures are made available by all postal service providers for dealing with postal users’ complaints”.

The existing licence and legislative consumer protections ensure that consumers’ key interests around an accessible and high quality postal service are met. Without a mandatory consumer condition, postal operators will be able to operate without sufficient regard for consumers.

Postcomm’s 2009 Customer Survey found that of the 8% of residents and 13% of SMEs who made a complaint to Royal Mail, 73% of residents and 70% of SMEs were not satisfied with the customer service received. These figures indicate the problems consumers experience even with legal protection—this situation is likely to deteriorate given the diminution of protection set out in the Bill.

Postal consumers should be provided with at least the same level of protection, in terms of the quality of providers’ own complaints handling schemes; access to Alternative Dispute Resolution (ADR); and information about ADR, as Ofcom will require from telecoms providers, as of July 2011. Postal operators should also be required to be members of an approved redress scheme to ensure complaints handling standards can be monitored and independently investigated.

Examples from Other Markets

The Committee asked if we were able to identify examples where consumer detriment occurred or exists as a result of the regulator not being required, although given discretionability, to undertake certain actions.

Sectoral regulators and referrals to the Competition Commission

Ofgem, Ofwat, Ofcom and the ORR all have competition enforcement powers under the Competition Act 1998 and the Enterprise Act 2002. In particular, these sectoral regulators have the power to make market investigation references to the Competition Commission as the statutory referral body (Section 136 of the Enterprise Act 2002). The Government’s 2001 White Paper “A World Class Competition Regime” made no comment on the expected use of these powers. However, Ofgem, Ofwat, Ofcom and the ORR have, in total between them, made only one market investigation reference to the Competition Commission since 2002 and there has never been a market investigation into the energy sector.

In 2010 the National Audit Office carried out a review of the UK’s competition landscape and concluded that the Government should evaluate the appropriateness of the incentives for regulators to use their competition powers. In particular, they stated that “Regulators are not making Market Investigation References to the Competition Commission to the extent envisaged in the planning assumptions” (National Audit Office, “Review of the UK’s Competition Landscape”, March 2010).

Ofgem’s removal and re-instatement of licence conditions

Consumer Focus’s experience as the energy watchdog has led us to the conclusion that an over-confidence in the competitive health of the energy market and its ability to self-police has blighted the consumer experience. For example, in 2004 Ofgem scrapped licence conditions banning undue discrimination between consumers “in a bid to minimise regulatory burdens” (Ofgem press release, “Improving consumer protection by reducing the regulatory burden”, July 2000).

Very similar licence conditions had to be re-introduced in 2009 after Ofgem found there were persistent unjustified differentials between the prices suppliers charged customers depending on their payment method or region. Ofgem’s assumption that consumer protections should always be removed, never introduced, explains our finding that in a study assessing consumers’ perceptions of 45 markets for products or services, energy scored worse than any other market (Consumer Conditions Survey, December 2009).

Ofcom’s duties around consumer protections

Under the Communications Act 2003, Ofcom has a duty to establish and maintain procedures pertaining to complaint handling, dispute resolution, redress and service standards. However, the wording in the Act leaves the duty very diluted: “It shall be the duty of Ofcom to set such general conditions (if any) as they consider appropriate” in respect of consumer protections (Section 52 of the Communications Act 2003). This relaxed duty has led Ofcom to impose two regulatory conditions on communications providers: that they must have and comply with a Complaints Code of Practice approved by Ofcom and that they must belong to an Ofcom-approved ADR scheme.
However, Ofcom recently announced that, as of next year, it will be tightening up the regulations around consumer protections. Its research on the existing complaints handling and ADR schemes found that a significant number of consumers experience poor complaint handling and that “providers incentives to compete on the basis of customer service are not proving sufficient to ensure that individuals will receive satisfactory treatment from their provider when they try to pursue a complaint” (Ofcom press release, “A Review of Consumer Complaints Procedures”, 2010).

Ofcom is therefore establishing minimum standards for complaint handling procedures that will apply to all communications providers (“The Ofcom Code”) and is requiring communications providers to provide extra information to consumers about their rights regarding redress. Despite our reservations regarding the wording of this duty this level of protection is still stronger than that afforded to postal consumers under the Postal Services Bill who do not even enjoy the limited consumer protections that competition can bring.

**Consumer Focus Postal Services—Funding & Staffing**

The Postal Services funding stream allocation for all work in Consumer Focus, Consumer Focus Wales, Consumer Focus Scotland, Consumer Focus (Post) Northern Ireland is just over £3 million in the current financial year (2010–11). Our funding stream allocation for 2011-12 has yet to be confirmed. We currently have 10 full-time equivalent posts, encompassing eight full-time posts, dedicated to work in this area with a proportionate cost allocated against this funding stream for other corporate support functions.

**Scottish Postal Services Consumer Survey (2010)**

In our written evidence, and during the oral evidence session, references were made to the views of Scottish consumers in relation to the Postal Services market. The relevant report is available on our website Scottish Postal Services Consumer Survey (2010) together with the full research report (Consumer Survey of Postal Service Users in Scotland Research Report) detailing information on the geographic and demographic spread of those surveyed, as requested by the Committee.

**Parcel Deliveries in Scotland**

The Committee requested any further information we could provide in relation to the parcel delivery market, services and consumer experience in Scotland. Our briefing paper Parcel Deliveries: Current practice and possible solutions, produced by Consumer Focus Scotland in July 2010, is available online.

**Views and Experiences of Non-users of Post Offices**

The majority of consumers use post office services regularly: according to research undertaken in Summer 2006 by our predecessor body, Postwatch, 81% use post offices each month, and 55% use the post office at least once each week (The Future of the UK’s Rural and Deprived Urban PO Network). However, the number of customers using post offices has steadily fallen, with 20 million customers visiting post offices each week, compared to 24 million customers five years ago.

Usage (and non usage) of post offices is driven by a number of factors, including:

- Opening hours of post offices not being convenient for consumers;
- Increasing queues in High Street branches;
- Local post offices may have closed, or the nearest post office may be some distance from where consumers live;
- Increasing preference to undertake transactions online or over the phone;
- Services that were previously offered at post offices have been withdrawn and moved elsewhere e.g. the loss of the TV Licence contract;
- The shift to Direct Payment, in 2004, means many people receive their pensions and benefits into a bank account, as opposed to through a post office.

The shift to new operating models means some customers no longer use post office services as regularly, or have stopped using post offices altogether. For example, our recent research into Outreach services (Sink or swim: Post Office Outreach Services in the Long-term) finds that many consumers do not or no longer use the service because its opening hours do not meet their needs (31%); it does not offer the products or services they wish to use (9%); they have concerns regarding the reliability of the service; they did not know the service existed (35%); or because of other aspects of the customer experience, such as concerns about the suitability of the premises and the privacy it offers.

Government has recently announced that 2,000 subpostoffices will be converted into a new operating model, Post Office Local (PO Local), in which post office services are provided as a secondary retail offer from existing premises such as petrol stations, convenience stores or corner shops. PO Locals typically offer a restricted product offer.
Research recently conducted, for a forthcoming evaluation report by Consumer Focus, in the areas where the operating model is being piloted suggests that 22% of consumers do not use Post Office Locals, even though it is the branch closest to them, for a number of reasons which include:

<table>
<thead>
<tr>
<th>Reason for non-usage</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not aware it existed</td>
<td>21</td>
</tr>
<tr>
<td>Does not offer services I need</td>
<td>21</td>
</tr>
<tr>
<td>Prefer to use a bigger branch</td>
<td>17</td>
</tr>
<tr>
<td>Not near where I work or shop</td>
<td>13</td>
</tr>
<tr>
<td>Do not like the branch</td>
<td>12</td>
</tr>
</tbody>
</table>

Unless efforts are taken to ensure the PO Local model meets consumers’ needs as effectively as possible, Consumer Focus anticipates that either a significant number of consumers will opt to use other post office branches further away— or, more worryingly, consumers may opt to undertake transactions through other means with this business lost to the PO network altogether.

ACCESSIBILITY ISSUES IN WHSmith FRANCHISE BRANCHES

The Committee requested any information we might have on accessibility challenges faced by consumers where Post Offices were operating in shared premises with the Post Office service located on floors below or above the entrance floor.

WHSmith operate 78 franchise post offices, the majority of which are located on the basement or first floor of High Street WHSmith branches. The branches were introduced as part of a franchising programme, which was designed to stem the losses generated by the Crown Office network. Crown Office losses remain stubbornly high at approx £60 million.

Consumer Focus recognises that the location of post office services other than on the entrance floor presents issues in respect of the accessibility of these branches for customers with disabilities, who use wheelchairs or motorised wheelchairs, and for customers with pushchairs. On that basis, our predecessor body, Postwatch, investigated each proposal and secured agreement from POL on the following measures to maintain reasonable access for consumers using these branches:

- Maximum two hour call out time in the event of a lift breaking down or suffering technical failure;
- The provision of a screenless post office counter, on the ground floor, to provide access to post office services for customers who are unable to use post office counters on other floors;
- Signage in a prominent location which informs consumers of the option to be served on the ground floor;
- Contingency measures in the event the lift breaks down, including means to offer post office services from a ground floor counter.

We would be pleased to investigate any concerns that members of the Committee have in respect of accessibility problems in a specific branch.

Any further conversions would be subject to the Code of Practice, which is jointly operated by POL and Consumer Focus, which requires the Post Office to consult on changes and demonstrably take account of concerns expressed regarding the physical accessibility of the premises (or any other issue pertinent to the branch re-location.)

Research undertaken for Consumer Focus (Post Office Mystery Shopping Study; December 2009) finds that many branches have benefitted from improvements such as ramps to ensure level access, low level counter positions, lightweight and easy grip doors, and the installation of hearing loops for consumers with hearing difficulties.

The following table shows the availability of facilities designed to improve the accessibility of the branch for disabled customers, which is broadly comparable to the accessibility provided in Crown branches:

<table>
<thead>
<tr>
<th>Facilities for disabled consumers</th>
<th>% of branches available</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wide entrance</td>
<td>84</td>
</tr>
<tr>
<td>Flat entrance</td>
<td>84</td>
</tr>
<tr>
<td>Wide aisles and floor space</td>
<td>63</td>
</tr>
<tr>
<td>Automatic doors</td>
<td>56</td>
</tr>
<tr>
<td>Staffed low counter position</td>
<td>51</td>
</tr>
<tr>
<td>Conveniently placed door handles</td>
<td>23</td>
</tr>
<tr>
<td>Ramp installation</td>
<td>18</td>
</tr>
<tr>
<td>Hearing loops</td>
<td>32</td>
</tr>
</tbody>
</table>

While we are satisfied WHSmith has taken reasonable measures to make physical improvements to its branches, we remain concerned that the layout of some of its branches may make it difficult for consumers to
reach post office counters. Some branches also tend to leave stock on the shopfloor, before it is shelved or put on display, which presents an additional challenge for consumers attempting to navigate the branch to access PO services.

Maintaining, and Codifying, the Number and Distribution of Post Offices

There are currently 11,870 post offices in the UK, of which 1,441 (12%) are located in Scotland. Government has stated that it intends to maintain the current number of post office branches but has so far declined to put the access criteria that specify minimum levels of coverage on a statutory footing.

Consumer Focus sees merit in the existing Government access criteria for post office provision, which could presently be met with a network of approximately 7,500 branches, being strengthened to more closely reflect existing coverage, and being incorporated into primary legislation.

If Royal Mail were required by primary legislation to use a minimum number and distribution of postal service access points, POL would be better placed to secure future mail related contracts and would consequently represent an effective long-term safeguard for consumers.

Consumer Focus recognises that the demand for postal and post office services may change over time. We therefore suggest that the introduction of statutory access criteria, for both post office services and mails services, should be subject to a review process to be initiated by the Secretary of State and that any proposed changes to the minimum level of provision should require parliamentary approval.

16 December 2010

Supplementary written evidence from the Communication Workers Union

The Postal Services Bill can be strengthened to better protect the universal service and the Post Office network by introducing the following requirements:

1. There should be no review of minimum USO requirements within five years.
2. The Post Office network should be maintained at its current size.
3. Post Office access criteria should be enshrined in the Bill.
4. Access criteria for “Main” Post Offices to be developed and also enshrined in the Bill.
5. A 10-year inter-business agreement required before the sale of Royal Mail.
6. There should be no procurement determination within 10 years.

1) No Review of Minimum USO Requirements for Five Years

The Bill should be strengthened to prevent pressure to reduce the minimum universal service requirements.

The Bill sets out minimum conditions for the universal service, which includes:

- Six days a week collection and delivery of letters and five days a week for postal packets;
- Service at affordable prices in accordance with a uniform public tariff;
- A registered items service;
- An insured items service;
- Services to the blind or partially sighted;
- Legislative petitions and addresses.

This definition is a minimum. The range of services currently classified as universal service products is more extensive. There is therefore scope for the regulator to reduce this range without recourse to the Secretary of State or to Parliament.

Vince Cable told MPs on 27 October 2010: “This Bill will maintain the universal postal service at its current level” and that “I have no intention of downgrading this service.” But the Bill requires Ofcom to review the universal within 18 months.

The government should strengthen its commitment to maintaining the minimum requirements contained in the Bill by waiting five years before these minimum requirements are reviewed.

The Bill includes three routes through which Ofcom can review the minimum universal service requirements and recommend to the Secretary of State that they be reduced. A reduction would then be subject to an affirmative resolution procedure.

- Clause 29 (4) requires Ofcom to carry out a review of the universal service and whether it meets the reasonable needs of service users within 18 months of the Bill coming in to force.
- Clause 33 allows Ofcom to from time to time review the extent to which the minimum universal service requirements meet the reasonable needs of postal users. It can then make recommendations to the Secretary of State for reductions to the minimum.
— Clause 42 allows Ofcom to review the extent of the financial burden of the universal service on the universal service operator (Royal Mail). If it is found to be a financial burden, under Clause 43, Ofcom can carry again review the minimum requirements and again make recommendations for their reduction.

The government should instead exclude the minimum USO requirements from any review for at least five years. To do so would provide greater protection to customers and would be consistent with the government’s position that the universal service will not be downgraded.

2) Maintain the Current Post Office Network

The Bill should be strengthened to guarantee the Post Office network at its current size.

The government states that it wishes to retain a network of 11,500 post offices. In his evidence to the Postal Services Bill Committee Ed Davey stated that: “we have made a legal agreement with Post Office Ltd and provided the funds so that, over the next four years, there will be 11,500 post offices in the United Kingdom”.

Ed Davey said in evidence to the Scottish Affairs Committee that a minimum number could not be included in the Bill because the Post Office cannot stop individual subpostmasters leaving the business and he would not want a position where the Post Office broke the law through “no fault of their own”.

However, as Mr Davey clarified, the Post Office has entered into a legal contract with government to maintain a network of 11,500 post offices for the next five years. It could therefore already find itself breaking its legally-binding contract “through no fault of its own” if it is unable to maintain the network size.

The long-term future of the network would be better serviced by a guarantee of network size in the Bill than by a four-year contract with government that is subject to renewal.

The Bill should clearly state that the number of Post Office in the UK should not be allowed to reduce beyond its current level.

3) Post Office Access Criteria Should be Included in the Bill

There are two forms of access criteria to which the Post Office and Royal Mail must have regard. The first are the legally-binding access criteria that are laid out in Royal Mail’s licence that refer to “access points”. These are the ones to which Mr. Davey referred in evidence to the Committee and do not relate specifically to post offices.

The second are access criteria that relate specifically to Post Offices and were introduced by the government in 2007 at the time of the Network Change Programme. These are not included in Royal Mail’s licence and have until now been overseen by Consumer Focus. These access criteria provide greater protection to the Post Office network. It is these criteria that should be included in the Bill.

Royal Mail’s licence requires the following on access points.

“1. Except as Postcomm, after consultation with the Licensee and the Council, may have directed otherwise, the Licensee shall provide, or procure the provision of, post office letter boxes and other access points for the purpose of providing the universal postal service referred to in condition 2 in a manner which meets the reasonable needs of users having regard to the costs of providing and servicing such access points.

2. The Licensee shall be regarded as having met its obligations under paragraph 1 if:

(a) in each postcode area where the delivery point density is not less than 200 delivery points per square kilometre not less than 99% of users or potential users of postal services are within 500 metres of a post office letter box, and

(b) the distribution of access points capable of receiving the largest relevant postal packets and registered mail is such that:

(i) in the authorised area as a whole the premises of not less than 95% of users or potential users of postal services are within 5 kilometres of such an access point, and

(ii) in all postcode areas the premises of not less than 95% of users or potential users of postal services are within 10 kilometres of such an access point, and such access points are available to the public in accordance with conveniently published schedules.”

The access criteria set up in 2007 that are not enshrined in the licence are as follows:

— 99% of the UK population will be within three miles of their nearest post office outlet;
— 90% of the population to be within one mile of their nearest post office outlet;
— 99% of the total population in deprived urban areas across the UK will be within one mile of their nearest post office outlet;
— 95% of the total urban population across the UK to be within one mile of their nearest post office outlet;
Access criteria for "Main" post offices should be developed and enshrined in the Bill. The government’s proposals for the redesign of the Post Office network will see 4,000 "Main" post offices developed and remaining post offices developed into "Essentials" or "Locals".

"Essentials" or "Locals" will not provide the full range of post office services. They provide post office services via the counter of a shop rather than at a dedicated post office counter. They provide limited access to financial services, the range of government services available is limited to the Post Office Card Account and giro. Paula Vennells, in evidence to the Committee, stated that they provide access to only 85% of post office services.

Consumer Focus have said: “Problems people have experienced with pilot ‘post office locals’ also known as ‘Essentials’ include benefit capping, where branches limit the amount of money that people who are collecting benefits, such as a pension, can withdraw in a single day. Other examples include not being able to access counters, for example if in a wheelchair, staff with inadequate knowledge of services and a lack of privacy when carrying out transactions.” Consumers will not be able to send larger parcels or heavy international items, pay traditional paper bills, pay by cheque or apply for passports or driving licences.

In order to ensure that all areas of the UK have access to the full range of postal services the Post Office access criteria should be extended to ensure an equal spread of "Main" Post Offices across the UK. Without such access criteria it would be possible for there to be no "Main" Post Offices located in Scotland and therefore no access to the full range of government and post office services.

The relationship between the Post Office and Royal Mail should be secured through a 10-year inter-business agreement enshrined in the Bill. The future of the Post Office network is dependent on its ability to provide postal services on behalf of Royal Mail. Left to a purely commercial arrangement between the two businesses, this arrangement is insecure. A 10-year inter-business agreement (IBA) should be a necessary condition for the sale of Royal Mail and enshrined in the Bill.

In evidence to the Postal Services Bill Committee Ed Davey stated that: "No previous government have thought to put it on different footing". But no other government has needed to intervene on the inter-business agreement because no other government has separated the Post Office from Royal Mail.

The Minister has tried to reassure stakeholders by arguing that both Royal Mail and the Post Office want an extended inter-business agreement. As he said again in evidence to the Committee: "I refer the Committee to what the chief executive of Royal Mail, Moya Greene, and Donald Brydon, the chairman, said. Moya Greene said it was unthinkable that there would not be a long-term relationship between Royal Mail and Post Office Ltd. Donald Brydon said that he wanted to have the longest possible legally permissible agreement”

The stated aims of the current management of Royal Mail are insufficient reassurance. The relationship between the two companies is one of imbalance: the Post Office cannot survive without Royal Mail; Royal Mail can succeed without the Post Office.

Ed Davey went on to argue in his evidence to the committee that: "If you actually wrote that there should be a contract between two companies that are going to be separate companies into law, I think that it would be subject to serious legal challenge." He has provided no evidence to support this position. Given the importance of retaining the relationship between the two businesses and the risk of leaving its maintenance to the discretion of Royal Mail, the government should instead require a 10-year IBA as part of the Bill and respond to any legal challenges as they arise. To do so could only strengthen the Post Office’s position.

The National Federation for Subpostmasters believe that a minimum 10-year IBA is essential: “The NFSP believes that in order to avoid further post office closures, existing levels of Royal Mail work at post offices must be maintained with a minimum 10-year IBA between the two companies following separation.” (NFSP written evidence to PSB Bill committee).

The Post Office is seeking a renewal of the IBA post separation, but expects this to be for only five years (as stated at their recent Quarterly Business Update to staff). This is insufficient to protect the network from further post office closures.
5) **No Procurement Determination within 10 Years**

The Bill should not allow the universal service to be provided by a third party for a period of 10 years.

As the Bill currently stands, Ofcom can review the burden of providing the USO to Royal Mail within three years. If it is found to be a financial burden upon the company the regulator has three options it can choose from. It can: review the minimum requirements of the USO; require all postal operators to contribute financially to the maintenance of the USO; or make a procurement determination (determining that another operator should provide all or some of the universal service).

The uncertainty created by the lack of long-term guarantee of universal service provider status is potentially very damaging to Royal Mail. The company is in the middle of a £2 billion investment programme. If elements of the service it provides will be open to competitive tender in as little as three years time, the company will have limited incentive to continue investing.

A procurement determination is a very real possibility. An enquiry into whether the universal service is a financial burden on Royal Mail is very likely to find that it is a burden. Royal Mail has consistently argued that it is a financial burden. In evidence to the Scottish Affairs Committee, Tim Brown Chief Executive of Postcomm stated that Royal Mail had made a £350 million loss on universal service products a number of years ago. Universal service products continue to be loss making for Royal Mail.

Royal Mail stated clearly in their evidence to the committee that it believes three years as the guaranteed universal service provider was not nearly long enough.

The postal industry has suffered from a lack of stability in recent years. The potential break up of the service it provides will be open to competitive tender in as little as three years time, the company will have limited incentive to continue investing.

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Royal Mail stated clearly in their evidence to the committee that it believes three years as the guaranteed universal service provider was not nearly long enough.

The postal industry has suffered from a lack of stability in recent years. The potential break up of the universal service will exacerbate this problem. The most important element in the future of the postal service in the UK is the successful investment programme and modernisation of Royal Mail. Long-term investment in postal infrastructure should not be compromised in order to make short-term savings via what would essentially be the franchising of elements of the universal service.

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**ROYAL MAIL: PROTECTING THE UNIVERSAL SERVICE IN THE PUBLIC SECTOR**

— Royal Mail can be a success story. The company has come a long way in the last year. The Business Transformation plan agreed with the CWU has put in place the necessary steps to complete the modernisation of the company.

— The debate over whether to privatise Royal Mail is about what kind of postal service the public want. A strong universal service—six deliveries a week; a one-price-goes-anywhere; a network of post offices at the heart of our communities—will be lost through privatisation.

— The universal postal service is a public service; a vital infrastructure that supports the UK economy. While the postal market may be changing it remains central to business in the UK. The development of new technologies and the growing dependence on the internet for commerce is underpinned by postal services and a universal service that ensures all households can participate in the economy.

— A private company will not want to invest in a business burdened by a costly universal service. Private shareholders will seek to unpick the universal service. They will argue it is too costly, that it is unsustainable. This will undermine the universality of the service. Rural areas which are costly to reach will see their service decline with fewer deliveries each week. We have already seen Richard Hooper recommending a review of the universal service, alongside the privatisation of Royal Mail, in his most recent report.

— The government’s proposals also put the future of the Post Office network in danger. The Post Office and Royal Mail both depend on each other to provide the universal service. Post Office Ltd depends on Royal Mail for a third of its revenue. Despite this, the government is seeking to separate the post office network from the rest of Royal Mail. This will undermine Royal Mail’s ability to provide the USO—post offices being the key point of access to mails services—and threatens the Post Office network. Post offices will become more dependent on government subsidy and in these austere times, closures will be inevitable.

— Royal Mail can flourish in the public sector. Its position is already improving. Its modernisation programme is funded and it expects to be making normal profit levels within the next few years. It will benefit from the government’s proposed action on pensions and from changes to regulation which will provide a more substantial buffer during the current difficult economic climate. The company could benefit from access to additional capital in the medium term to grow the business. This is perfectly possible within the public sector.

— Royal Mail is not failing. The solutions are there for the company to be great once more. Financial solutions are available to allow this to happen in the public sector, to maintain an integrated Royal Mail, a strong universal service, and a network of post offices across the UK.
1) Access to Capital

— The government’s proposals will not give Royal Mail access to private capital in the short term. Nor does the company need such access immediately. Its modernisation programme is fully funded and changes to the regulatory regime and removal of the burden of the pension deficit (as proposed by the government) will give Royal Mail a more than sufficient financial buffer to see it through the current modernisation process.

— Royal Mail is operating under constrained financial conditions. This is not new. The company has been drained of resources over the years by an aggressive regulatory regime and large pension deficit repayments. However, the company’s modernisation programme, underpinned by the Business Transformation agreement with the CWU, though sensitive to the current economic climate, is fully funded. The company does not need significant additional capital to pay for this process.

— While the current economic crisis is making Royal Mail’s constrained financial position more difficult and is putting pressure on the business plan, conditions are not hugely different than a year ago.

— Royal Mail needs additional revenue to allow a greater buffer in its current operations. This can and will be achieved by changes to the regulatory regime and by the removal of the pension deficit.

— Royal Mail currently pays almost £300 million a year in pension deficit repayments. Postcomm is currently consulting on proposals that would bring the company an additional £75 million in revenue next year. Royal Mail is calling for regulatory changes that would bring the company an additional £120 million a year.

— Removal of the pension deficit and minimal changes to the regulatory regime could bring the company over £400 million in additional revenue each year. This is close to the annual level of investment spend the company has been making each year while drawing down on the government’s loan facility as part of the current modernisation process.

— Access to private capital is not crucial to the current modernisation process. This is underlined by the fact that the government’s proposals would not bring access to capital until the current modernisation programme is complete. Legislation is unlikely to be passed until the summer at the earliest and the government has indicated that it will wait for economic conditions to allow them to find an appropriate buyer. Moreover, a pension settlement will need to be reached and an appropriate regulatory regime settled upon before there is sufficient stability for a buyer to be attracted. Access to private capital cannot, therefore, be about financing the current modernisation process.

— The coalition government insist that Royal Mail needs access to private capital, but they have never been specific as to how much is needed and for what. If it is not necessary for the current modernisation plan, what is it necessary for and how much does the company really need?

— Access to further capital is desirable in the medium term to enable the company to invest in new products and services and to allow the company to grow more quickly. Equally essential to this process is an end to the regulatory regime which stifles innovation by requiring Royal Mail to notify of new products and product changes three months in advance.

— Access to capital is an ongoing issue for Royal Mail, not one of short term crisis. There is no reason that Royal Mail should not be able to borrow private capital while remaining in the public sector. The government needs to be innovative in how it allows public entities to raise finance. For example, the Department of Health is now consulting on how NHS Foundation Trust hospitals can raise capital from the banks to improve NHS service. There is no reason Royal Mail should not be able to do the same.

— It is also worth noting that the privatisation of Royal Mail does not guarantee an injection of private capital into the company. The sale of Royal Mail will bring in revenue for the Exchequer, not Royal Mail. Whether a buyer of Royal Mail chooses to invest in the company will be a commercial decision based on the position of the company at the time of any sale. Privatisation is no guarantee of investment.

2) Separation of the Post Office Network from Royal Mail

— Royal Mail and Post Office Ltd (POL) are two parts of one business. They depend on one another to provide a universal service. Separating POL from Royal Mail risks irreparably damaging the rural Post Office network.

— Post Office Ltd depends for its survival on revenue from Royal Mail. One-third of its revenue is derived from providing services on Royal Mail’s behalf. Separating the two businesses puts this revenue stream in jeopardy and threatens the survival of the Post Office network.
— A privatised Royal Mail will seek alternative channels for the sale of its goods and the Post Office will be dependent on commercial arrangements with Royal Mail. A privately owned Royal Mail will have no duty towards the maintenance of the Post Office network. Arrangements between the two companies will be subject to continual review and will make the Post Office's current difficult financial position even more precarious.

— Separation of the Post Office network will increase the pressure for subsidy from government, which is already running at £180 million pa. It also means that the Post Office will not share in the future success of Royal Mail. In future years, once modernisation is complete and a more acceptable regulatory regime has been reached, Royal Mail will start to thrive again. The company has the potential to be a major success story and to generate significant profits. Under the government’s proposals, a separate Post Office Ltd, whose revenue generation potential is limited, will not share in this success. Support for the post office network will no longer be able to come from Royal Mail. Its only port of call for support will be the government.

— The separation of Post Office Ltd from Royal Mail will also be costly and inefficient. The two parts of the business currently share a range of central functions. Duplicating these processes means an unnecessary duplication of costs.

— No other postal operator separates its retail business from its mails businesses. It is not a logical business model. The government has previously attempted to introduce a model for postal services unique to the UK. It failed spectacularly with downstream access. It risks doing so again by separating Post Office Ltd from Royal Mail.

3) Mail Volume Decline

— There has been a decline in mail volumes. This is not in dispute. The decline is in part due to the current economic conditions in the UK. There has also clearly been a structural decline in the size of the mail market.

— But the postal market is changing. It is not in inevitable decline. Fewer letters are being sent, but more parcels and packets are being posted every day due to growth in internet shopping and e-fulfilment.

— We accept that the market is changing and we have the processes in place, through the Business Transformation agreement, to change with it.

— Market change is not an argument for privatisation. Whatever the ownership structures of Royal Mail, the business will need to adapt. The government has not explained why a privately owned Royal Mail would be better placed to do this.

— A publicly owned Royal Mail with a strong public service ethos will be better placed to protect the universal service in these challenging times. A smaller mail market means the universal service becomes more not less central to the business’s work. A private company will be less inclined to focus on this work and will seek to erode rather than strengthen the USO.

— Royal Mail has anticipated the mail volume decline we are currently seeing. Their current business plan takes account of this decline and will bring Royal Mail into a cash-flow positive position with acceptable profit margins by the end of the process.

4) The Government has no Money to Invest

— Royal Mail does not need further direct investment from the government.

— The current modernisation plan is fully funded, but under pressure from the current poor economic climate. The government is proposing to take responsibility for the pension deficit; in 2009–10 Royal Mail paid £291 million to service its pension deficit. Being freed of this burden will significantly help the company. Royal Mail is calling for regulatory changes worth £120 million. The combined impact of these changes will give the company an additional £400 million pa to invest as it sees fit, a more than ample buffer to see through the current modernisation programme and beyond.

— Royal Mail may need access to additional capital in the medium term to help grow the company. This does not mean investment from government. As discussed above, there is no reason Royal Mail should not be able to borrow private capital while remaining in the public sector.

5) The Pension Scheme is in Deficit

— The pension scheme is in deficit. The pension scheme trustees have reached an agreement with Royal Mail that would allow them to pay off the deficit at the current rate for an extended period.

— As an alternative the government has proposed taking on Royal Mail’s historical pension assets and liabilities. Doing this will improve Royal Mail’s financial position.

— The government stands to gain significantly from this proposal in the short term. The Royal Mail pension scheme has assets worth £26 billion. By taking on the pension scheme, the government can take on the assets and potentially reduce its budget deficit. It will also be subject to the long term liabilities of the scheme, but these will not become due until many years into the future.
6) **Political Intervention in Commercial Decisions**

— Hooper argued in his most recent report that privatisation was necessary to reduce the potential for political intervention in commercial decisions. Political intervention in Royal Mail's decisions happens because of the nature Royal Mail's work. There will be political interest in Royal Mail's decisions whatever the ownership structure of the business. Royal Mail provides a public service and is and will remain a monopoly provider of the final mile. How it provides this service will always be important to the public and, just like utility companies and the railways, it carries inevitable political sensitivities.

20 December 2010

_Supplementary written evidence from the Royal Mail Group_

1. **The Access Regime**

As a result of European Union postal directives, the UK postal market is now fully liberalised. The regulator, Postcomm, introduced competition in a number of stages from 2001 leading to full liberalisation of the UK market in January 2006. This was much earlier than most EU countries. Some of them have still not fully introduced competition into their domestic markets.

The regulator established a regulatory framework allowing competitors access to the Royal Mail network. As part of that framework, the access price was set through the first contract negotiated between Royal Mail and a downstream access applicant (UK Mail). That first contract established a groundbreaking access agreement, not seen before in the UK or elsewhere. Had the two parties not reached an agreement, the regulator would have exercised its powers to determine the price and non-price terms under which access would have been provided by Royal Mail.

The access price has increased annually within the constraints (i.e. below inflation) allowed within Royal Mail’s Licence. There will no doubt be different views as to whether the price established was appropriate at the time or not. We note that Postcomm in their evidence to the committee said that they felt that the price agreed was higher than they thought appropriate.

The key point is that the price set then was based on a number of assumptions and market conditions at that time, including views by both parties and industry experts that the mails market would grow. Things have changed considerably since 2006. In his report, Richard Hooper acknowledged that the UK letters market is now in major structural decline: the volume of letters in the UK is falling year on year and average daily letter volumes have reduced by 16m items in the last four years. The Hooper report indicates that letter volumes may decline by up to a further 40% over the next five years.

In addition, there is now significant competition in the UK letters market with some 10 significant operators in the downstream market alone. Over 60% of bulk mail and over 45% of all mails is now handled by Royal Mail’s rivals.

Royal Mail now faces a situation where, on average, the access price has increased below inflation. Also, Royal Mail volumes overall have fallen sharply since full liberalisation in 2006, to an extent not envisaged at the time and not adequately reflected in the Price Control settlement. The current situation is that Royal Mail loses on average 2.5p on every item that it carries for its competitors. This in effect means that it subsidises access to the tune of some £160 million p.a. Moreover, the current regulatory regime leaves Royal Mail in the position where it is not only loss making on access, it cannot compete upstream on price because of the headroom guarantees provided to its competitors within its Licence.

2. **Government Funding and the Spend in Scotland**

In November Government announced that it had committed funding of £1.34 billion over the next four years to refresh and modernise the Post Office network. It has laid out the Post Office policy approach that this funding will support in its document “Securing the Post Office in the Digital Age”. Given that these funds have only just been allocated, and that there are still to follow through processes underway—such as seeking the necessary State Aid approval from the European Commission—we are not in a position to provide a breakdown of how much of the Government funding will be spent in Scotland.

However, given that the funding and associated policy approaches of modernisation and maintaining network sized / accessibility levels will apply across the UK, clearly an appropriate proportion of the funding will be used to achieve the desired policy aims in Scotland.

3. **Post Offices for Sale in Scotland**

There has always been a commercial market involving post offices where an incumbent puts their current business on the market (and might also include the residential property attached to it within the sale) and will sell the business to an incoming business person who will apply to Post Office Ltd to take over the role of subpostmaster.
The decision to put his or her business on the market is a private one for the subpostmaster and Post Office Ltd may only become aware of this, if the incumbent subpostmaster resigns in anticipation of completing a sale of his / her business. There may well be subpostmasters who put their business on the market to test price conditions, and then decide to withdraw the business from the market, but we would not have information on this. A market in businesses containing Post Offices has always been in place and can be a healthy indicator. Historically up to 10% of post offices may change hands within this marketplace each year.

Although we cannot therefore gain information for all sub post offices in Scotland that may be considered to be “on the market”, we can identify the number of resignations that have occurred and the number of current cases where we are advertising / recruiting a subpostmaster. This indicates about 100 cases in Scotland currently at various stages— which is broadly consistent with the historical levels at which Post Office change hands.

4. Mutualisation and the Stakeholders

The Government has proposed that, “in time, Post Office Ltd could be converted into a mutual structure, with the ownership and running of the Post Office handed over to employees, subpostmasters and communities”. It believes that “a mutually owned Post Office Ltd could be ideally suited for the economic and social role that the Post Office network provides in communities up and down the country”.

In taking this forward it has said that “any move to mutual ownership must put the views of subpostmasters, employees, business partners and customers first”. It has therefore asked Co-operatives UK — the national trade body for co-operatives — to look at the proposal, seek the views of the Post Office’s major stakeholders, as well as those of a range of experts, and report back to Ministers in spring 2011. This process has now started. We will therefore be clearer as to the kinds of options that are identified and how they related to the various stakeholders when that work is concluded.

Government has made clear that “before making any final decision on whether to move to a mutual structure, we will conduct a public consultation so that the British public can have their say, as both customers and taxpayers.”

We believe that mutualisation can provide a positive way forward for Post Office but, as the Government points out, “for a mutual to be successful it must be able to build on solid foundations”. We see our role in the next few years as working with subpostmasters and other stakeholders to build those solid foundations through maintaining and modernising the network and ensuring we are a successful, sustainable business focused on serving our customers well.

20 December 2010

Supplementary written evidence from Mr Edward Davey, Minister for Employment Relations, Consumer and Postal Affairs, Department for Business Innovation and Skills

I was very grateful for the opportunity to give evidence to your Committee on 15 December. During the hearing, I committed to providing further information in writing on certain points that were raised.

In response to Question 345 from Jim McGovern, I suggested, from memory, that a 10% fine on turnover for Royal Mail would amount to £635 million. In fact, based on Royal Mail Letters’ turnover for financial year 2009–10, a fine would amount to £656 million.

In response to your Question 377, I committed to write to clarify the position with regard to Outreach services as access points, and mobile Outreach services in particular. I can confirm that each designated stopping point for a mobile service constitutes an access point. The time provision for such Outreach services is tailored by Post Office Ltd (POL) to the level of demand at each location and the minimum individual session length in any one location is one hour, with a minimum weekly total in any one community of at least two hours. The attached table (supplied by POL) sets out details of the eight mobile post office services currently operated in Scotland with the locations served and the weekly hours of service at each.

In response to your Question 381, I undertook to clarify the range of services offered at mobile Outreach outlets. I attach a further table (also supplied by POL) setting out the list of products available at mobile (and hosted) Outreach services. The note to the table also explains what exceptions there are at partner Outreach but also how some services are available at such branches on a pre-order basis. I can also confirm that in some cases, the introduction of an Outreach service brought in services which had not been available at the post office it replaced. For example, across the UK some 300 Outreach outlets now offer motor vehicle licensing or bureau de change facilities not previously available in that community.

I hope this additional information is helpful to the Committee.
Annex 1

SCOTTISH MOBILE ROUTES

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<td></td>
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</table>

Annex 2

PRODUCT AND SERVICES LIST

- Mail Acceptance
- Standard Inland & Overseas mail
- Recorded Delivery
- Special Delivery
- Mails Pricing
- Stamp sales
- Post office labels
- Collection of Mail over 2kg
- Parcel service International Priority Services
- Banking & Financial Services
- Balance Enquiries (BOI, NB, FT)
- Cheque Deposits
- Postal Orders
- National Savings and Investments
- Manual Payments (transcash)
- e-top up (swipe & voucher)
- Government Services
- Card Account
- DWP Cheques (Green Giro)
- DHSS NI
- NRA Rod Licences
- Motorist Services (if core has contract)
- Travel Services (on demand or pre-order)
- Foreign Currency
- Travelers Cheques
- Travel Insurance
- EH1C
- Travel Money Card
- Philatelic services
- First day covers
The above products are all done by hosted outreaches and by mobile outreaches in the same way of standard sub post offices (with the one exception being Moneygram in mobiles—where a trial is currently underway to if it can be added to the mobile product set). Certain products require pre-ordering as with standard sub post offices.

In the case of partner outreaches the above product set will be available with the exception of Moneygram, cheque deposits, manual payments and non-automated deposits/withdrawals. With partner outreaches there is also the potential to pre-order NS&I products, Post Office Financial Services, motorist services, travel services, rod licences with the core subpostmaster.

With Home service outreaches, the approach involves customers putting in a specific product order to the core subpostmaster.

20 December 2010