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Business and Enterprise
Committee

After the Network Change Programme: the future of the post office network

Sixth Report of Session 2007–08

*Report, together with formal minutes and
written evidence*

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The Business & Enterprise Committee

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1 Introduction

1. Earlier this year we looked at the post office closures under the “Network Change Programme”, which is intended to make the network more sustainable by closing up to 2,500 post offices.¹ Our aim was to examine how the programme was being implemented, and if necessary, to make proposals for its improvement. Responses to the Committee’s Third Report on the Post Office Closure Programme from Postwatch, the Government and Post Office Ltd are published as appendices to this Report. We are also publishing several letters from BERR and Post Office Ltd responding to specific questions from the Committee and evidence relating to this and our earlier Report.

2. The Network Change Programme is progressing fast; our earlier Report suggested ways in which it could be improved. Some welcome changes have been made. The process could and should be improved still further, for example, by replacing the six-week consultation with the standard twelve-week period, but radical change is now unlikely, even though the closure programme is a matter of considerable public concern. People regularly petition the House against local proposals. When our original Report was published we had considered 51 such petitions; since then another 26 have been referred to us. Even after our original inquiry had reported, we received further letters and memoranda. Between publication of the Report and receipt of the Government response our chairman took part in the radio programme *You and Yours*. Callers to that programme made it quite clear how much they valued local post office services.

3. This Report considers the responses we have received. We also consider the future of the network. Although we reluctantly accept that some rationalisation of the current network is necessary, the post office network provides services of general economic interest across the entire United Kingdom. However, as all parties recognise, it is not simply a commercial entity. The “urban reinvention” closure programme was swiftly followed by the current Network Change Programme: we do not want to see further shrinkage. It is time for a strategic examination of the relationship between the post office network and Royal Mail Group. Postcomm has gone so far as to recommend that Post Office Ltd and Royal Mail be demerged.² At this stage, it is impossible to assess whether or not that is a practicable solution. Before considering whether the two entities should be separated, there needs to be detailed and public consideration of the commercial arrangements between them, and the interplay between the post office network and the universal service obligation.

1 Third Report of Session 2007-08, *Post Office Closure Programme*, HC 292-I

2 See, for example, Postcomm, *The Independent Review of the postal services sector*. Second submission by Postcomm, the industry regulator, May 2008

2 The responses

Timeliness

4. We published our Report on 8 February. When we took evidence from the Minister our Chairman noted that “I hope we might look to you ... to be a little more rapid than the usual two-month response period to a select committee report”.³ A speedy response would have reduced uncertainty and given us the opportunity to press the Government further if points of difference remained. Postwatch managed to give us a full and considered reply before the end of the month. In contrast, the Government and Post Office Ltd did not reply until 3 April, only just within the normal two-month deadline for Government responses, and immediately before the two-week April adjournment. **The relative slowness of the Government and Post Office Ltd replies would have been easier to understand if they had been final statements of the position. In fact, there have been further developments since then.**⁴ We regret that the Government and Post Office Ltd responses were neither speedy nor definitive.

Welcome developments

5. We were impressed by the speediness and thoroughness of the Postwatch response. We welcome the fact that they have undertaken to keep our concerns about communications and the continued accessibility of the network in mind as they continue their work in ensuring the consumer view is well represented during the Network Change Programme. Postwatch sent us their most recent report on 9 May 2008. We look forward to receiving further reports.

6. While there are matters that still concern the Committee, there are several significant things in the Government and Post Office Ltd responses which we welcome, including:

- the reiteration of the Government’s commitment to a network of around 11,500 outlets to 2011;
- a clear commitment to compliance with the current access criteria, including a commitment that Post Office Ltd will provide services directly, if necessary;
- the request for Postwatch and Post Office Ltd to develop a new Code of Practice to cover “business as usual” network changes outside the Network Change Programme;
- improvements to Post Office Ltd’s consultation material to ensure both the basis of the consultation and the effects on individual post offices are clear,
- Government commitment to monitor the programme.

Nonetheless, some concerns remain.

3 HC (2007–08) 292-II, Q323

4 See para 7

Local Authority and MP involvement

7. One of our concerns was that Post Office Ltd did not engage properly with local MPs at the outset of the programme. In their responses, both Government and Post Office Ltd maintained there was adequate consultation with local authorities. Relatively little was said about engagement with Members. **Since the Government and Post Office Ltd responded to our report on 3 April, Post Office Ltd has announced that in future it will engage with MPs “10 days before the start of the public consultation in their constituencies in relation to the current Network Change Programme, rather than a few days before the consultation begins as at present”.**⁵ While this is welcome, we do not understand why it did not form part of the response to our report, and consider it disappointing that the Post Office took no steps to inform us, or seek to revise its response.

8. Several local authorities had given us evidence suggesting that Post Office Ltd had not taken adequate account of the information they had provided about local conditions and plans. In its response Post Office Ltd has supplied us with figures showing that 123 of the 468 local authorities it contacted had not provided written responses.⁶ **We note that successful dialogue requires both parties to engage properly, and urge local authorities and Post Office Ltd to work together as the programme continues.**

Sustaining the Network

9. In our initial report we noted that it was, according to a parliamentary answer,⁷ theoretically possible that the access criteria set by Government could be met by a network of around 7,500 thousand post offices. The Government response to our latest report, however, was encouragingly robust:

Post Office Ltd estimates that a network of around 7,500 outlets would meet the national access criteria but it is neither Government nor Post Office Ltd policy for the network to shrink to the minimum size which would be compliant with the access criteria. The Government’s funding package and Post Office Ltd’s business case are both based on the network being sustained at around 11,500 outlets to 2011. The Government continues to view such a network as necessary to provide an appropriate level of national coverage.⁸

However, we also note that in their response to our Report of 2007 the Government was categorical that access criteria would replace the “no avoidable closures” provision:

The Government recognises that there will inevitably be future closures in addition to compensated closures under the programme—for example if a sub-postmaster decides to retire or move on and new premises or a replacement sub-postmaster cannot be found. Neither the Government nor Post Office Ltd can prevent that. The Government’s access criteria will however establish a minimum level of coverage that Post Office Ltd will be required to maintain. Unplanned closures will be

5 Royal Mail Group Press Release, 9 April 2008, *Post Office Ltd to trial further ways to provide sustainable services*

6 See Appendix 2: Post Office Ltd Response, p30

7 *Official Report*, 18 December 2007, vol 469,c 1472W

8 See Appendix 1: Government Response, p20

counterbalanced by replacements if the access criteria would no longer be met. Access criteria will replace the “no avoidable closure” policy and ensure that a national network of post offices is maintained.⁹

Post Offices Ltd’s response makes clear that “while Post Office Ltd has no desire to see any further reduction in the overall size of the post office network, it does not believe it is possible or desirable to set a minimum number of fixed outlets”.¹⁰ There is some distance between this and the Government’s assurances both now and in 2007 that it wishes to see the network sustained.

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

Access criteria

11. The access criteria used for the Network Change Programme require Post Office Ltd to consider the availability of public transport and alternative access to key services, local demographics and the impact on local economies when drawing up their plans for closures. Shortly after our Report was published, we wrote to BERR to ask whether these criteria would apply once the current round of closures was over. Their response said that “it is ... too early to state what factors in addition to geographical accessibility will be considered in thinking local decisions”.¹¹ Responsibility for reviewing and updating the Code of Practice on Post Office closures and relocations will be devolved to Post Office Ltd and Postwatch, and its successor body, the new National Consumer Council.

12. The Government has asked Post Office Ltd to work with Postwatch to “develop a new code of practice covering ‘business as usual’ network changes to reflect the current policy and lessons learned from the Network Change Programme,” and Post Office Ltd told us that it looks forward to working with Postwatch and its successor body, the National Consumer Council, to draw up such a code. In successive reports we have expressed our concern about the transfer of responsibility from Postwatch to the NCC at such a critical time in the Network Change Programme. We recognise that Postwatch is currently heavily burdened by the need to monitor the Network Change Programme itself. However, we think it is important that the Code of Practice is drawn up speedily, and that the transfer of responsibility does not cause delay. We urge Postwatch and Post Office Ltd to start work immediately.

13. We also asked whether BERR would monitor the extent to which the access criteria were met. We were told that “BERR will seek monitoring returns from both [the NCC and

9 Trade and Industry Committee, Eighth Report of Session 2006–07, *Restructuring the post office network*, HC 593

10 Appendix 2: Post Office Ltd Response, p24

11 Ev 2

Post Office Ltd] but will not itself undertake any direct monitoring function.”¹² While we understand the Government’s reluctance to repeat work undertaken by other bodies, the Government should not distance itself too much from the process. **The future shape of the network is a matter of direct political concern and will be determined by the Code of Practice. We wish to see a draft of the code before the summer recess. Ultimately, Government, as sole owner of Royal Mail Group, cannot duck responsibility for the shape of the network. While we do not expect it to replicate other parties’ monitoring, we expect it to use those monitoring returns to ensure its considerable subsidies are being used to secure a network which meets the public’s needs.**

Outreach

14. In our original Report we raised questions about Outreach, but welcomed the reassurance that services would continue until at least 2011, and that they might be considered in areas which had previously lost their postal services. After the Report was published, we asked Post Office Ltd for more information about outreach services. We have also received some written evidence, and Postwatch’s latest report on the closure programme. These documents have raised two further concerns.

15. The first is that the costings for outreach services may be unrealistic. Outreach services are provided by core sub-postmasters, who will identify and negotiate locations which are suitable. Post Office Ltd told us “the costs for the hire of halls and rental of properties are calculated based on our experience of the pilots we have run. That is built into the fixed remuneration package of the core sub-postmaster”.¹³ The core sub-postmaster will also ensure the services are provided. Friends of Ripplingdale Post Office told us that in one case a sum of £1,000 had been offered to keep an office open for the normal hours for an entire year.¹⁴ Similarly, the Save Tilton Post Office campaign told us that the existing postmistress had been offered £5 per session for the rental of counter space—£1.50 per hour.¹⁵ We are not in a position to investigate these cases, but we will be examining how Outreach develops.

16. Our second concern is that “partner” outreaches are unable to accept postal packets weighing more than 2 kg.¹⁶ We agree with Postwatch that this is a significant issue which should be addressed as a priority. **Although Post Office Ltd has told Postwatch they believe relatively few customers will be affected by the inability of some outreach services to handle packets weighing more than 2 kg, it will mean considerable inconvenience for those who need to send large packages, and could have an impact on local businesses. We note that the universal service obligation extends to packages of up to 20 kg. We consider that all Outreach services should be able to handle packages of up to 20 kg.**

12 Ev 1

13 Ev 9

14 Ev 4

15 Ev 12

16 Postwatch, Report to the Committee on the Network Change Programme

Closure of Profitable Branches

17. We suggested greater powers for Postwatch to intervene when Post Office Ltd proposed closure of a commercially viable Post Office, and we proposed a presumption against closure of a post office linked to the last shop in a village. These proposals were rejected in the Government and Post Office responses. Post Office Ltd said:

Post Office Ltd works closely with Postwatch in accordance with the agreed Memorandum of Understanding, when drawing up local area plan proposals. While Post Office Ltd maintains a focus on the overall financial viability of its business, a whole range of considerations are taken into account including financial ones when Post Office Ltd makes its proposals. However, it should be noted that all of the branches proposed for closure would enable Post Office Ltd to make financial savings. This may include branches which sub-postmasters might consider as profitable. Post Office Ltd is committed to the sustainability of the network as a whole and does not believe that any other party (including Postwatch) should have the right of veto over its commercial decisions.¹⁷

In its response, Postwatch noted that the assurance Mr Cook had given us in evidence that all closures would make a saving did not necessarily mean no profitable branches would be closed:

We welcome Alan Cook's assurance that closures will only take place where the result is a material saving to POL. This, however, is not an assurance that profitable branches to POL will not close. Postwatch agrees with the Committee that such proposals would need to be carefully considered—profitable offices are likely to be heavily used, and closures would therefore affect many customers.¹⁸

18. We can see no material difference between the Post Office Ltd response and that earlier assurance that “there will be no post office that closes that does not produce a material saving to Post Office Ltd.”¹⁹ **The post office network is a social as well as a commercial asset; as Postwatch says “profitable offices are likely to be heavily used, and closures would therefore affect many customers.” We continue to believe there should be a presumption against their closure.**

Allocation of Costs

19. In previous Reports the Trade and Industry Committee commented on the lack of clarity in Post Office financial figures. The situation is no clearer. The Government had to submit detailed figures when it applied to the European Commission for state aid clearance in respect of its funding for the post office network. Almost all of this was left out from the state aid decision released in January.²⁰ The attached table shows the way in which revenue

17 See Appendix 2: Post Office Ltd Response, p30

18 See Appendix 3: Postwatch Response, p39

19 HC (2007–08) 292-II, Q222

20 C(2007)5623 final, *Subject:state aid N 388/2007 – United Kingdom: Post Office Limited (POL) transformation programme*²⁰ Brussels, 28.XI.2007

and costs were broken down for the Commission: with all the figures removed there is no way to tell what sums were ascribed to each heading.

Table 1 - Breakdown of POL's Revenue and costs of operating its non-commercial branches

	2008/9 forecast (£m)	2009/10 forecast (£m)	2010/11 forecast (£m)
Income			
Income from SGEI* services	[...]	[...]	[...]
Income from non-SGEI services	[...]	[...]	[...]
Total Income	[...]	[...]	[...]
Costs	[...]	[...]	[...]
Direct	[...]	[...]	[...]
Shared	[...]	[...]	[...]
Sustaining	[...]	[...]	[...]
Other Costs	[...]	[...]	[...]
Capital expenditure	[...]	[...]	[...]
Ongoing Network Change	[...]	[...]	[...]
Pension deficit	[...]	[...]	[...]
Total Costs	[...]	[...]	[...]
Reasonable profit for SGEI services	[...]	[...]	[...]
Net Income/(loss)	[...]	[...]	[...]

***SGEI – Service of General Economic Interest**

20. When he appeared before us in February Mr Cook told us that Post Office Ltd was seeking to reduce costs by £270 million over five years, although the sources for £50 million of that saving had not been identified.²¹ He predicted that the Network Change Programme would produce a saving of £45 million. While £29 million of the £45 million could be saved directly by branch closures, a further £16 million²² would come from overheads. Only £9 million of those overheads could be easily removed; £7 million was much harder to identify.

21. It is very unsatisfactory that there is so little financial transparency about Post Office Ltd's operations. Several people have written to us to challenge Post Office Ltd's allocation of costs to individual post offices, as did callers to *You and Yours*. Michael Jabez Foster MP told us that:

in looking at the four post offices in my constituency that were “up for closure”, I was able to discover that the cost of paying salary and commission to the local Postmaster to run the service was, in some cases, less than the on-costs attributed to central

21 HC (2007–08), 292-II, Q173

22 The original report HC (2007–08), 292-I, cited £19 million, in error.

services to support that operation.... When I asked for a further breakdown, for example as to how much would be saved from central costs if a post office was closed i.e. the sorts of cost of delivering money etc, I was told it was about a third. This obviously led me to the conclusion that the central costs are much wider than the support of any particular local office and that, in turn, additional cost is presumably shared out across other post offices that are kept open and thus, in turn, probably makes them unprofitable.²³

Post Office Ltd's own figures leave significant uncertainty as to where £57 million of savings will come from.²⁴ It is not surprising there are fears that as offices are closed, overheads per office will increase, and decline will continue.

22. As the table above shows, little is known about the allocation of costs to individual offices. There is apparent evidence that, in other areas, Royal Mail Group and Post Office Ltd lack financially sophisticated figures. We note that, in its first response to the Government Postal Services Review, Postcomm complained about the inadequacy of Royal Mail Group's financial figures, saying the Group had:

a costing system that is inadequate for a business of this scale and complexity, operating in a competitive market characterised by high volumes and low margins. Both of Royal Mail's applications to Postcomm since 2005 for major changes in its letters pricing structure had to be resubmitted because of shortcomings in the original costings.²⁵

As far as Post Office Ltd is concerned, the state aid decision on support for particular products (rather than the network as a whole) makes it clear that infrastructure costs are allocated to particular products in proportion to the income they generate and "the method of allocation by income is the only one used internally by POL for the allocation of these costs between products." Activity based costing systems are not used.²⁶

23. As we have noted, there is no public confidence in Post Office Ltd's figures. **Given the lack of transparency about Post Office Ltd's finances, and the reported deficiencies in Royal Mail Group's financial systems, it is impossible to be sure that the allocation of costs to individual post offices is rigorous. Post Office Ltd is a publicly owned monopoly, which provides many of its services on behalf of the Government and receives substantial taxpayer support; there should be far more clarity about such matters.**

23 Ev 3

24 £50 million on overall, and £7 million on the Network Change Programme

25 Para 3.23

26 (2007) 5623 final, Para 61

3 The future of the network and Royal Mail Group

24. There are currently two reviews of mail services underway. Since August 2006 Postcomm has been conducting a strategy review. In December 2007, the Government asked an independent panel, chaired by Richard Hooper, to review the postal service sector. On 6 May the Independent Review published its interim report. It noted that by 2012–13 Royal Mail Group could face an annual negative cash flow of around £400 million. Royal Mail Group’s provisional statement for 2007–08 shows that, for the first time, Royal Mail Group sustained a loss on the universal service.²⁷ It is not surprising that the review reports an emerging consensus that “the status quo is not tenable”.²⁸

25. In 2006–07 Post Office Ltd made a loss of £99 million: this result included, for the first time, six months worth of the Government’s £150 million annual Social Network Payment. It is clear that the Government has put a great deal of money into the network. Royal Mail Group’s accounts for 2006–07 note that:

During 2006–07 the following payments were made by Government to support the post office network:

- £145 million to reimburse Royal Mail Group Ltd for amounts that had been advanced to Post Office Limited; and
- £231 million to fund the ongoing cash requirements of Post Office Ltd to meet its debts as they fall due.

In addition £150 million was paid to Post Office Ltd during the year to fund the maintenance of a rural network of post offices, £75 million of this was paid during the first half of the year by way of a transfer from Royal Mail Group, its immediate parent company. The remaining £75 million was paid during the second half of the year by Government in the form of a subsidy and recorded within revenue as a Social Network Payment.

All of the above payments made during 2006–07 were made in accordance with approval received from the European Commission under relevant state aid rules.

In 2007–08 Post Office Ltd’s loss was £34 million. The improvement was attributed to receiving a full year’s Social Network Payment of £150 million (rather than the £75 million received the previous year).²⁹ This suggests that there has been, if anything, a slight deterioration in the underlying financial position.

26. The rationale for continued state support of the post office network was set out clearly in the application for state aid approval. The network provides services of general

27 Royal Mail Holdings plc, Preliminary Statement (Unaudited) for the year ended 30 March 2008

28 Independent review of the postal services sector, *The Challenges and opportunities facing UK postal services: An initial response to evidence*, p 31

29 Royal Mail Holdings plc, Preliminary Statement (Unaudited) for the year ended 30 March 2008, p 3

economic interest. The state aid documentation divides these services into two categories: delivering specified services “using its network in accordance with the contractual terms which apply to each service” and “maintaining a network of post offices beyond its optimum commercial size and providing services of general economic interest over that network”.

27. The European Commission notes that the network provides the following specific services of general economic interest:

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

More broadly, the network provides support to rural businesses and economies, access to cash and bill payment services in places where such access is limited, and, to some extent, a way to access government services. Post office closures hit deprived people and areas hardest.³⁰

Closure decisions

28. Royal Mail Group and Post Office Ltd are private companies, in which the Government is the sole shareholder. Post Office Ltd, in particular, has conflicting commercial and social purposes. Its offices are part of the commercial network of a company. Even though that company is ultimately owned by the taxpayer, it is expected to operate along commercial lines. On the other hand, as the state aid decision accepted, Post Office Ltd runs a network which provides services of general economic interest. This twofold responsibility has the potential to cause conflicts of interest. The company has been given responsibility for deciding which offices to close to meet the network change target of 2,500 closures. Although the access criteria give some broad guidelines about the social importance of the post office network, the company has a great deal of discretion as to how to apply them. **We understand why the Government is reluctant to become directly involved in decisions on the closure of particular offices. Closure proposals rest on a great deal of detailed local and commercial knowledge, which central Government cannot replicate. Nonetheless, it is not satisfactory that Royal Mail Group is left to be the sole arbiter of the network.**

Local authority involvement in post office provision

29. At the time our Report was published, it was clear that some local authorities and local organisations wished to support local post offices, but little progress had been made. On

³⁰ See, for example, Guy Rubin, Polly Raymond and John Taylor, *The last post: the social and economic impact of changes to the postal services in Manchester*, New Economics Foundation, December 2006

8 March the BBC reported that “Essex County Council has become the first local authority in the country to discuss taking over the running of post offices earmarked for closure. The council is negotiating a buy-out price from the Post Office and said some 15 branches could be saved within two months”.³¹

30. We asked Post Office Ltd for more details of what was proposed. It is clear that negotiations continue, and that the intention is not to subsidise post offices *per se*, but to make them part of other businesses. Post Office Ltd also suggests that particular transfers will only be approved if they do not impact on those parts of the network within Post Office Ltd's control.

31. We understand the logic of this: Post Office Ltd is underpinned by a sizeable contribution from the taxpayer. In an earlier inquiry Post Office Ltd had indicated that a fully commercial network could comprise only 4,500 outlets. Although Essex County Council has said that it hopes the branches it funds will break even in time, some form of public subvention will be made in the short term. There is a danger that publicly funded organisations—some supported by a local authority and others by general taxation—will compete against one another. However, this case also shows the difficulties inherent in the current position, in which social and commercial interests have to be balanced, and in which local interests may run against the wider interest of the taxpayer in producing a sustainable network. These difficulties prompted us to recommend that there should be presumptions against closing branches which were profitable for Post Office Ltd, and against closing branches linked to the last shop in a village.

The statutory framework

32. Central Government is understandably reluctant to take local decisions, so we recommended that the consumer body should have the power to block closure of profitable branches. To our surprise, Postwatch was unenthusiastic about the proposal. It noted that such a veto could only be exercised if it had the resources and knowledge to understand Post Office Ltd's finances. It said: “a power of veto on decisions would require an independent analysis of POL's business model, accounting practices, and financial projections—activities that Postwatch does not have the statutory remit to undertake”.³²

33. Postwatch is not alone in its apparent reluctance to look at the post office network in depth. The Postal Services Act 2000 gives Postcomm the duty of securing a universal postal service through licensing the providers of such services. It also provides advice and information to the Secretary about the number and location of post offices, and it produces a report on the network each year. However, although it is currently conducting a strategy review, Postcomm has said the review will not focus on the future structure of the post office network “because Postcomm has no direct regulatory locus over the counters network”.³³

31 <http://news.bbc.co.uk/1/hi/uk/7284758.stm>

32 See Appendix 3: Postwatch Response p37

33 Postcomm's Strategy Review, *The Postal Market 2010 and Beyond: Emerging Themes*, August 2007, p 4

34. We are surprised that Postcomm and Postwatch take such a light touch approach. The Postal Services Act 2000 gives both bodies extensive powers to seek information. For example, the Commission has power to require documents from any person or information from any person who carries on a business under section 47 of the Postal Services Act 2000 for “any relevant purpose”. “Relevant purpose” is defined in section 47(6) to include the exercise of the Commission’s functions under section 42 which includes the duty under section 42(1) to provide advice and information to the Secretary of State about the number and location of post offices and their accessibility to users of postal or other services.

35. Section 57 of the Act gives the Postal Services Council (Postwatch) power to investigate any matter relating to the number and location of post offices. Section 58 gives the Council power to require the Commission, the universal service provider or any licence holder under Part II who is not a universal service provider to supply to the Council such information specified or described in the notice as the Council may reasonably require when exercising its functions. We do not understand why Postwatch could not demand extensive information, if this was necessary to advise the Secretary of State. Nor do we understand why Postwatch might not legitimately advise the Secretary of State about the location of a particular post office. This point was raised very late in the inquiry, and we have not had the opportunity to discuss it with witnesses. However, **we would be concerned if regulators and consumer bodies were not using their powers to the full. We are likely to return to this in the autumn.**

Wider responsibility

36. A great deal of Post Office Ltd’s difficulties comes from loss of bill payment services for government and other regulated services. Royal Mail Group’s Annual Report for 2006–07 noted the pressure caused by the removal of state or regulated services from the system:

Underlying revenues fell last year by £45 million. This reflected the continuing effects of payments of benefits directly into bank accounts, a decline in the number of car tax licences issued in branches as motorists stepped up their use of the DVLA web site, the replacement of the E111 forms with the issue of the European Health Insurance Card and the loss of the BBC Licence contract.³⁴

Yet one of the grounds for allowing state aid to the Post Office is that it provides “universal cash payments for public utility services”. Although the state aid letter refers only to *public* utility services there is a further group of services, such as energy or water, which are considered so fundamental they are strongly regulated. **There appears to be little or no co-ordination between regulators, between regulators and Government, or between government departments about the social effects of withdrawing payment services from the post office network. Given the grounds on which state aid was granted, and the current tender for the new Post Office Card Account, the loss of which could devastate the network, we believe this needs further consideration.**

The reviews

37. Neither of the reviews currently taking place are considering the post office network in detail. The Postal Services Minister told us that the Postal Service review was focusing on mail services, rather than the post office network. Postcomm's review also excludes the post office network. In its response to Postcomm's separate strategy review Postwatch noted:

Although the consultation document does not mention the post office network, we see this network as an integral part of the delivery of postal services and therefore an essential part of the Strategy Review.³⁵

Postcomm's response to the Independent Review says that further information "assessing the advantages and disadvantages for full separation of POL from Royal Mail will be published in Postcomm's annual network report ... in October 2008".³⁶ We would expect this to give more financial analysis than has been available until now.

38. The interim report of the Independent Review noted that the views of domestic consumers about the postal service might best be summarised as "satisfied indifference".³⁷ This may be true about the mail service; it is not true about the post office network, which is very closely connected to the universal service provider, both operationally and financially. Research commissioned by Postcomm noted the "trade off between a network with a large number of access points capable of receiving the largest postal packets (which is likely to have unprofitable post offices) and a sustainable network (which is likely to have fewer access points)".³⁸ Royal Mail Group paid £358 million to Post Office Ltd in 2007–08 for providing services.³⁹ Our successive inquiries have shown that people value their post offices, and, as the controversy surrounding the current closure programme demonstrates, that they feel passionately about the need to protect them. We have no doubt there would be public outcry if changes to mail services resulted in further reduction of the network.

39. We do not think it is reasonable or prudent to conduct reviews of mail services without looking at the relationship between Royal Mail Group and Post Office Ltd. Given the lack of clarity about the finances of the network, and the apparent disjunction between the Government's desire for a network of 11,500 offices, and Post Office Ltd's much more nuanced response, we recommend that Postcomm and the Postal Services Review include a thorough examination of Post Office Ltd as part of their work. There should be as much clarity as possible about the operational and financial relationship between the post office network and the universal service provider, and about the potential effects of changes in postal services on the post office network. We intend to examine output from those reviews in the autumn. One thing is clear—history has given us a network which remains among the largest in Europe. The Government and the European Commission accept the network provides a valuable

35 Postwatch, *Postcomm's Strategy Review, 'Emerging Themes': The Postwatch Response*, 14 December 2007

36 Postcomm, second submission to the independent review, para 4.29, p49

37 Para 44

38 NERA Economic Consulting, *Access to Postal Services: A Final Report*,

39 Royal Mail Holdings plc, Preliminary Statement (unaudited) for the year end March 2008.

service: all Government departments should bear that in mind when they consider how to provide their services.

Conclusions and recommendations

Timeliness

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

Local Authority and MP involvement

2. Since the Government and Post Office Ltd responded to our report on 3 April, Post Office Ltd has announced that in future it will engage with MPs “10 days before the start of the public consultation in their constituencies in relation to the current Network Change Programme, rather than a few days before the consultation begins as at present”. While this is welcome, we do not understand why it did not form part of the response to our report, and consider it disappointing that the Post Office took no steps to inform us, or seek to revise its response. (Paragraph 7)
3. We note that successful dialogue requires both parties to engage properly, and urge local authorities and Post Office Ltd to work together as the programme continues. (Paragraph 8)

Sustaining the Network

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

Access Criteria

5. The Government has asked Post Office Ltd to work with Postwatch to “develop a new code of practice covering ‘business as usual’ network changes to reflect the current policy and lessons learned from the Network Change Programme,” and Post Office Ltd told us that it looks forward to working with Postwatch and its successor body, the National Consumer Council, to draw up such a code. In successive Reports we have expressed our concern about the transfer of responsibility from Postwatch to the NCC at such a critical time in the Network Change Programme. We recognise that Postwatch is currently heavily burdened by the need to monitor the Network Change Programme itself. However, we think it is important that the Code of Practice is drawn up speedily, and that the transfer of responsibility does not cause

delay. We urge Postwatch and Post Office Ltd to start work immediately. (Paragraph 12)

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

Outreach

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

Closure of profitable branches

8. The post office network is a social as well as a commercial asset; as Postwatch says "profitable offices are likely to be heavily used, and closures would therefore affect many customers". We continue to believe there should be a presumption against their closure. (Paragraph 18)
9. Post Office Ltd's own figures leave significant uncertainty as to where £57 million of savings will come from. It is not surprising there are fears that as offices are closed, overheads per office will increase, and decline will continue. (Paragraph 21)
10. Given the lack of transparency about Post Office Ltd's finances, and the reported deficiencies in Royal Mail Group's financial systems, it is impossible to be sure that the allocation of costs to individual post offices is rigorous. Post Office Ltd is a publicly owned monopoly, which provides many of its services on behalf of the Government and receives substantial taxpayer support; there should be far more clarity about such matters. (Paragraph 23)

Closure Decisions

11. We understand why the Government is reluctant to become directly involved in decisions on the closure of particular offices. Closure proposals rest on a great deal of detailed local and commercial knowledge, which central Government cannot replicate. Nonetheless, it is not satisfactory that Royal Mail Group is left to be the sole arbiter of the network. (Paragraph 28)

The statutory framework

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

Wider responsibility

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

The reviews

14. We do not think it is reasonable or prudent to conduct reviews of mail services without looking at the relationship between Royal Mail Group and Post Office Ltd. Given the lack of clarity about the finances of the network, and the apparent disjunction between the Government's desire for a network of 11,500 offices, and Post Office Ltd's much more nuanced response, we recommend that Postcomm and the Postal Services Review include a thorough examination of Post Office Ltd as part of their work. There should be as much clarity as possible about the operational and financial relationship between the post office network and the universal service provider, and about the potential effects of changes in postal services on the post office network. We intend to examine output from those reviews in the autumn. One thing is clear—history has given us a network which remains among the largest in Europe. The Government and the European Commission accept the network provides a valuable service: all Government departments should bear that in mind when they consider how to provide their services. (Paragraph 39)

Appendix 1: Government Response

Government reply to Business, Enterprise and Regulatory Reform Committee's report 'Post Office Closure Programme' Third Report of Session 2007–08 published on 8 February 2008.

Introduction

The Government welcomes the Committee's report on the implementation of Post Office Ltd's Network Change Programme, and its constructive suggestions. It is useful to have the Committee's views on progress to date with the programme and its views on what improvements could be made.

Responses to Conclusions and Recommendations

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

Conclusions and recommendations

Role of Government and the future of the network

1. In answer to a Parliamentary Question, the Government said a network of around 7,500 offices would suffice to meet the national criteria. We do not think it is satisfactory simply to accept that the network may continue to shrink in an unplanned way between now and 2011; Post Office Ltd should be obliged to use its best endeavours to keep the network at a minimum of 11,500 fixed outlets. (Paragraph 7)

Post Office Ltd estimates that a network of around 7,500 outlets would meet the national access criteria but it is neither Government nor Post Office Ltd policy for the network to shrink to the minimum size which would be compliant with the access criteria. The Government's funding package and Post Office Ltd's business case are both based on the network being sustained at around 11,500 outlets to 2011. The Government continues to view such a network as necessary to provide an appropriate level of national coverage. The Government has asked Post Office Ltd to work with Postwatch to develop a new Code of Practice covering 'business as usual' network changes to reflect the current policy and lessons learned from the Network Change Programme.

The Consultation Process

2. We urge the new National Consumer Council to place continued monitoring of the post office network among its highest priorities. (Paragraph 8)

3. Post Office Ltd should be far clearer about the basis on which the public is being consulted. All its literature should make it clear that there will be reductions in Post Office

provision, and that the question being asked is simply whether the right branches have been identified for closure. (Paragraph 12)

It is important to recognise, as the Select Committee said, that the consultation is not a referendum on whether an individual post office should close. In its initial communications with MPs and local authorities last July, Post Office Ltd made clear that local consultation was about how not whether the closures and other changes should be implemented. Those letters explained that “the Consultation in respect of the Local Area Plan will not concern the principle of the need for change of the Network, nor its broad extent and distribution—that has already been established by the Government in its Response Document. Rather Consultation will be seeking representations on the most effective way in which Government policy—as set out in the Response Document—can be best implemented in the particular Area in question.” The Government accepts that this message has become diluted as the consultation has continued and welcomes the steps being taken by Post Office Ltd to ensure greater clarity.

Confidentiality

4. If people are to respond sensibly to proposals to close a particular sub-post office, they need to know why that branch has been put forward for closure. There may be some details which need to be kept confidential, but this should be strictly limited, given the substantial public investment in the network and the keen public interest in the outcome. We welcome the fact that Post Office Ltd has been prepared to share more information as the process has evolved; it should give such information at the outset of the consultation process. (Paragraph 14)

The Government encourages transparency in the provision of information within the constraints of commercial and subpostmaster confidentiality and welcomes the progress Post Office Ltd has made in this area.

5. Area Plan Proposals and their associated publicity should make it clear that closure, although likely, is not inevitable, and that the status of post offices scheduled to remain open may change. The notification that an office, is to remain open should be far more clearly worded. (Paragraph 16)

The Government welcomes Post Office Ltd’s commitment in the light of the Committee’s suggestions to introduce clearer wording.

6. The Chief Executive of Post Office Ltd told us that the proposals in Local Area Plans were refined through the pre-consultation process and that this preparation is some compensation for the limited time allowed for public consultation. If this is so, commercial confidentiality should not prevent Post Office Ltd from holding the discussions necessary to make sensible proposals. (Paragraph 17)

The Government is satisfied that Post Office Ltd’s approach strikes the right balance between preserving necessary confidentiality and achieving robust and informed pre-consultation input from key stakeholders. Sub-postmasters are asked to maintain confidentiality about the proposed closure of their own or neighbouring offices to avoid speculation which could be commercially damaging to the offices concerned until

the relevant area plan closure proposals have been finalised for public consultation. There is no inhibition or link to compensation preventing a sub-postmaster making their views known about the Network Change Programme.

Local Authority and MP involvement

7. We also note that although Postwatch appears to be doing a good job in influencing proposals in the pre-consultation period, several of the MPs who responded to our request felt that Postwatch could have been more closely involved in discussions with them. Postwatch is the only organisation able to take proposals to review; it would be helpful if it always discussed its position with interested MPs. (Paragraph 20)

The Government recognises the important role played by Postwatch in key stages of the Network Change Programme and supports any further initiatives to raise awareness of Postwatch's role with MPs.

Profitability

8. Local authorities and local MPs should be more closely involved in the pre-consultation process. Postwatch appears to be doing a good job, but it simply does not have the wider responsibilities of local government, or the representative role of MPs. The Chief Executive of Post Office Ltd told us that local authorities were involved in drawing up local area plans before they went out to public consultation; clearly, some local authorities do not feel they have been properly involved. Local Area Plans would be improved if local authorities and Post Office Ltd worked together. (Paragraph 21)

The Government considers that Post Office Ltd's processes do allow for early input from local authorities and for a continuing dialogue with them as area plans develop and are put out to local consultation.

9. Postwatch should scrutinise proposals to close post offices which are commercially viable for Post Office Ltd particularly closely and, if necessary, have powers to block them. (Paragraph 22)

The Government believes that Postwatch has an important role to play in scrutinising all proposals under the programme but that it is not appropriate for them to have a right of final veto. There is a review process triggered by Postwatch built into the Network Change Programme but final decisions rest with the company as operational decisions based on full consideration of all the relevant local issues.

Alternative support for Post Offices

10. We welcome Post Office Ltd's apparent willingness to contemplate introducing locally supported post offices. (Paragraph 24)

The introduction of locally supported post offices requires a different funding model which is additional to Government support for the non-commercial network. It is reasonable for Post Office Ltd to ensure full coverage of its costs for such offices and that any support be guaranteed at least until 2011 as well as considering the impact of such initiatives on the broader programme and on the sustainability of those parts of

the network which migration of custom would help to underpin. However, where such a proposal appears sustainable in its broader context, we would encourage Post Office Ltd to engage constructively.

Management style

11. The Post Office's future is a matter of public debate. As we have said, Post Office Ltd is not solely a commercial enterprise. Its network provides access to essential services, and has a greater reach than any other. The Government is the sole shareholder, and the public has a right to expect Government-controlled enterprises to behave in an exemplary way. After the experience of this inexcusable lapse, we expect Post Office Ltd to do so in future. (Paragraph 28)

The Government accepts the need for Post Office Ltd to strive to meet the highest possible standards in its dealing with all interested parties at all stages of the programme. The letter referred to in the report arose from an error which should not have happened. It was immediately retracted with a full apology. The company has since put in place measures to prevent a recurrence.

The Government Access Criteria

12. The evidence we have received from local authorities suggests the detailed information required to implement the access criteria properly has not always been taken fully into account. We are particularly concerned that in some cases the local area plan has failed to reflect arrangements to transfer Crown Offices to franchised premises in a different location. If Post Office Ltd cannot take into account information about matters that it controls, confidence in the wider information underlying these plans is undermined. Post Office Ltd must do more to demonstrate that local area plans are accurate and based on current information. (Paragraph 31)

Post Office Ltd has confirmed that the key concern expressed here relates to one isolated instance in Liverpool.

13. We underline the fact that the geographic access criteria are national, and can be met even if coverage in certain local areas falls well below the national standard. We do not know the extent to which the national criteria are met in each local area plan. We expect Post Office Ltd, as far as possible, to take the geographic access criteria into account at local area plan level, not just meet them nationally. (Paragraph 32)

The access criteria are designed to maintain a national network of post office outlets and are national in their application but with an underpinning of minimum coverage at a very local level in each of the 2,800 postcode districts into which the country is divided. Post Office Ltd helpfully indicates in its area plan proposal document the percentage of customers for whom the proposals would mean no change to the post office they currently use and the percentage of customers for whom there would be no change or will be within one mile by road of an alternative branch. On average, for area plans published to date, these percentages are respectively 90% and 99%.

Accessibility

14. We welcome the fact that Postwatch surveys proposed franchises for accessibility. We trust it also considers accessibility when it considers proposals for sub-post office closure made as part of the Network Change Programme. However, we are far from convinced that Post Office Ltd itself is fully engaged with the need to ensure that services are accessible to all. This needs to be given much higher priority. (Paragraph 34)

Post Office Ltd has confirmed the importance it sets on accessibility of alternative service provision and the steps it follows in all cases to identify and consider key factors such as transport, physical access to premises and capacity.

Local economies

15. We believe that there should be a presumption against closing a post office where this is the last shop in the village, or in a deprived urban area. (Paragraph 35)

The Government recognises the sensitivities around the closure of a post office which is the last shop in the village or in a deprived urban area and asked Post Office Ltd to consider this in the context of assessing the impact of closure proposals on local economies. We believe that each such case should therefore be considered on its merits in the light of the particular local circumstances.

16. Post Office Ltd must take great care to ensure that any reduction in compensation to a sub-post office that closes, but where the remaining business intends to offer new and competing services, is not excessive. The purpose of reducing compensation is to limit competition with, and encourage business to migrate to, remaining post offices nearby. The argument for this reduction is weaker in areas where there is no ready access to such offices. Because of the importance of such facilities to the local communities, Post Office Ltd should always be realistic in its assessment of the degree to which alternative services would really displace business for the post office network. When reaching its decisions it should give the benefit of the doubt to the business and so to the people it serves. (Paragraph 38)

The Government believes that the arrangements agreed between Post Office Ltd and the National Federation of Sub-postmasters strike the right balance. Compensation is paid to sub-postmasters for 'loss of office' recognising that they will no longer receive income from post office products and services after the closure of their post office. If income from post office products and services is replaced e.g. from lottery products or is generated from equivalent products and services offered through some other service provider, some adjustment in compensation is reasonable. The level of reduction to compensation in such circumstances is based only on income generated from that product or service. The rest of the compensation is unaffected.

17. The timetable for the Network Change Programme is extremely compressed. We would be concerned if postmasters had to decide whether to accept the cut in compensation before they had the time to establish whether they could attract bill payment or other services, or explore the terms of such contracts. Postmasters should be given adequate time to explore these factors before deciding what compensation to accept. (Paragraph 39)

The Government considers that the revised procedures by Post Office Ltd put in place since December 2007 will ensure that sub-postmasters have adequate time to consider the options open to them with regard to their compensation terms.

Outreach

18. We agree that open-ended questions about the type of Outreach which may be appropriate are not helpful but welcome the fact that in recent consultations Post Office Ltd suggests what Outreach arrangements could be provided. We also welcome the assurance that Outreach services will continue until at least 2011. In addition we welcome the statement from Post Office Ltd that they are prepared to consider Outreach services in areas which had previously lost their postal services but are within the new national criteria. (Paragraph 42)

Whilst a non-specific outreach proposal potentially allows for wider local input, it can also create greater uncertainty about future service provision and delay in finding a viable proposal. The Government therefore welcomes the steps taken by Post Office Ltd to address the concerns of Postwatch and others by now including proposed operational details for all outreach proposals at the start of public consultation.

19. We believe a single outreach session of two hours a week is generally unacceptable; there should normally be at least two sessions per week. (Paragraph 43)

The Government considers that decisions about individual branch opening hours are a matter for Post Office Ltd and individual sub-postmasters, reflecting the needs and level of demand in local communities. We do not believe it is appropriate for Government to seek to decide matters which are best considered at local level.

20. We welcome the proposals to introduce Post Office provision to remote areas. If this cannot be done by voluntary Outreach arrangements, we expect the Post Office to provide the necessary services itself. (Paragraph 44)

Post Office Ltd is committed to ensuring compliance with the access criteria, introducing new services where necessary to achieve this and providing services directly if no core sub-postmaster can be found.

Proportionality

21. We welcome the fact that Post Office Ltd appears to be taking a flexible and pragmatic approach to the requirement that the closures should not fall disproportionately in particular areas, and that its programme takes some account of the varying levels of current provision. (Paragraph 45)

The Government remains committed to the principle that closures should not fall disproportionately in particular areas.

22. The Network Change Programme has a difficult balancing act to perform between responding to local needs and concerns and ensuring that the necessary reduction in the network is achieved. We welcome the Minister's assurance that areas which are considered

late in the process will not be disadvantaged. We intend to keep this, and other aspects of the programme, under review. (Paragraph 46)

The Government will continue to monitor this as the programme proceeds through to its final stages in the late summer.

Conclusion

23. Post Office Ltd has been given the task of reducing the network by a fixed number of branches in a fixed period. The Network Change Programme began in July 2007 and the final consultation is scheduled to end in October 2008. That is a very challenging timetable. As we always feared, this has meant that consultation has been curtailed, and the whole process has been rushed. The failure to realise at the outset that the consultation timetable should take account of the “purdah” for local elections, and the failure to allow properly for the effects of holidays on consultation periods, are symptoms of this. The process has been improving as more experience is gained, but problems remain. There is not enough clarity about the basis of the consultation; we are concerned that accessibility is not always taken into account; commercial confidentiality has prevented sensible discussion. We hope that all those involved will use this Report as a prompt to make further improvements. (Paragraph 47)

The Government agrees that the programme is challenging both in its scale and timetable but is confident that it remains deliverable. Adjustments to the timing have been made to allow for the ‘purdah’ period ahead of local elections in England and Wales in accordance with standard Cabinet Office guidelines. The Government believes that Post Office Ltd and Postwatch have been responsive to concerns and issues which have arisen and have made adjustments to their processes and handling arrangements as a result. Other modifications are being put in place in response to the committee’s comments and recommendations.

Appendix 2: Post Office Ltd Response

Post Office Ltd Memorandum in respect of the House of Commons Business, Enterprise and Regulatory Reform Committee on the Post Office Closure Programme—Third Report of Session 2007–08

Post Office Ltd sets out below in this Response Memorandum its views on the conclusions and recommendations set out in the third report of Session 2007–08 of the House of Commons Business Enterprise and Regulatory Reform Committee (the Committee) on the Post Office Closure Programme.

Post Office Ltd's comments and responses are set out in italics below each of the conclusions and recommendations made by the Committee.

Role of Government and the future of the network

1. In answer to a Parliamentary Question, the Government said a network of around 7,500 offices would suffice to meet the national criteria. We do not think it is satisfactory simply to accept that the network may continue to shrink in an unplanned way between now and 2011; Post Office Ltd should be obliged to use its best endeavours to keep the network at a minimum of 11,500 fixed outlets. (Paragraph 7)

While Post Office Ltd has no plan or desire to see any further reduction in the overall size of the post office network, it does not believe it is possible or desirable to set a minimum number of fixed outlets. Post Office Ltd is keen to develop in conjunction with Postwatch and its successor, the National Consumer Council, a new Code of Practice in relation to the future size of the network which would include an agreed process for dealing with future branch closures. Post Office Ltd is fully committed to replacing branches where the minimum access criteria is not currently met or where a closure would have a material impact on the ability of customers to access postal services. Post Office Ltd has received Government funding which should enable it to maintain a network of around 11,500 outlets to 2011.

The Consultation Process

2. We urge the new National Consumer Council to place continued monitoring of the post office network among its highest priorities. (Paragraph 8)

Post Office Ltd looks forward to working with the National Consumer Council in a similar constructive way as it has worked with Postwatch.

3. Post Office Ltd should be far clearer about the basis on which the public is being consulted. All its literature should make it clear that there will be reductions in Post Office provision, and that the question being asked is simply whether the right branches have been identified for closure. (Paragraph 12)

Post Office Ltd has noted the suggestion made by the Committee and is taking appropriate steps to introduce greater clarity in its Network Change literature. For example, Post Office Ltd has amended the Area Plan Proposal booklets by adding the

following clarification wording: “Post Office Ltd must reduce the number of branches and this is being implemented through a programme of change known as the “Network Change Programme”. The purpose of the local public consultation for this area is to obtain your views to assist Post Office Limited in selecting the appropriate branches for closure or closure and replacement with an Outreach Service”. However, from the outset of the Network Change Programme, Post Office Ltd made it clear in its communications that the Programme was not designed to be a vote about whether branches should close, but was about ensuring that Post Office Ltd had the best available knowledge to allow it to make the most informed decisions about which branches should close at local level.

Confidentiality

4. If people are to respond sensibly to proposals to close a particular sub-post office, they need to know why that branch has been put forward for closure. There may be some details which need to be kept confidential, but this should be strictly limited, given the substantial public investment in the network and the keen public interest in the outcome. We welcome the fact that Post Office Ltd has been prepared to share more information as the process has evolved; it should give such information at the outset of the consultation process. (Paragraph 14)

Post Office Ltd is grateful for the Committee’s acknowledgement that it has been more open as the process has evolved. Post Office Ltd is trying to ensure that it puts out into the public domain all relevant information that it is able. This includes details of customer sessions at branch level, greater information in respect of demographics and key data used to draw up the initial local plan. The only information which is withheld is information which is commercially sensitive to Post Office Ltd or which relates to a specific sub-postmaster. Post Office Ltd can assure the Committee that it will continue to do all that it can to ensure as much information as possible is given at the outset of the public consultation process for each local area plan proposal.

5. Area Plan Proposals and their associated publicity should make it clear that closure, although likely, is not inevitable, and that the status of post offices scheduled to remain open may change. The notification that an office, is to remain open should be far more clearly worded. (Paragraph 16)

Post Office Ltd is reviewing all of its posters and materials in the light of feedback received to date. Post Office Ltd thanks the Committee for its suggestions and can confirm that the suggested changes are already in hand. For example, Post Office Ltd is in the process of amending the poster relating to Post Offices no longer proposed for closure, so that this decision is clearly indicated at the head of the poster.

6. The Chief Executive of Post Office Ltd told us that the proposals in Local Area Plans were refined through the pre-consultation process and that this preparation is some compensation for the limited time allowed for public consultation. If this is so, commercial confidentiality should not prevent Post Office Ltd from holding the discussions necessary to make sensible proposals. (Paragraph 17)

Post Office Ltd can confirm that the work done in liaising with local authorities, MPs and sub-postmasters to assist formulating proposals prior to public consultation is not hampered by the need to maintain confidentiality. In addition, Post Office Ltd does not believe that confidentiality is hindering proper discussions taking place with other relevant parties, in particular, the process of entering into meaningful discussions with potential receiving branches or branches which might act as a “core” to operate outreach services. The instances of sub-postmasters who have refused to participate in confidential discussions with Post Office Ltd prior to the publication of the area plan proposals are extremely rare. In these instances, it has not hampered or delayed or had a material impact on the process leading to the publication of the local area plan proposal.

Local Authority and MP involvement

7. We also note that although Postwatch appears to be doing a good job in influencing proposals in the pre-consultation period, several of the MPs who responded to our request felt that Postwatch could have been more closely involved in discussions with them. Postwatch is the only organisation able to take proposals to review; it would be helpful if it always discussed its position with interested MPs. (Paragraph 20)

Post Office Ltd supports and appreciates Postwatch’s involvement before during and after the consultation process. In addition, Post Office Ltd is actively engaging directly with MPs affected by local area plan proposals, as well as meeting with them on request. Likewise, Post Office Ltd actively writes to all Local Authorities at various points during the programme and engages with Local Authorities as appropriate. Where local authorities have requested greater involvement in the pre consultation phase, Post Office Ltd has been pleased to engage with these local authorities more fully. Further information on this is set out in the response to paragraph 8 below.

Profitability

8. Local authorities and local MPs should be more closely involved in the pre-consultation process. Postwatch appears to be doing a good job, but it simply does not have the wider responsibilities of local government, or the representative role of MPs. The Chief Executive of Post Office Ltd told us that local authorities were involved in drawing up local area plans before they went out to public consultation; clearly, some local authorities do not feel they have been properly involved. Local Area Plans would be improved if local authorities and Post Office Ltd worked together. (Paragraph 21)

Post Office Ltd has throughout the Network Change Programme sought to engage fully and effectively with local authorities to ensure that they are given full opportunity to input into the Programme. All local authorities were written to in July 2007 setting out an overview of the Programme and how they could help shape the proposed changes, particularly in respect of issues such as accessibility, impact on the local economy and local transport developments. Post Office Ltd asked Local Authorities to provide any information they thought was relevant in determining the future pattern of the network in their area. Some examples of information that Post Office Ltd explained would be helpful were regeneration and development plans in the local authority area; proposed new settlements; major road schemes likely to have a material impact on

accessibility between communities and significant public transport changes including enhancements, new provisions and likely withdrawal of key services. Each local authority is then contacted again at the time Post Office Ltd is starting to draw up its local area plan proposals and they are asked for any further relevant information such as the availability of public transport, alternative access to key post office services (such as access to cash), local demographics (such as age, sex, disability, race, religion and ethnicity) and the impact on customers and the local economy. Local Authorities are also invited to meet with Post Office Ltd to discuss the initial draft proposals for an area. To date, Post Office Ltd believes that this engagement is working well in the vast majority of cases with local authorities contributing to the pre consultation planning phase in a meaningful way. As at the date of this Memorandum, the following table shows the scale of dialogue with local authorities:

No. of local authorities contacted	No. of written responses to Post Office Ltd contact	No. of local authorities with whom follow up meetings held or scheduled
468	345	100

9. Postwatch should scrutinise proposals to close post offices which are commercially viable for Post Office Ltd particularly closely and, if necessary, have powers to block them. (Paragraph 22)

Post Office Ltd works closely with Postwatch in accordance with the agreed Memorandum of Understanding, when drawing up local area plan proposals. Whilst Post Office Ltd maintains a focus on the overall financial viability of its business, a whole range of considerations are taken into account including financial ones when Post Office Ltd makes its proposals. However, it should be noted that all of the branches proposed for closure would enable Post Office Ltd to make financial savings. This may include branches which sub-postmasters might consider as profitable. Post Office Ltd is committed to the sustainability of the network as a whole and does not believe that any other party (including Postwatch) should have the right of veto over its commercial decisions.

Alternative support for post offices

10. We welcome Post Office Ltd's apparent willingness to contemplate introducing locally supported post offices. (Paragraph 24)

Post Office Ltd will continue to explore with third parties various options for local funding.

Management style

11. The Post Office's future is a matter of public debate. As we have said, Post Office Ltd is not solely a commercial enterprise. Its network provides access to essential services, and has a greater reach than any other. The Government is the sole shareholder, and the public

has a right to expect Government-controlled enterprises to behave in an exemplary way. After the experience of this inexcusable lapse, we expect Post Office Ltd to do so in future. (Paragraph 28)

You will be aware that the managing director of Post Office Ltd personally apologised on behalf of the business for this regrettable error which was as a result of an administrative error and Post Office Ltd's has, since the incident referred to, put in place measures to ensure such an error does not happen again. Post Office Ltd is committed to delivering the Network Change Programme in a professional manner and to show respect to all those who may be affected by any of the changes, in particular the business's sub-postmasters and customers.

The Government Access Criteria

12. The evidence we have received from local authorities suggests the detailed information required to implement the access criteria properly has not always been taken fully into account. We are particularly concerned that in some cases the local area plan has failed to reflect arrangements to transfer Crown Offices to franchised premises in a different location. If Post Office Ltd cannot take into account information about matters that it controls, confidence in the wider information underlying these plans is undermined. Post Office Ltd must do more to demonstrate that local area plans are accurate and based on current information. (Paragraph 31)

When Post Office Ltd draws up local area plan proposals, all post office branches and current proposals for them are taken into consideration including the conversion or closure of any Crown Offices. The example quoted in the Committee hearing was an isolated case and related to the conversion of the Liverpool city centre Crown Office into a franchised branch to be operated by WHSmith who were relocating their own branch into new premises. Post Office Ltd was confident that when the local area plan proposal was published, it reflected the best available information available at the time. Only subsequently did an unexpected delay occur in securing the Landlord's consent to the lease of the new premises. Thus, due to circumstances beyond Post Office Ltd's control, it was not possible to reflect the franchise branch details in the local area plan proposal and this had a consequential effect on the implementation timetable for two other branches.

13. We underline the fact that the geographic access criteria are national, and can be met even if coverage in certain local areas falls well below the national standard. We do not know the extent to which the national criteria are met in each local area plan. We expect Post Office Ltd, as far as possible, to take the geographic access criteria into account at local area plan level, not just meet them nationally. (Paragraph 32)

Whilst Post Office Ltd does not measure the National Criteria at local level, it does monitor the impact of each local area plan proposal to ensure that overall, the network remains compliant with the National Access Criteria laid down by Government. Post Office Ltd would also point out that (a) there is a local criterion contained within the minimum access criteria, namely that 90% of the population in each Postcode District must be within 6 miles of their nearest Post Office outlet and (b) that the "no one area to be overall significantly more adversely affected than any other area" requirement

provides further local protection. Also, while compliance with the National Access Criteria is measured on an “as the crow flies” basis and in compliance with national criteria, when Post Office Ltd is planning at local level, it measures the distance between branches on the basis of road distance to reflect the real journeys of its customers. This is one of a number of important measures looked at by Post Office Ltd when assessing customer’s ease of access to Post Office premises including availability of public transport (and disabled access to it), branch specific accessibility (eg ramps, doors, hearing loops) and local demographics (such as age, sex, race and ethnicity).

Accessibility

14. We welcome the fact that Postwatch surveys proposed franchises for accessibility. We trust it also considers accessibility when it considers proposals for sub-post office closure made as part of the Network Change Programme. However, we are far from convinced that Post Office Ltd itself is fully engaged with the need to ensure that services are accessible to all. This needs to be given much higher priority. (Paragraph 34)

Accessibility has been a key issue throughout the Network Change Programme for Post Office Ltd. Post Office Ltd has carried out extensive consultations with appropriate stakeholders. In addition it surveys all affected branches, including those proposed to remain in the network and particularly where a branch is identified as a potential receiving branch for customers migrating from a potential closing branch. Post Office Ltd welcomes the comments of the Committee on this important issue and continues to monitor closely its performance and make continuous improvements to the Network Change Programme as appropriate. In particular, Post Office Ltd is working closely with sub-postmasters and making significant investment in improving accessibility and capacity, where required, for those branches identified as receiving branches (ie those which it is expected will be most affected by the migration of customers from a closing branch). As at the end of February 2008, Post Office Ltd has completed works at over 80 branches with a significant number of further works currently in the pipeline. In addition, Post Office has looked at the availability of products across the network and as a result has enhanced the products on offer, making a wider range of products available to its customers in 332 branches.

Local economies

15. We believe that there should be a presumption against closing a post office where this is the last shop in the village, or in a deprived urban area. (Paragraph 35)

Post Office Ltd understands the potential impact of closing a Post Office where it is the last shop in a village or in a deprived urban area and as such it is one of a range of important factors which Post Office Ltd takes into account when drawing up each Local Area Plan Proposal. Post Office Ltd does look at the criticality of the retail offer and the health of the ancillary business. These factors are specifically identified during the on the ground validation by its Field Change Advisors and through information supplied by others throughout the consultation phases of the Programme. The number of branches that will be retained in the network that support the remaining retailer are then set out within the Local Area Plan Proposals. Whilst there is no presumption that Post Office would not close a branch which formed part of the last essential retailer in a

community, it is an important factor in respect of which Post Office does have due regard. To date, Post Office Ltd has maintained support for 636 branches which are identified as being the only essential retailer in a community.

16. Post Office Ltd must take great care to ensure that any reduction in compensation to a sub-post office that closes, but where the remaining business intends to offer new and competing services, is not excessive. The purpose of reducing compensation is to limit competition with, and encourage business to migrate to, remaining post offices nearby. The argument for this reduction is weaker in areas where there is no ready access to such offices. Because of the importance of such facilities to the local communities, Post Office Ltd should always be realistic in its assessment of the degree to which alternative services would really displace business for the post office network. When reaching its decisions it should give the benefit of the doubt to the business and so to the people it serves. (Paragraph 38)

Post Office Ltd has been careful to balance the needs of Post Office Ltd, the use of public funds and the future needs of any affected sub-postmasters. Sub-postmasters have the option to select from a range of choices including the ability to offer similar services but from an alternative supplier within a 12 month period of the branch closing. Payment for the right to continue to provide such services is based on the income generated from that product or service. After the 12 month period, the sub-postmaster is free to offer similar products or services without payment. Also, Post Office Ltd agreed the compensation terms and conditions with the National Federation of Sub-postmasters who agreed that they struck the correct balance. Indeed, the chair of the Federation stated in his evidence to the Committee that

“.....we have worked with Post Office Ltd unashamedly to make sure that the terms and conditions of Network Change not only give the sub-postmasters a fair deal for leaving, but also make sure that as much work as possible is retained within the remaining post office network because at the end of the day that is what it is all about, it is making sure that this network has a future.”

17. The timetable for the Network Change Programme is extremely compressed. We would be concerned if postmasters had to decide whether to accept the cut in compensation before they had the time to establish whether they could attract bill payment or other services, or explore the terms of such contracts. Postmasters should be given adequate time to explore these factors before deciding what compensation to accept. (Paragraph 39)

To ensure that Sub-postmasters know the choices which will be made available to them before any final decision to close their branch is made Post Office Ltd’s Field Change Advisors make Sub-postmasters aware of the compensation package in advance. During December 2007 Post Office’s Field Change Advisors contacted every sub-postmaster of a branch that had already been proposed for closure to make them aware of the terms of the compensation package. From December 2007 onwards, those Sub-postmasters whose branch is proposed for closure are made aware of the terms of the compensation package when Post Office Ltd initially engages with them. Sub-postmasters have at least three months from the point at which they are proposed for closure before a decision is implemented. When Sub-postmasters are contacted to

explain Post Office Ltd's final decision regarding the proposed closure of their branch, they are reminded of the terms of the compensation package. In addition, sub-postmasters themselves know better than anyone the future customer demand as they have already been providing such services to their customers.

Outreach

18. We agree that open-ended questions about the type of Outreach which may be appropriate are not helpful but welcome the fact that in recent consultations Post Office Ltd suggests what Outreach arrangements could be provided. We also welcome the assurance that Outreach services will continue until at least 2011. In addition we welcome the statement from Post Office Ltd that they are prepared to consider Outreach services in areas which had previously lost their postal services but are within the new national criteria. (Paragraph 42)

Post Office Ltd is pleased that the Committee has acknowledged the steps taken by it to make consultation on Outreach more meaningful to customers. Funding is in place to support Outreach provision until 2011. Outreach is an alternative model to a traditional branch, which is being introduced to ensure that alternative access to Post Office services is maintained in areas affected. The purpose of an Outreach service is to ensure that customers continue to have access to Post Office services, although they will be delivered in a different way than those previously offered. However, an Outreach provision is no less secure than an independent branch. Additionally, Post Office Ltd would expect that Outreach provision would be covered by the proposed Code of Practice referred to in response to paragraph 1 which would cover the issue of the provision of Outreach services to ensure that the national access criteria are met.

19. We believe a single outreach session of two hours a week is generally unacceptable; there should normally be at least two sessions per week. (Paragraph 43)

The number of serving hours is reviewed by reference to the number of customers of the closing branch in determining the service provisions to be provided. Post Office Ltd must also consider the costs of the Outreach provision when drawing up outreach proposals. There is evidence from some early plans that in some locations, outreaches have led to extended hours and new locations to those currently offered by an existing branch, including evening and Sunday opening. Only a small minority of Outreach services (less than 15%) are based on the provision of two hours a week and of these, a majority offer the service through at least two sessions per week. Wherever possible, Post Office Ltd seeks to offer a minimum of two sessions per week.

20. We welcome the proposals to introduce Post Office provision to remote areas. If this cannot be done by voluntary Outreach arrangements, we expect the Post Office to provide the necessary services itself. (Paragraph 44)

Post Office Ltd will do all that is necessary to maintain the Minimum Access Criteria including providing services directly if necessary. This will of course include ensuring that Post Office Ltd meets the specific minimum access criteria at postcode level, including providing new services in locations where it currently does not achieve the minimum access criteria. For example, Post Office is re-opening a previously closed

branch in Otter Ferry in PA22 and proposing to introduce a new outreach services in Tomatin (IV13), Torridon (IV22) and Laggan (PH20).

Proportionality

21. We welcome the fact that Post Office Ltd appears to be taking a flexible and pragmatic approach to the requirement that the closures should not fall disproportionately in particular areas, and that its programme takes some account of the varying levels of current provision. (Paragraph 45)

Post Office Ltd is grateful for the acknowledgement of the Committee about the way the business is approaching the relative effect of closures in different areas. It will continue to ensure, where possible, that within the overall Network Change Programme, it takes account of all relevant local factors, whilst at all times adhering to the criteria set by Government.

22. The Network Change Programme has a difficult balancing act to perform between responding to local needs and concerns and ensuring that the necessary reduction in the network is achieved. We welcome the Minister's assurance that areas which are considered late in the process will not be disadvantaged. We intend to keep this, and other aspects of the programme, under review. (Paragraph 46)

Post Office Ltd believes that it is on course to deliver the Network Change Programme in accordance with the criteria set by Government. Variations are within the range expected at the start of the Programme and Post Office Ltd will continue to closely monitor all relevant factors as the Programme continues.

Conclusion

23. Post Office Ltd has been given the task of reducing the network by a fixed number of branches in a fixed period. The Network Change Programme began in July 2007 and the final consultation is scheduled to end in October 2008. That is a very challenging timetable. As we always feared, this has meant that consultation has been curtailed, and the whole process has been rushed. The failure to realise at the outset that the consultation timetable should take account of the "purdah" for local elections, and the failure to allow properly for the effects of holidays on consultation periods, are symptoms of this. The process has been improving as more experience is gained, but problems remain. There is not enough clarity about the basis of the consultation; we are concerned that accessibility is not always taken into account; commercial confidentiality has prevented sensible discussion. We hope that all those involved will use this Report as a prompt to make further improvements. (Paragraph 47)

Post Office Ltd agrees that the Network Change Programme has a challenging timetable but believes that the Programme is well planned and resourced to enable proper and meaningful consultation including pre and post public consultation phases to take place. To date, Post Office Ltd has received over 65,000 responses in respect of the 22 local area plans proposals which have been published, showing that there is very extensive participation in the consultation process by individuals as well as

organizations and that the length of the consultation period is not proving a constraint for them.

The Cabinet Office Guidelines in respect of purdah are being applied and the Programme timetable has been duly extended. It is now scheduled to finish at the end of November 2008.

Post Office Ltd would respectfully disagree with the Committee's comments that it had failed to allow properly for the effects of holidays in the consultation process. The timetable for closures was built around the agreed Code of Practice with Postwatch. This includes an extension to the public consultation period of 10 days if consultations span a specific Christmas period, an extension of two days if public consultations span Easter and an extension of one week if public consultations span specific dates during the summer period.

Finally, in respect of the Committee's comments regarding clarity about the basis of consultation, Post Office Ltd has already revised its materials as outlined in the response to paragraph 5 above.

Appendix 3: Postwatch Response

Postwatch response to the Business, Enterprise and Regulatory Reform Committee on the post office closure programme

Role of Government and the future of the network

1. In answer to a Parliamentary Question, the Government said a network of around 7,500 offices would suffice to meet the national criteria. We do not think it is satisfactory simply to accept that the network may continue to shrink in an unplanned way between now and 2011; Post Office Ltd should be obliged to use its best endeavours to keep the network at a minimum of 11,500 fixed outlets. (Paragraph 7)

Postwatch response:

We agree with the Committee's concern over the future of the network. The Government needs to outline its future strategy for ensuring the post office network does not fall below 11,500 branches. We look forward to this clarification in its response to the Committee. Additionally, Postwatch will write to the Government on this matter.

The Consultation Process

2. We urge the new National Consumer Council to place continued monitoring of the post office network among its highest priorities. (Paragraph 8)

Postwatch response:

We agree that the statutory body responsible for representing post office customer interests must continue to monitor access to post office services. It is essential that the new NCC is closely involved in determining Government policy, both up to 2011 and after.

Postwatch will continue to work closely with those setting up the new NCC's work on the post office network. Postwatch will undertake an evaluation of how it carried out its role in the closure programme, so that the new NCC does not lose the knowledge gained by Postwatch. In addition Postwatch will, of course, make its post office database and GIS system available to the successor organisation.

3. Post Office Ltd should be far clearer about the basis on which the public is being consulted. All its literature should make it clear that there will be reductions in Post Office provision, and that the question being asked is simply whether the right branches have been identified for closure. (Paragraph 12)

Postwatch response:

We agree that POL's communications materials need to be clear that the public consultation is not about how many post offices should close, but about which ones should close.

In our evidence to the Committee we outlined our own concerns with POL's communication materials. We have again written to POL to offer to assist with a review of its consultation materials, and have requested this takes place as a matter of urgency. We will update the Committee in our next progress report.

Confidentiality

4. If people are to respond sensibly to proposals to close a particular sub-post office, they need to know why that branch has been put forward for closure. There may be some details which need to be kept confidential, but this should be strictly limited, given the substantial public investment in the network and the keen public interest in the outcome. We welcome the fact that Post Office Ltd has been prepared to share more information as the process has evolved; it should give such information at the outset of the consultation process. (Paragraph 14)

Postwatch response:

We agree with the principle outlined by the Committee that POL should be as open as possible. Customers, communities and their representatives should be given all the information that can be shared so as to help stimulate interest and participation in the consultation process.

We specifically welcome the Government's confirmation in the House that POL "*is prepared to share an estimate of the total individual branch saving with the relevant Member of Parliament on a confidential basis*" (Hansard, 5 February, column 216WH). We hope POL will be proactive in its approach to working with MPs on this matter.

5. Area Plan Proposals and their associated publicity should make it clear that closure, although likely, is not inevitable, and that the status of post offices scheduled to remain open may change. The notification that an office, is to remain open should be far more clearly worded. (Paragraph 16)

Postwatch response:

We agree that it is important that those post offices proposed for closure which remain open should not be blighted. They need to attract customers that may have already started to use an alternative post office. POL's communication materials are important in this respect. We have written to POL to offer to assist with a review of its consultation materials

6. The Chief Executive of Post Office Ltd told us that the proposals in Local Area Plans were refined through the pre-consultation process and that this preparation is some compensation for the limited time allowed for public consultation. If this is so, commercial confidentiality should not prevent Post Office Ltd from holding the discussions necessary to make sensible proposals. (Paragraph 17)

Postwatch response:

We agree that POL should do all it can to ensure the proposals that enter public consultation are sensible and robust.

Local Authority and MP involvement

7. We also note that although Postwatch appears to be doing a good job in influencing proposals in the pre-consultation period, several of the MPs who responded to our request felt that Postwatch could have been more closely involved in discussions with them. Postwatch is the only organisation able to take proposals to review; it would be helpful if it always discussed its position with interested MPs. (Paragraph 20)

Postwatch response:

Postwatch writes to all relevant MPs and local authorities at the beginning and end of public consultation. We have also met or spoken with many MPs about proposals within their constituencies. However, in response to the Committee's request we will now write out again towards the end of the public consultation to remind MPs of our contact details, to detail the review process, and to offer a discussion.

Profitability

8. Local authorities and local MPs should be more closely involved in the pre-consultation process. Postwatch appears to be doing a good job, but it simply does not have the wider responsibilities of local government, or the representative role of MPs. The Chief Executive of Post Office Ltd told us that local authorities were involved in drawing up local area plans before they went out to public consultation; clearly, some local authorities do not feel they have been properly involved. Local Area Plans would be improved if local authorities and Post Office Ltd worked together. (Paragraph 21)

Postwatch response:

We agree it is important that local authorities are included in the development of area plans and have the chance to input relevant data. We will continue to work with POL to ensure they engage with local authorities throughout the programme.

9. Postwatch should scrutinise proposals to close post offices which are commercially viable for Post Office Ltd particularly closely and, if necessary, have powers to block them. (Paragraph 22)

Postwatch response:

We understand and share the Committee's concerns relating to the possible closure of profitable post offices. We welcome Alan Cook's assurance that closures will only take place where the result is a material saving to POL. This, however, is not an assurance that profitable branches to POL will not close. Postwatch agrees with the Committee that such proposals would need to be carefully considered—profitable offices are likely to be heavily used, and closures would therefore affect many customers.

However, Postwatch has not argued for the power of veto over any closure and believes the decision on whether or not a branch closes should rest with POL. Postwatch's strength is its ability to represent customer interests. This must remain our focus. We are, of course, active locally in querying POL's rationale for proposing particular branches for closure. However, a power of veto on decisions would require an independent analysis of POL's business model, accounting practices, and financial projections – activities that Postwatch does not have the statutory remit to undertake.

Alternative support for Post Offices

10. We welcome Post Office Ltd's apparent willingness to contemplate introducing locally supported post offices. (Paragraph 24)

Postwatch response:

We agree it is important that POL is innovative and flexible in ensuring that access to post office services is maintained throughout the UK. In most cases access to these will be best maintained via a commercial enterprise but there will be places where a locally-supported community effort is the way of meeting customer needs.

Management style

11. The Post Office's future is a matter of public debate. As we have said, Post Office Ltd is not solely a commercial enterprise. Its network provides access to essential services, and has a greater reach than any other. The Government is the sole shareholder, and the public has a right to expect Government-controlled enterprises to behave in an exemplary way. After the experience of this inexcusable lapse, we expect Post Office Ltd to do so in future. (Paragraph 28)

Postwatch response:

We agree with the Committee. It is crucial to the successful outcome of the closure programme that all interested parties have productive and respectful working relationships.

The Government Access Criteria

12. The evidence we have received from local authorities suggests the detailed information required to implement the access criteria properly has not always been taken fully into account. We are particularly concerned that in some cases the local area plan has failed to reflect arrangements to transfer Crown Offices to franchised premises in a different location. If Post Office Ltd cannot take into account information about matters that it controls, confidence in the wider information underlying these plans is undermined. Post Office Ltd must do more to demonstrate that local area plans are accurate and based on current information. (Paragraph 31)

Postwatch response:

We agree that it is important that POL does everything it can to make the consultation process robust.

In its evidence to the Committee, Postwatch outlined the concerns it had with this issue in Liverpool where the future of the Crown office is under review. POL has now resolved this situation and it is essential that it takes future franchising plans into account in its area plan consultations.

13. We underline the fact that the geographic access criteria are national, and can be met even if coverage in certain local areas falls well below the national standard. We do not know the extent to which the national criteria are met in each local area plan. We expect Post Office Ltd, as far as possible, to take the geographic access criteria into account at local area plan level, not just meet them nationally. (Paragraph 32)

Postwatch response:

We welcome the Committee's view on this issue.

For every proposal, Postwatch looks at the distance customers would have to travel following a closure, and seeks to ensure that POL takes this into account along with other local factors such as public transport, demographics, terrain and impact on the local economy.

Looking beyond the current programme, we believe the new NCC should continue to monitor the network and report to Government if gaps appear in access to post office services: currently the only local criterion is that 95 percent of customers in each postcode district should be within six miles of a post office.

Accessibility

14. We welcome the fact that Postwatch surveys proposed franchises for accessibility. We trust it also considers accessibility when it considers proposals for sub-post office closure made as part of the Network Change Programme. However, we are far from convinced that Post Office Ltd itself is fully engaged with the need to ensure that services are accessible to all. This needs to be given much higher priority. (Paragraph 34)

Postwatch response:

Postwatch agrees with the Committee that this is an important issue. POL provides information on disabled facilities and service at nearby branches as part of its pre- and public consultation materials. We examine this issue very carefully and will oppose a closure if it leaves customers with significantly worse facilities than at the closing branch.

In addition to its work during the programme, Postwatch carries out local monitoring of facilities and service levels at post offices throughout the network. Monitoring of a particular branch may be in response to complaints from customers or as result of local knowledge and research. Postwatch raises its findings with POL and asks them to take necessary steps to improve the customer experience.

Local economies

15. We believe that there should be a presumption against closing a post office where this is the last shop in the village, or in a deprived urban area. (Paragraph 35)

Postwatch response:

We understand the position taken by the Committee but we would find this a difficult recommendation to support.

Where a post office is located in an urban deprived area or is the last shop in the village, Postwatch believes this is an important factor to consider in conjunction with other local factors. Before proceeding with the closure of these post offices, POL should fully consider other important local factors such as distance to the nearest alternative post office, availability of public transport, terrain, demographics and other impacts on the local economy, for example access to cash.

16. Post Office Ltd must take great care to ensure that any reduction in compensation to a sub-post office that closes, but where the remaining business intends to offer new and competing services, is not excessive. The purpose of reducing compensation is to limit competition with, and encourage business to migrate to, remaining post offices nearby. The argument for this reduction is weaker in areas where there is no ready access to such offices. Because of the importance of such facilities to the local communities, Post Office Ltd should always be realistic in its assessment of the degree to which alternative services would really displace business for the post office network. When reaching its decisions it should give the benefit of the doubt to the business and so to the people it serves. (Paragraph 38)

Postwatch response

We agree with the Committee that a solution must be found that balances taxpayers' interests with the needs of local communities.

17. The timetable for the Network Change Programme is extremely compressed. We would be concerned if postmasters had to decide whether to accept the cut in compensation before they had the time to establish whether they could attract bill payment or other services, or explore the terms of such contracts. Postmasters should be given adequate time to explore these factors before deciding what compensation to accept. (Paragraph 39)

Postwatch response:

We agree that the timetable for the Network Change Programme is challenging and that there is a risk therefore that decisions could be rushed. Where possible we hope POL can allow the leaving subpostmaster the time to take soundings locally of likely demand for bill payment and other services.

Outreach

18. We agree that open-ended questions about the type of Outreach which may be appropriate are not helpful but welcome the fact that in recent consultations Post Office

Ltd suggests what Outreach arrangements could be provided. We also welcome the assurance that Outreach services will continue until at least 2011. In addition we welcome the statement from Post Office Ltd that they are prepared to consider Outreach services in areas which had previously lost their postal services but are within the new national criteria. (Paragraph 42)

Postwatch response:

We agree that consultation on proposed outreach options needs to be based on a worked-up solution. Customers are unlikely to engage with an unfocused consultation.

Postwatch welcomes the funding made available for outreach services until 2011. We also welcome POL's commitment to individually review how outreach are operating once established and hope this will be an opportunity for POL to further tailor services to needs to the local community. We would welcome clarity from POL on what commitment it has made to retain outreach services until 2011.

19. We believe a single outreach session of two hours a week is generally unacceptable; there should normally be at least two sessions per week. (Paragraph 43)

Postwatch response:

We agree with the Committee that a single outreach session of two hours per week is generally unacceptable. Postwatch has called for outreach services to be available for at least two consecutive hours, three days per week. We believe BERR must look again at setting minimum hours and also a minimum product range. We will seek a meeting with BERR on this topic and feedback our progress in our next report to the Committee.

20. We welcome the proposals to introduce Post Office provision to remote areas. If this cannot be done by voluntary Outreach arrangements, we expect the Post Office to provide the necessary services itself. (Paragraph 44)

Postwatch response:

We agree with the Committee that POL is responsible for ensuring that the access criteria are met in all parts of the UK. It is reassuring that POL so far has been able to find sub-postmasters willing to operate outreach services. Where sub-postmasters cannot be found to operate outreaches in remote areas, POL should bear responsibility for ensuring needed services are established and maintained.

Proportionality

21. We welcome the fact that Post Office Ltd appears to be taking a flexible and pragmatic approach to the requirement that the closures should not fall disproportionately in particular areas, and that its programme takes some account of the varying levels of current provision. (Paragraph 45)

Postwatch response:

We agree it is important that POL takes account of current provision when drawing up area plans. We will continue to look at each area plan to seek to ensure that no areas are disproportionately affected—not only in terms of closures, but also in terms of post—programme customer access to post office services.

22. The Network Change Programme has a difficult balancing act to perform between responding to local needs and concerns and ensuring that the necessary reduction in the network is achieved. We welcome the Minister's assurance that areas which are considered late in the process will not be disadvantaged. We intend to keep this, and other aspects of the programme, under review. (Paragraph 46)

Postwatch response:

We also welcome the Minister's assurance. We will continue to provide the Committee with regular reports to help it monitor this recommendation as well as the programme as a whole.

Conclusion

23. Post Office Ltd has been given the task of reducing the network by a fixed number of branches in a fixed period. The Network Change Programme began in July 2007 and the final consultation is scheduled to end in October 2008. That is a very challenging timetable. As we always feared, this has meant that consultation has been curtailed, and the whole process has been rushed. The failure to realise at the outset that the consultation timetable should take account of the "purdah" for local elections, and the failure to allow properly for the effects of holidays on consultation periods, are symptoms of this. The process has been improving as more experience is gained, but problems remain. There is not enough clarity about the basis of the consultation; we are concerned that accessibility is not always taken into account; commercial confidentiality has prevented sensible discussion. We hope that all those involved will use this Report as a prompt to make further improvements. (Paragraph 47)

Postwatch response:

We welcome this report and the Committee's acknowledgement of the efforts Postwatch are making on behalf of customers. We will work with POL and BERR to ensure the recommendations are fully considered.

We strongly believe that the Committee's continued interest is key to maintaining reasonable customer access to post office services up to and beyond 2011.

Formal Minutes

Monday 19 May 2008

Members present:

Peter Luff, in the Chair

Adrian Bailey
Roger Berry
Brian Binley
Lindsay Hoyle

Miss Julie Kirkbride
Mike Weir
Mr Anthony Wright

Draft Report (*After the Network Change Programme: the future of the post office network*), proposed by the Chairman, brought up and read.

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

Paragraphs 1 to 39 read and agreed to.

Ordered, That the responses from the Government, Post Office Ltd and Postwatch be appended to the Report.

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

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

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

Ordered, That the memoranda received from the Department for Business, Enterprise and Regulatory Reform, Michael Foster MP, Friends of Rippingdale Post Office, Lincolnshire County Council, Brooks Newmark MP, Northern Pensioners Association – Crewe and District, Terence O'Halloran, Royal Mail and Save Tilton Post Office Campaign be reported to the House for printing with the Report.

Ordered, That the remaining memoranda be reported to the House for placing in the library and Parliamentary archives.

[Adjourned till tomorrow at 9.00 am

List of written evidence

1	Department for Business, Enterprise and Regulatory Reform	Ev 1
2	Michael Jabez Foster MP	Ev 3
3	Friends of Rippingdale Post Office	Ev 3
4	Lincolnshire County Council	Ev 4
5	Brooks Newmark MP	Ev 6
6	Northern Pensioners Association – Crewe and District	Ev 7
7	Terrence O Halloran	Ev 7
8	Royal Mail	Ev 8
9	Save Tilton Post Office Campaign	Ev 11

List of unprinted evidence

The following memoranda have been reported to the House, but to save printing costs they have not been printed and copies have been placed in the House of Commons Library, where they may be inspected by Members. Other copies are in the Parliamentary Archives, and are available to the public for inspection. Requests for inspection should be addressed to The Parliamentary Archives, Houses of Parliament, London SW1A 0PW (tel. 020 7219 3074). Opening hours are from 9.30 am to 5.00 pm on Mondays to Fridays.

The Highland Council
 Alan Simpson MP
 Ms J K Gillett
 Carrington Post Office
 Fabian Women's Network
 Ian Senior
 Postwatch

List of Reports from the Committee during the current Parliament

Session 2007–08

First Report	The work of the Committee in 2007	HC 233
Second Report	Jobs for the Girls: Two Years On	HC 291
Third Report	Post Office Closure Programme	HC 292
Fourth Report	Funding the Nuclear Decommissioning Authority	HC 394
Fifth Report	Waking up to India: Developments in UK-India economic relations	HC 209

Written evidence

Memorandum submitted by BERR

When I gave oral evidence to the Committee on 5 February, I promised to write to you with clarification on two points relating to the Outreach element of Post Office Ltd's network change programme.

One point related to how much of the Government's funding support of up to £1.7 billion for the network to 2011 relates to Outreach. The funding package includes provision for the set up costs of 500 new Outreach sites and compensation to sub-postmasters whose offices close and are replaced by an Outreach service. Post Office Ltd estimates that the new Outreach set up costs will be around £3.5 million and the related compensation payments will be in the order of £12 million. In addition, the net annual costs of operating the new Outreach services are estimated as around £3 million and these costs will be met from the Network Subsidy Payment of up to £150 million a year.

The other point related to how long these Outreach arrangements would remain in place. As I said at the hearing on 5 February, Government has committed funding support for the non-commercial network of post offices, including Outreach services, up to 2011 through the Network Subsidy Payment. Outreach attached to a core sub-post office becomes an integral part of that business, and as such it is not covered by a separate contract, but by an addendum to the existing sub-postmasters contract. Thus a core sub-postmaster, as is the case for all sub-postmasters, will be on an open-ended contract. To allow time for Outreach services to become established and stable within the community, Post Office Ltd requires that all new Outreaches be run for a minimum of 12 months. In the event that a core sub-postmaster thereafter wishes to retire, or otherwise sell on the business it will have to be on the basis of the new owner continuing the core and outreach operation. In the event that no commercial buyer can be found, Post Office Ltd will endeavour to make alternative arrangements for continued service provision which includes finding another sub-postmaster willing to act as the core. Post Office Ltd and Postwatch will shortly be revisiting the Code of Practice on Changes to the Post Office Network in the light of experience from the network change programme.

28 March 2008

Supplementary evidence from BERR

Thank you for your letter of 12 March seeking clarification on a number of points in the context of the Committee's watching brief on the network change programme and the future of the network as a whole. I apologise for the delay in replying.

Responding to your points in the order they are set out in your letter:

ACCESS CRITERIA

Does the Government intend to incorporate the geographical access criteria, used for the Network Change Programme, into the Universal Service Obligation, which at present includes much weaker distance-related criteria?

The Government has no plans to extend the criteria to the Universal Service Obligation. Postcomm, the independent regulator, has responsibility for ensuring the provision of the universal postal service and it would be for them to consider such changes. The Committee will also be aware that an Independent Review of the Postal Market was announced by John Hutton in December last year. Under its terms of reference, the Review Panel will be looking at how the universal service can be maintained in the light of the current trends and postal market developments.

Why is there no "proportionality" in the national access criteria (other than the postcode district criterion), which would provide additional protection at the English regional/devolved administration level?

The Government's response last May to public consultation on the post office network confirmed the Government's commitment to maintaining a post office network with national coverage. The minimum access criteria which have been introduced are therefore designed to maintain such a national network, but with particular protection for deprived urban areas, rural areas and, with the individual post code district criterion, deeply rural and/or sparsely populated areas. In addition, the Government's consultation response made clear that it expected Post Office Ltd, in developing detailed area plans, to reflect the principle that no country within the UK and no group of inhabitants at the area plan level should be significantly more adversely affected than any other.

Once the Network Change Programme has concluded will the “additional” criteria, about matters such as accessibility, economic impact and public transport, be applied to future post office closures? If so, how? If not, will any other factors besides geographical accessibility be taken into account when taking local decisions? Will there be any “review process”, as in the NCP, for decisions made about future closures outside of the NCP? If so, might this be open to MPs and local authorities to invoke?

We are looking to Post Office Ltd and Postwatch (and, as appropriate, its successor body, the new National Consumer Council) to review and update the Code of Practice on post office closures and relocations to reflect the network circumstances after the network change programme. It is therefore too early to state definitively what factors in addition to geographical accessibility will be considered in taking local decisions. But it is expected that experience from the network change programme will be taken into account in revising the Code of Practice. Equally, at this stage, it is too early to say what review process, if any, may be adopted.

Will responsibility for monitoring the access criteria rest with the NCC alone, or will BERR also monitor the extent to which they are met?

Post Office Ltd will monitor its compliance with the access criteria and the NCC will independently validate this. BERR will seek monitoring returns from both bodies but will not itself undertake any direct monitoring function.

What do you expect Post Office Ltd to do if 2011 Census data show that the access criteria within particular postal districts (or nationally) have been breached because of population growth?

Where future population growth in any given area leads to breach of the access criteria, we would expect Post Office Ltd to introduce new service provision to restore compliance.

If a proposed post office closure would lead to a breach of the access criteria within a particular postal district (or indeed nationally), would you expect Post Office Ltd to provide postal services directly?

We would expect Post Office Ltd to provide continuing postal services, either by outreach or on any other basis, which would maintain or restore access criteria compliance.

DEVOLVED RESPONSIBILITY

Last year the Committee noted that the Government had suggested there should be greater devolution of responsibility to local authorities in England and devolved administrations. Does the Essex County Council case fit with the Government’s plans? Will it inform future decisions?

We are considering what scope there may be for devolving greater responsibility for decisions on post office service provision to a local level. However, any such approach would have to be consistent with our overriding aim to maintain a post office network with national coverage and minimum national standards.

The proposals from Essex County Council and from some other local authorities are to provide funding from their own budgets to support the continued provision of postal services in some areas where post offices are closing under the network change programme. The Government has encouraged Post Office Ltd to fully explore any serious proposal from local authorities to maintain a service where branches are scheduled to close.

COMMUNITY MODELS

Are there any current sources of funding which might be used to help communities preserve their post office using a community model? Will the Government consider providing “seed funding” for community initiatives specifically to preserve post offices within a community shop or other venture?

BERR does not have any funding provision to support efforts to preserve post office service on a community model basis. The £1.7 billion funding package announced in May 2007, including the £150 million annual Social Network Payment, is designed to support a network of around 11,500 branches providing reasonable access to post office services nationally. Any additional postal service provision above this would be the financial responsibility of the body or organisation concerned.

Memorandum submitted by Michael Jabez MP

I understand that your Committee are close to producing a report, which I look forward to reading. I understand from your Clerks Department, however, that this is only an interim report and that you may be pursuing a further inquiry.

I apologise that I have not previously replied to a letter I note you wrote on the 6 December, as I have been very engaged in the “fight” in my own constituency and seeking to find the justification for some of the decisions.

The particular concern that I would want to bring to your attention, in case you have the chance to further review it, is the central costs imposed on sub-post offices and which, in turn, seems to have led to the decisions to close those in my constituency, and others.

The principled point is that Post Office Ltd have steadfastly refused to disclose their financial details which I think is, of itself, wrong, given that they are a public body. Prior to an adjournment debate, which I was involved in, in respect of the Hastings offices, I met with Post Office Ltd who initially offered me some information “in confidence”. I said I would not accept it “in confidence” but by then they had passed information to me which appears not generally to have been in the public domain.

In short, in looking at the four post offices in my constituency that were “up for closure”, I was able to discover that the cost of paying salary and commission to the local postmaster to run the service was, in some cases, less than the on-costs attributed to central services to support that operation. Offices are not the same as MacDonald’s or Burger King bars, but to have an on-cost that is actually greater than the cost of providing the services does seem surprising. When I asked for a further breakdown, for example as to how much would be saved from central costs if a post office was closed ie the sorts of cost of delivering money etc, I was told it was about a third. This obviously led me to the conclusion that the central costs are much wider than the support of any particular local office and that, in turn, that additional cost is presumably shared out across other post offices that are kept open and thus, in turn, probably makes them unprofitable.

I do think that there is a need for a route and branch enquiry into post office costs. What are they loading onto these local offices that makes them so unprofitable.

I’ve asked some Parliamentary questions but it seems that the information about central costs is not held by Government but by the Post Office. I do not get the answers I need. I intend to pursue these through public information requests.

11 February 2008

Memorandum submitted by Friends of Rippingdale Post Office

POST OFFICE LTD IGNORES SELECT COMMITTEE

We are a village group fighting to retain our PO branch, but this letter is not so much a plea about our case in particular, as about the outrageous process by which PO Ltd are conducting the closure programme, with Rippingdale in Lincolnshire as an example of what’s actually happening on the ground.

We watched your Select Committee sessions and read the report of 8 February with some optimism—the Committee took an eminently sensible, practical approach and we hoped that PO Ltd would be influenced by your views, or to quote your report “. . . that all those involved will use our report as a prompt to make improvements very quickly indeed”.

We hoped in vain.

Our group has been given extraordinary access to senior PO management—we can’t explain why, but suspect it’s because we have been one of the most vociferous. We have been invited to three face-to-face discussions with such personnel as Sue Huggins, Director of PO Network Change, Anthony Jones, Regional Development Manager, Mark Partington, Network Change Manager and Matt Silcock, External Relations Team—the last on Friday 29 February.

At that meeting we had hoped to discuss with Mr Jones and Mr Partington the findings of your Committee:

- the presumption that if a branch is in the last shop in a village it should remain open;
- the strictly limited confidentiality of information released to groups such as ours;
- the evidence given both by Alan Cook and Pat McFadden that PO Ltd are open to “imaginative ideas and viable alternative solutions”; and
- the PO suggestion for a mobile office Outreach solution—more expensive than keeping the branch open.

The PO representatives at Friday's meeting said that:

- the “last shop presumption” was not part of closure criteria;
- refused to divulge any information about our village branch;
- refused to discuss our idea for an alternative to closure; and
- referred us to their “core partner” to discuss a further idea about developing Outreach.

This last leaves a very bad taste in the mouth since that “partner” had already offered our sub-postmaster the grand sum of £1,000 to keep his counter open for his usual hours for a year. This works out at under 5p an hour—even if it had been for our 13 hours-a-week Outreach, it would have been under 70p an hour. PO Ltd say that offering pay levels grossly below legal minimum wage levels is nothing to do with them and that their deals with core partners are legal—even though their partners are effectively employees.

I hope you agree that the ethics of this kind of approach by an organisation like PO Ltd are simply unacceptable.

Worryingly one of the PO managers also stated that the mobile office was an “interim solution”, and was then hastily and unconvincingly corrected by a colleague.

In our consultation dossier we refuted every one of the original, so-called closure criteria, only to be told at a meeting with Sue Huggins, Network Change Director, that they had tried more than 60 templates for closure on those grounds and had given up—what they'd actually gone for was a neat pattern on a map.

We then demonstrated that Rippingale didn't fit this approach either, since there are three villages in the area which tick every and any closure criteria box. Again, no reply was forthcoming and five months on we still have not been told why our village branch has been selected for closure.

The word “sham” has been used many times in the last few months about the closure consultations—in our view with some justice.

Other words like “incompetent, inconsistent, inarticulate, confusing, misleading, condescending, inflexible, closed-minded, spring to mind and as taxpayers we're very concerned about the future viability of the PO Network if this is the way they operate.

We should make it clear that we accept the overall logic of the closure plan and have no problem with closing loss-making, poorly used branches—but our branch is outside the closure criteria.

We hope the powers of the Select Committee are sufficient to enforce democracy and a little justice, rather than the dictatorship we appear to be facing in this context and would be very happy to provide even more details of the appalling way PO are behaving, either by email or face-to-face.

5 March 2008

Memorandum submitted by Lincolnshire County Council

RESPONSE TO HOUSE OF COMMONS BERR SELECT COMMITTEE POST OFFICE CLOSURE PROGRAMME REPORT

Lincolnshire County Council have been actively engaged with the consultation process recently undertaken by Post Office Ltd. The County of Lincolnshire has been affected by 43 Post Office closures, 26 of which will be replaced with an Outreach service.

The Council welcomes the report from the Business, Enterprise and Regulatory Reform Committee titled “Post Office Closure Programme”, and is pleased that the Committee has listened to the concerns of Local Authorities and other organisations. However, the Council has a number of concerns about how the recommendations from the report will be implemented in Lincolnshire where the closure programme is in its final stages for two thirds of the County.

Lincolnshire County Council expects to know how Post Office Ltd will address these recommendations, which are contrary to the wishes of the Select Committee. As such Lincolnshire County Council demands that Post Office Ltd provide information as to how it will take action to implement the recommendations of the report as outlined below.

LOCAL ECONOMIES

The rural nature of Lincolnshire means that many post offices are situated within other businesses. The Committee's report clearly states that:

“We believe that there should be a presumption against closing a post office where this is the last shop in the village”.

The Post Office closures in Lincolnshire have resulted in at least 23 closures which are co-located in another business. Many of these are the only shop in the village, for example, Great Hale, Ripplingale and North Kelsey. Many of these could inevitably result in the closure of the shop due to the Post Office closure. This is going to have a dramatic impact on all communities affected in this way, as access to any of their local commercial facilities will be taken away.

A further concern relates to paragraphs 36, 37, 38 and 39 of the report regarding the compensation that a Sub Postmaster will receive if they continue to deliver competitive services from his business. The Council agree with the Co-operative Retail Trading Group's comment that "the Post Office is trying to reduce competition and acting against the consumer interest".

The Council would like some clarification on how the recommendations from the Committee around local economies will be considered for these post offices in Lincolnshire. It is not acceptable for these recommendations to be ignored for post offices because they are in the first round of closures. We would expect to see some specific work to show that these recommendations have been taken into account, and any relevant changes made to the plan.

ALTERNATIVE SUPPORT FOR POST OFFICES

The experience of Lincolnshire County Council has been that Post Office Ltd has so far not been open to proposals for local support for Post Offices. Although discussions have taken place in the County around this issue, Post Office Ltd have not been willing to share the necessary financial information required to allow organisations and communities the opportunity to put forward serious proposals. The Minister commented:

"Post Office Ltd is currently putting in place a process for responding to serious expressions of interest in maintaining post office service provision at specific offices by means of community or local government funding".

The Council welcome this process, but this process should also be applied for those post offices in Lincolnshire which are currently having these conversations with Post Office Ltd. Until now, expressions of interest have not been welcomed from Post Office Ltd, and have been difficult to move forward. The Council would like to know what this process will involve, and how this can be applied for those post offices in Lincolnshire which have received interest from local funders.

THE CONSULTATION PROCESS

Lincolnshire County Council has expressed concerns numerous times to Post Office Ltd about the effectiveness of the consultation process used in this programme. The Committee's report reflects these concerns and highlights the main points that the Council would like to be addressed, especially in future consultation periods.

The Council strongly agree that:

"The closure programme is not just about the commercial needs of Post Office Ltd—it's also about the needs of communities served by individual sub-post offices. If people are to respond sensibly to proposals to close a particular sub-post office, they need to know why that branch has been put forward for closure".

It should be noted that those communities affected by the area plans in Lincolnshire have not been given a fair consultation process, with no information given on the nature of outreach services to be provided. Post Office Ltd should be prepared to revisit these services, and hold further consultation if necessary giving specific information on the service to be provided.

The Council request some clarity from Post Office Ltd on the message that will be given to communities when an Area Plan is released, to make clear that they are being consulted on whether the right post office is being proposed for closure, not whether post offices should close in the area. There should be clear and direct information given to the public, and we would like to know what changes will be made to the future consultation's to achieve this.

OUTREACH SERVICES

Lincolnshire is currently expected to receive 26 outreach services. The report acknowledges that "a single outreach session of two hours a week is generally unacceptable". The Council agree with this view point and seek clarity from Post Office Ltd and PostWatch that this recommendation will be acted upon with the minimum level of service being offered (two hours) being increased across the outreach solutions in Lincolnshire.

Accessibility has been a key problem for ensuring that post offices are available to all in Lincolnshire, especially for the vulnerable and elderly populations. The Council strongly agree with the Committee that:

“we are far from convinced that Post Office Ltd itself is fully engaged with the need to ensure that services are accessible to all. This needs to be given much higher priority”.

In the recent announcement of the outreach services to be delivered in Lincolnshire, Post Office Ltd proposes to park mobile vehicles in lay-bys in rural villages. In many cases this is not an accessible place for a mobile service, a number of concerns exist around availability, road safety and accessibility. The Council would like to know how Post Office Ltd are going to ensure that these issues will be addressed.

FUTURE CONSULTATION

Lincolnshire will be affected by closures in a further area plan in June 2008, when the districts of South Holland and Boston will be included in the Cambs, Herts and Beds Area Plan. We do not want to repeat the unacceptable process which has taken place in the East Midlands and East Yorkshire Area Plans, and ask that Post Office Ltd implement the recommendations from the report to prevent this.

We look forward to hearing from Post Office Ltd and PostWatch with responses to how the recommendations of The Committee will be implemented in Lincolnshire.

28 February 2008

Memorandum submitted by Brooks Newmark MP

POST OFFICE CLOSURE PROGRAMME

You may be aware that I raised a flaw in the Post Office consultation process in Essex during BERR questions last week. Needless to say, I was unsatisfied with the Minister's response, at column 1239; all the more so because I had already written him to raise this precise issue.

I should like to draw the Committee's attention to the circumstances in this case in advance of the publication of your final report. While many Members will, no doubt raise complaints about the outcome of the consultation process for their constituencies I believe it to be a minimum requirement that the process itself should be both accurate and open.

The circumstances are as follows. The Essex consultation reported that three branches in my constituency would be closing. During the consultation I received a detailed briefing from two Senior Relations Managers at Post Office Ltd. who assured me that the George Yard Branch in Braintree was well equipped to receive the displaced business from two of the closed branches to the north of Braintree.

They further assured me that Post Office Ltd was working closely with staff at the George Yard Branch to ensure additional capacity was available and that some acknowledged problems with customer service would be corrected. Their investigations were detailed enough to conclude that George Yard would receive an additional 17% business as a result of the proposed closures but not detailed enough, it seems to discover that the Co-op intended to end its co-location arrangement.

In January my local press discovered that the George Yard Branch would be closed and relocated a quarter of a mile further south, exacerbating a trend whereby the north of Braintree had steadily lost its Post Office branches. I raised this issue with Alan Cook of Post Office Ltd and enclose my correspondence with him, which largely speaks for itself.

I must now question the purpose of a consultation which proceeds on the basis of fundamentally inaccurate information. I further question whether it is worth Post Office Ltd briefing Members of Parliament and involving us in the consultation process if its own members of staff do not have accurate information to hand. I was also deeply uncomfortable at being given confirmation of the move “in strictest confidence” after news of the change had already broken in the press which would seem to make a mockery of an open consultation process and undermine public trust.

I do not believe I have received an adequate answer, from either Post Office Ltd. Or the Government on whether it is acceptable for the closures to proceed on the basis of inaccurate public information. I should be grateful if the Committee could give consideration to the matter in your final report.

5 March 2008

Memorandum submitted by Northern Pensioners Association—Crewe & District

POST OFFICE CLOSURE PROGRAM THIRD REPORT OF SESSION 2007–08

Having read the above report and also watched much of the proceedings of the Committee recently on TV we have the following comments.

1. CONSULTATION PROCESS

The report confirms our initial view that the consultation was a sham. We do not share the view of the Minister for Postal Affairs that he had done enough by informing local councils and MPs that the real question was not whether a post office should close but whether the right branches are being closed. Responsibility for the consultation lies with the Post Office and Postwatch.

The Post Office had ample opportunity in their correspondence with me to make this clear. PostWatch had two letters published in our local papers urging the public to participate but to the best of my recollection did not make the question clear. That is a fundamental flaw in any consultation/opinion poll. It also makes consultation pointless when, as in the case of Nantwich, all sub-post offices were to be close.

2. POST OFFICE BUSINESS PLAN

The report does not mention the business model adopted by the Post Office for the supply of postal services in the future yet this has a significant bearing on the Consultation Process. The model is based on the existence of large High Street based urban post offices not peripheral sub-post offices. Therefore any proposal to close such a post office and keep sub-post offices open will be rejected out of hand.

3. WORKING NEIGHBOURHOODS SCHEME

This scheme comes under Caroline Flint, Housing Minister.

The following was reported in *The Guardian* 5 February 2008:

“Changes to the way jobcentres operate are also central to her plans as part of the Government’s working neighbourhood schemes.

‘Rather than the jobless going miles to get employment, debt and childcare advice, it is better to bring that advice to them’.”

There seems to be a contradiction between policy on job centres and post offices.

We feel the criticism contained in the report of the process are far too mild and bland to reflect the depth of feeling in the community.

28 February 2008

Memorandum submitted by Terence O’Halloran

My colleagues and I have read the Third Select Committee Report on Post Office Closures with interest. We consider that you are being misinformed.

I really cannot put it any other way, just look at the figures. BERR claim £4 million per week losses for post office outlets. That is simply not true. Annualised, the posted loss in the accounts for the Post Office was £99 million to the year ended May 2006. A not dissimilar figure to the losses posted in the Post Office accounts prior to the 2004 closure programme.

A social grant was paid to the Post Office (2005–06) (not a subsidy—subsidies are not allowed under EU law) to maintain rural post offices (ie those in exceptional circumstances for social needs). Those social needs are largely the payment of state benefits to those who could otherwise fail to gain access to any other source of real currency (£20 notes) which can be spent on their behalf buying goods and services.

The grant prior to the 2004 closure programme was £132 million according to the accounts and documents sent to me by the Chairman of the Public Accounts Committee, Edward Leigh MP.

The only loss that can be taken into account therefore is £99 million; which is £1.9 million per week.

However, £70 million of the £99 million loss was attributable to Crown Post Offices which will remain open; some under a franchise agreement with WHSmith. Wages in Crown Post Offices will rise as will management bonuses and incentives.

There are say 530 Crown Post Office units, leaving say, 13,400 sub-post offices many of which are situated within local shops.

The shops serve communities, whether rural, urban or suburban, many of which we have visited and most of which are vibrant, profitable outlets for the Post Office, therefore why are they being closed?

Alan Cook quoted in your Third Report, was reported as stating that he would not knowingly close profitable units. He is misguided or misinformed, or misleading you.

Langworth, Rippingale, Passfield, Muswell Hill (Alexandra Park Road), and many other post offices that are being closed together with those that have been closed like St Peter at Gowts in Lincoln, Trinity Street in Gainsborough to name but two, are/were viable post office outlets. The queues at the alternative (non profitable) outlets have increased to 20–30 minutes, and queue times are increasing. It makes “main” post offices impractical, if not impossible to use.

From the figures above it can be shown that the losses attributable to sub-post offices amounts to less than £500,000 per week spread over 13,400 outlets with, say, 60 million of the 180 million transactions taking place each week. The loss is less than 1p per transaction, therefore the BERR letter which we have received as three separate replies to direct questions concerning Langworth and other post office closures is a deliberate attempt to misguide the public. Three times; despite our attempts to inform the authors of those letters that the contents are a total misrepresentation of the facts, the same misrepresentation of the facts.

Why would anyone close 2,500 outlets rather than develop them? Because developing outlets actually takes energy and skill which it seems current management at the Post Office do not possess.

It is easier to close units and create the illusion of success, and perhaps be rewarded with a bonus for creating that illusion, than to work at a real and sustainable solution. There is a real and sustainable solution.

If the Post Office close 2,500 units with an average overhead cost of £5,000 per outlet their saving is £12.5 million (as a budgetary saving). If, however, they close 2,500 units at £12,000 average, they create the £30 million illusionary saving that, coupled with their £70 million of Crown Post Office losses, equals £100 million to match the £99 million loss posted in the accounts. Pay Mr Crozier or is it Mr Cook £1 million bonus and “you break even”.

Members of the Select Committee: the above figures are, by their nature, simplifications and generalisations but they do add up, which is more than the figures from BERR or the Post Office mandarins currently do. Quite simply, the loss is less than one fraction of a penny per transaction, exacerbated of course by the fact that any postmaster, sub or otherwise, is allowed 20 seconds to pay a benefit claim cheque. Pre 2004 was paid 11.6p for doing so and now attracts 7.3p making the whole transaction, financially, a disaster, created by government. NOTHING to do with post or stamps but taking time—the reason Crown Post Office lose so much.

As business people we cannot afford to stand in queues and indeed, the postmasters at local post offices have to wait a week to fulfil an order for stamps. The Post Office will deliver my stamps to my business within 24 hours, and they do.

It may well account for the four million individuals that the Post Office claim are not using their service any more. Stamps bought direct are placed on letters and packages which then have to be taken to the post office to be dealt with, because first class cannot be guaranteed to arrive within 24-hours and we pay £4.60 extra for the privilege of that 24 hour service.

Whilst the stamps are not purchased at the post office we use, the receipt impress and receipt that are issued for the document being passed into the postal system is dealt with by somebody sat behind a counter. Langworth sub-postmaster—who receives no credit or acknowledgement for that service.

Those who have their benefits paid into the bank still have to draw that money from somewhere and that somewhere, by and large, is a post office near to hand. Queuing time for both of the above transactions will now increase and in Lincoln that is estimated to be from 25 minutes at the Sincil Bank post office to 35 or 40 minutes. Time which we quite simply cannot afford to give. It is not difficult to see then why four million transactions per week fall by the wayside (if one can trust the Post Offices figures). They are consolidated to save time. Ask “Argos” on Lincoln High Street.

We would appreciate an urgent meeting with Committee members to discuss the foregoing statistics with a view to the total abandonment of the current closure programme, the possible reinstatement of post offices that have been closed and the establishment, by a responsible body—not consultants, that can bring the true facts to bear on what has become a social issue of immense proportion.

10 April 2008

Memorandum submitted by the Royal Mail

Thank you for your letter to Paul Budd of 12 March 2008 requesting further information. Paul is currently on leave so I have been passed the letter to reply.

I am glad that our note on TUPE was useful to you.¹ We would of course be happy to help you wherever we are able as you keep a watching brief around the Network Change Programme.

I have sought to answer your questions in order. For ease of reference I have put your questions to us in italics and answered your questions below each one.

¹ Printed at Ev 100, HC 292—II, Session 2007–08.

MEETING NATIONAL ACCESS CRITERIA

Within the Network Change Programme how are you ensuring that your local area plan decisions will cumulatively meet the Government's national access criteria?

We are ensuring that we remain compliant with the national access criteria by measuring the impact of each area plan proposal against the criteria both before consultation (against the proposed closures) and post consultation once final decisions have been taken (against implemented closures).

We will continue to measure access on an ongoing basis.

OUTREACH

What is the cost of the mobile outreach facilities per two-hour session, including overhead?

Costs for outreach are split between the central infrastructure costs (including maintenance of the mobile if this is the outreach solution), core sub-postmaster remuneration and daily running costs. Central infrastructure and core sub-postmaster remuneration costs are met by Post Office Ltd and the daily running costs for the time that the outreach vehicle is being used are met by the core sub-postmaster.

We do not break Post Office costs down into the session level that has been requested, but we can say that, running an outreach as opposed to a bricks and mortar post office saves Post Office Ltd on the agents fixed pay and some support costs. Our estimate is that typically the outreach would cost 30% of the branch it replaces. However that will depend on the size of the branch and the specific outreach model.

On what basis are sub-postmasters invited to provide outreach to satellite offices?

The need for outreach facilities are identified in one of two routes—either through the Network Change Programme or through business as usual.

Outreach locations identified through the Network Change Programme are identified on the basis of the Government requirement to use outreach as mitigation for one of the 2,500 compensated closures.

Outreach locations identified on a business as usual basis are identified on the need to maintain service for an area in a way which is as cost effective as possible. In both cases, the level of customer demand in these locations is less than that which would warrant a full time Post Office branch.

Once Post Office Ltd has identified the locations where an outreach service will be provided, either as a result of changes through the network change programme or business as usual change, core sub-postmasters are invited to provide outreach services.

Core sub-postmasters are identified to run outreach services following a three stage assessment process where their suitability to operate core and outreach services is assessed.

Does Post Office Ltd (POL) provide sub post masters with a fixed sum, and then leave them the responsibility for finding premises, etc at whatever cost they negotiate, or does POL pay these costs directly?

When a core sub-postmaster has been identified they receive a fixed sum as part of their remuneration to cover items such as rent. The core sub-postmaster is expected to identify and negotiate locations which are suitable for outreach services. They are fully supported in this endeavour by Post Office Ltd staff. Ultimately the amount paid is a matter for the core sub-postmaster and the representative of the location.

On what basis are the costs of such outreach facilities calculated?

The costs for the hire of halls and rental of properties are calculated based on our experience of the pilots we have run. This amount is built into the fixed remuneration package of the core sub-postmaster.

If a sub postmaster is unable to negotiate satisfactory conditions for outreach services, will Post Office Ltd provide these directly?

If a core sub-postmaster is unable to negotiate satisfactory conditions for outreach services, this may be a determining factor in the type of outreach service that Post Office deploys. As with the Post Office models that outreach replaces, Post Office Ltd will not be in a position to provide facilities directly.

Of the planned 500 proposals for outreaches in the UK, to date 158 outreach proposals have concluded their consultation phase. Post Office Ltd is in the process of implementing these decisions. Whilst detailed decisions about the precise proposals are confidential please find attached pilot proposals which I have appended to illustrate how the various models of outreach are likely to work. *(not printed here)*

PROFITABILITY AND PROVISION OF SERVICES

On what basis are individual sub-post offices allowed to provide particular services (eg DVLA licence renewals)?

Typically a client organisation which seeks a provision of a service through our network would specify the size of the network they require as an outlet. Post Office Ltd then works with the organisation to select the branches that will give the best geographic coverage to meet client requirements.

As a rule of thumb we can say that the larger the network required and the more complex the product, the more expensive the provision of the service, and the lower the return to the sub-postmaster.

A client (such as the DVLA) has the right to agree the details of our suggested network including the individual branches. Currently 4500 branches carry out car tax renewals.

Sub-postmasters are of course free to build up their individual retail businesses by providing outlets for additional local services such as dry cleaning, shoe repairs as well as provide services such as internet facilities, convenience stores etc.

It is also worth noting that sub-postmasters also have the opportunity to introduce customers to a variety of Post Office Ltd financial services products and their success in this regard is recognised in their remuneration packages.

What would be the increase in costs to Post Office Ltd if all sub-post offices were encouraged to provide a full range of services relating to Government departments?

As stated above the network chosen for access to a particular service (eg DVLA) is a matter for the client to determine and the cost of maintaining the network would certainly be a major consideration for clients.

Were we to extend the use of a service to the whole of our network the cost of offering access to full network would largely fall on DVLA (or whomever the contract was with). The implications of such a move would be likely to cause the client to seek a reduction in the fee they pay to us.

Government departments like any other clients would have opportunity to determine the size of the network they require for the distribution of any product, however there are costs associated with maintaining the network of distribution for the client. Additionally it is worth noting that the levels of return per individual sub-postmaster decrease in direct proportion to the numbers of sub-postmasters offering the service.

COMMUNITY PROVISION OF POSTAL SERVICES—THE ARRANGEMENTS WITH ESSEX COUNTY COUNCIL

Will these post offices count against the 2,500 total for closure under the NCP?

Post Office Ltd is currently dealing with any initiative for locally funded Post Office provision outside the current Network Change Programme. Locally funded provision is treated separately from the requirements we have by the Government to provide a minimum service without the agreed funding envelope.

Essex County Council is looking to fund a number of local businesses which are likely to have Post Office Outreach services as part of their overall retail provision.

Any compulsorily closure via the current network change programme that is subsequently replaced by an Outreach whatever its funding method will be counted as part of the up to 2,500 closures we have agreed to deliver for the Government.

Will these Post Offices offer a full range of services?

The services offered will, as with the rest of our network, depend on the type of outlet that is appropriate. We will aim to match the service to the needs of the local community. Some service availability depends on the demands of the body for which we are providing the service. For example the Check and Send service is only available through 4,500 outlets because that is what the Passport Agency want, although we are in discussion with them on this.

Will the Council now be expected to pay all of Post Office Ltd's overheads?

The Council will not be funding Post Office outlets. It will be providing funds to local businesses. Those businesses may choose to provide Post Office services as part of the retail offering they provide to support the local community.

Where branches are opened in places where a closure has taken place through the Network Change Programme, those services are not part of the branch network. They are therefore not considered part of the provision that Government has identified as being necessary for general economic interest for which state aid approval has been given.

If Post Office Ltd is to open outlets which are not included in the branch network which government has decided should be funded by state aid, it cannot use that state aid to subsidise them. It needs to run them on a commercial basis and that means making sure that it does cover its costs.

Leaving aside the 15 post offices to be supported by the Council, how many post offices will now close in Essex?

Essex CC will not be supporting the Post Offices but is looking at providing funding to local businesses which may, as part of their overall retail offering, provide Post Office services. They recognise these retail outlets in the round aid the sustainability of local communities and help support elderly and disabled people to remain in their own homes rather than having to move into institutional care.

34 branches have closed or will close very shortly as part of the network change plan for Essex.

What effect does this arrangement have on the profitability of nearby post offices?

The overriding objective of the Network Change Programme was to put the post change network on a more sustainable footing than that of the network that preceded it.

As a consequence Post Office Ltd will only consider local funding proposals where it believes that in doing so the remaining network is not negatively impacted.

How many other local authorities are pursuing, or likely to pursue, similar arrangements?

We have had expressions of interest by a number of local authorities and community representatives but to date only six have proceeded to the next stage of signing non disclosure agreements. The details of these bodies remain confidential.

LONG TERM FUTURE OF THE NETWORK

Once the network change programme has concluded, do we expect the additional criteria about matters such as physical (as opposed to geographical) accessibility, local economic impact and public transport options to be applied to future post office closures? If so, how could this be managed?

As the Government's access criteria has replaced the Government's previous policy of "avoid avoidable closures" Post Office Ltd will continue to apply these when making network decisions.

The precise process for this requires a new code of practice which is due to be developed with Government and Postwatch or its successor body imminently.

What will Post Office Ltd do if data from the 2011 census shows that sizeable communities are without access to a post office?

As indicated in our proposal documents for each area in the Network Change Programme Post Office Ltd will keep the network under review.

Post Office Ltd does not necessarily believe that the current network will remain static indefinitely. We will continue to review the provision of services, both commercial and social, on the basis of demand. Additionally Post Office Ltd will assess other factors prescribed by the Government including the minimum access criteria which are of course sensitive to population information.

2 April 2008

Memorandum submitted by Save Tilton Post Office Campaign

BERR SELECT COMMITTEE PO CLOSURES REPORT: REASONS FOR CLOSURE OF BRANCHES?

1. I wrote to you on 8 February pointing out that the reasons for the confirmed closure of "our" PO branch (Tilton) and, as far as I could see, of all other confirmed closing branches in Leicestershire, Northamptonshire and Rutland as well, had not been published in the final decision booklet, despite the assurances given by Ms Vennells (see 2 below; emphasis added) and Mr Cook (see 3 below; emphasis added).

For information, I append the whole of the textual entry in the *Leics etc* decision booklet, showing that no reason of any sort was given for closure of the Tilton PO—either *proposed* (as a search of the initial consultation booklet shows) or *confirmed* (as 4 below shows: emphasis added).

Since this directly conflicts with the impression which seems to have been given to your Committee by PO Ltd witnesses (one or two—it is unclear), it would surely seem appropriate to raise such an important matter with the Post Office management.

I cannot resist appending a short note about the farcical situation we now find ourselves in, in Tilton. Having confirmed (in the area decision booklet) that Tilton would instead be granted a hosted outreach service for three mornings a week, an offer was made by POL to the current shopkeeper-cum-postmistress (for just under four weeks more, only) to pay her £5 per session for the rental of about one square metre of counter space from 31 March. The three planned sessions per week would occupy 10 hours—which means the offer was worth £1.50 per hour!! She unsurprisingly refused it, and it is understood that Oakham PO (the “organiser” of the outreach arrangement) were unable to afford any more!!! No alternative facility is available in the village in the mornings, so at present we face the prospect in four weeks’ time of having lost our PO (after 150 years), and having no outreach at all. Presumably that will throw out PO Ltd’s achievement of the minimum access criteria that it has to meet, with consequences that we have not yet established.

2. UNCORRECTED ORAL EVIDENCE—TUESDAY 5 FEBRUARY 2008

Q186 Roger Berry: *Local consultation documents contain very little information on why certain branches have been elected for closure, which was obviously a criticism made the last time round. Why not explain why particular branches have been chosen?*

Ms Vennells: We give the reason why branches are selected for closure once we get to the decision stage because at the consultation stage we are not consulting on a particular branch, we are actually consulting on a number of closures that need to be made . . .

3. BERR SELECT COMMITTEE REPORT ON PO CLOSURE PROGRAMME

14. Many of our respondents complained that, even after considerable effort, they were given no reason why particular branches had been chosen for closure (27). When we put this to Alan Cook, he told us that these grounds were given in the final decision booklet, and since the proposals were tentative, it was inappropriate to give reasons why particular branches were put forward for closure at an earlier stage (28). This is not good enough. The closure programme is not just about the commercial needs of Post Office Ltd—it also about the needs of communities served by individual sub-post offices. If people are to respond sensibly to proposals to close a particular sub-post office, they need to know why that branch has been put forward for closure. There may be some details which need to be kept confidential, but this should be strictly limited, given the substantial public investment in the network and the keen public interest in the outcome. We welcome the fact that Post Office Ltd has been prepared to share more information as the process has evolved; it should give such information at the outset of the consultation process. f/note 28: see Q 186

4. LEICESTERSHIRE ETC AREA DECISION BOOKLET

Post Office[®] Tilton on the Hill branch

Respondents’ main concerns were the impact of change on vulnerable customer groups; the impact on local businesses; the availability of public transport; the distance and difficult nature of the routes to other branches for people with mobility problems, and the impact on the future of the local shop. The excellent service provided by the staff at Tilton on the Hill was also highlighted. Having regard to all comments received during the local public consultation and all other relevant factors, Post Office Ltd has decided to proceed with the closure of this branch and replacement with an Outreach service.

Post Office Ltd has explored various options in relation to the provision of an Outreach, and has decided to introduce a Hosted service offering 10 hours per week from the site of the current branch.

Opening hours will be as follows:

Monday	09.00 am to 12.30 pm
Wednesday	09.00 am to 12.00 noon
Friday	09.00 am to 12.30 pm

We are most grateful for your earlier interest in our experiences. Please note that we are keeping Mr Alan Duncan, our local MP, in touch with these developments.

3 March 2008