



House of Commons
Trade and Industry Committee

**Restructuring the Post
Office Network:
Government Response
to the Committee's
Eighth Report of
Session 2006–07**

**Seventh Special Report of Session
2006–07**

*Ordered by The House of Commons
to be printed 18 October 2007*

HC 1083
Published on 26 October 2007
by authority of the House of Commons
London: The Stationery Office Limited
£0.00

The Trade and Industry Committee

The Trade and Industry Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department of Trade and Industry.

Current membership

Peter Luff MP (*Conservative, Mid Worcestershire*) (Chairman)
Roger Berry MP (*Labour, Kingswood*)
Mr Brian Binley MP (*Conservative, Northampton South*)
Mr Peter Bone MP (*Conservative, Wellingborough*)
Mr Michael Clapham MP (*Labour, Barnsley West and Penistone*)
Mrs Claire Curtis-Thomas MP (*Labour, Crosby*)
Mr Lindsay Hoyle MP (*Labour, Chorley*)
Mr Mark Hunter MP (*Liberal Democrat, Cheadle*)
Miss Julie Kirkbride MP (*Conservative, Bromsgrove*)
Judy Mallaber MP (*Labour, Amber Valley*)
Rob Marris MP (*Labour, Wolverhampton South West*)
Anne Moffat MP (*Labour, East Lothian*)
Mr Mike Weir MP (*Scottish National Party, Angus*)
Mr Anthony Wright MP (*Labour, Great Yarmouth*)

Powers

The committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the Internet via www.publications.parliament.uk/pa/cm/cmstords.htm

Publications

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

Committee staff

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

Contacts

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

Seventh Special Report

The Committee published its Eighth Report of Session 2006-07 on 5 June 2007. The Government's response was received on 8 August 2007 and is published as an Appendix to this Report.

Government response

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

The Government notes the Committee's further comments but remains of the view, for the reasons set out in our response of 17 May 2007, that a six week public consultation period will enable sufficiently robust consultations at local area level. Post Office Ltd has recently written to local authorities advising them of the expected timetable for starting area planning and public consultation in their areas and seeking their initial immediate input and further input as planning moves towards the local consultation period. We believe that this early and proactive notification approach will allow local authorities to prepare and plan their responses within the overall timeframe.

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

The Government notes the Committee's concern over the Post Office Network Restructuring Programme, and shares their desire that the merger not hinder this programme. The Department is working closely with Postwatch to understand the Post Office Network Restructuring Programme and develop a route to implement the merger without hindering it.

Postwatch is a core member of the Project Steering Group, which provides the strategic direction to the project, and Project Delivery Group, which monitors and directs operational delivery of the project. Postwatch is an integral part of the merger, and any decision on the timing of the merger and how the Post Office Network Restructuring Programme is handled will be made in full consultation with them. The Government is currently considering the overall timeline for implementation, and Ministers have met with Postwatch to discuss the Post Office Network Restructuring Programme, the final decision on timing will take the need to maintain the integrity of the programme into account.

We seek a commercially viable network, not one permanently dependent on subsidy. We also note that the Network Subsidy Scheme will not be increased but will now be shared between the urban and rural network. Our major concerns, which centre on the need to improve the business prospects of the remaining sub postmasters by encouraging and enabling them to provide more varied and higher value services, have thus become more urgent. The Government's response sidesteps this issue by placing responsibility on Post Office Ltd, the very body that has consistently failed to show sufficient imagination or entrepreneurial flair in developing services so far, or properly to understand the realities of managing a network of often very small businesses. When coupled with the restrictions on individual postmasters that prevent them from innovating, it is difficult to see how the profitability of the network can be significantly improved in future. Under its new management, Post Office Ltd seems to be awakening from its lethargy, but we think that the Government, as sole shareholder and representative of the taxpayer, has a responsibility to ensure that Royal Mail Group as a whole gives proper attention to increasing the competitiveness of the network rather than just managing its decline.

In addition to the restructuring of the network to align better demand for post office services with supply, Post Office Ltd's management continues to seek new products and services for the network with some success, for example a broadband offer to complement its existing home telephone service.

As regards the contractual restrictions on subpostmasters' activities, these are limited to core products and services that compete directly with the core Post Office business. The business rationale is that Post Office Ltd sells certain products and services, which bring people into post offices, under national agreements. If there were no restrictions, there would be scope for selecting only particular parts of the network, undermining the coherence of national contracts to the detriment of smaller offices. Similarly, sub post offices can install a Paypoint terminal, but cannot use it for services which compete with core post office services. Other mail service providers wanting to use the post office network can seek to reach a suitable agreement with Post Office Ltd on commercial terms. If that is not possible, then a determination can be sought from the Regulator.

It is clearly too late to influence the specifications for POCA Mark 2, but we are disappointed that the Government thinks it both undesirable and too difficult to extend the functions of this account to simple matters like making cash deposits. Without such changes, all too often even the correction of mistakes by cashiers is impossible. We accept that this would increase its similarity to basic bank accounts, and we believe that many people who are suspicious of banks might be attracted to the dependable Post Office brand instead if the functions were similar—thus undermining the laudable hard work the Government has done in inducing

banks to offer basic accounts in the first place. However, we are still of the view that it is absurd that holders of POCA accounts cannot deposit cash into their accounts; and we do not understand why Financial Services Authority rules should “require a greater degree of scrutiny and ID checking” of customers in this case.

The detailed design of the successor to the Post Office card account (POCA), including the precise features, will come out of the tendering and contractual process. The Government hopes that the successor will be a significantly better product than the existing POCA. For example, the notice in the Official Journal of the European Union states that the successor product should be accessible at ATMs as well as Personal Teller Outlets. This will give customers more choice about where and when they access their cash. We are looking to introduce a facility to enable mistakes to be corrected (for example, when the customer ends up withdrawing more than they intended). In line with industry introduction, the accounts will be capable of receiving faster payments and the paying departments are also considering a more automated and streamlined process for opening the accounts. The POCA and its successor are very simple accounts specifically designed for those who could not open or operate even a basic bank account.

The Government believes there are wholly valid reasons for neither the POCA nor its successor allowing cash payments to be deposited. More than seventy per cent of existing POCA customers also have a bank account which they are able to deposit money in to. Allowing deposits would also mean that the accounts would come under the full rigour of money laundering provisions. Because the accounts can only receive payments of benefits and pensions from Government Departments the financial authorities currently apply a very “light touch” in terms of the Identity and Verification needed to open one. This would change significantly if cash deposits were allowed, potentially denying access to the accounts to those who need them most.

Frustratingly, it is still totally unclear what will happen when uncompensated closures occur, now or in the future, that leave geographic gaps in the leaner but still comprehensive network that the restructuring programme is intended to produce. Both Post Office Ltd and the Government must soon announce how they will cajole or induce providers to fill such gaps, and what will happen if such inducements fail. For example, would they be prepared to open a new Crown Office if an area were left with inadequate provision which failed the Government’s access criteria? Unless they give proper consideration to the maintenance of the network after restructuring, it is sadly likely that the issue of closures will return to the agenda—sooner rather than later.

As previously explained, the Government recognises that there will inevitably be future closures in addition to compensated closures under the programme—for example if a subpostmaster decides to retire or move on and new premises or a replacement subpostmaster cannot be found. Neither the Government nor Post Office Ltd can prevent that, but the Government’s access criteria will establish a minimum level of coverage that Post Office Ltd will be required to maintain. It will therefore be for Post Office Ltd to determine, according to the specific circumstances applying where a gap arises, whether that gap will be filled by an outreach service, a new agency or franchise partnership or a new Crown office.