



House of Commons
Trade and Industry Committee

Stamp of Approval? Restructuring the Post Office Network

Third Report of Session 2006–07

Report, together with formal minutes

*Ordered by The House of Commons
to be printed 27 February 2007*

HC 276

Published on 12 April 2007
By authority of the House of Commons
London: The Stationery Office Limited
£12.00

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), Clare Genis (Committee Assistant), Jim Hudson (Senior Office Clerk) and Joanne Larcombe (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.

Footnotes

In the footnotes of this Report, references to oral evidence are indicated by 'Q' followed by the question number. References to written evidence are indicated in the form 'Appendix' followed by the Appendix number.

Contents

Report	<i>Page</i>
1 Introduction	3
Current network and the closure proposals	3
Scale of proposed closures	5
Distance-based criteria	7
Beyond distance-based criteria	10
Local area consultation process	11
Postwatch	13
Future viability and new services	13
A new Post Office Card Account (POCA)	13
New services, new revenues?	14
Local decisions and devolution	16
Ownership of Royal Mail Group and incentives	16
Formal minutes	18
List of witnesses	19
List of unprinted written evidence	19

1 Introduction

1. We raised a range of concerns about the future of the UK's Post Office network in our October 2006 Report on the Royal Mail Group.¹ The Government believes the Post Office network to be unsustainable, and in December 2006 outlined plans for restructuring, involving closures, new delivery mechanisms and relocations, which will affect both rural and urban areas. The Government is consulting on these proposals until 8 March 2007. Following the appearance of the Secretary of State before us in January, we have decided to issue a short report to inform this consultation.

2. This Report examines, among other issues, the proposed strategy for the Government's restructuring programme, the distance-based criteria that would guide closures, the consultations on restructuring plans at the local level, the future viability of the network, the services that post offices could provide to ensure their viability, and the nature of the successor to the Post Office Card Account. Apart from oral evidence from the Secretary of State, we received comments on the Government's proposals from two key organisations representing the views of sub-postmasters and consumers, the National Federation of Sub-Postmasters (NFSP) and Postwatch.

Current network and the closure proposals

3. **Since liberalisation on 1 January 2006 the postal services market has changed considerably. Recently several large organisations have awarded postal services contracts to Royal Mail's competitors:² examples include the Department for Work and Pensions, British Telecom and British Gas. As Royal Mail's Chief Executive, Adam Crozier, has said, "Our rivals are creamskimming all the profitable (bulk business) mail."³ These changes appear to reduce the company's overall profits, inevitably threatening the cross-subsidisation of its unprofitable elements including the Post Office network. We are concerned about these developments, and note that the Secretary of State shares these concerns.⁴**

4. The current national network comprises 13,783 sub-post offices and 480 Crown offices.⁵ These sub-post offices have been opened piecemeal over the years, basically in whatever location the sub-postmaster concerned thought he/she could make a profit. Many closures have been similarly piecemeal. Until now, there has been no geographic planning of the location and juxtaposition of sub-post offices, i.e. the cohesion and logic of the network. The Government believes that the current size of the national network is unsustainable. Despite his previous reluctance to do so, the Secretary of State has now accepted that this situation is not only a product of technological advances and changing consumer tastes,

1 Trade and Industry Committee, *Royal Mail Group*, Ninth Report of Session 2005–06, HC 1556 I & II (hereafter *RMG*)

2 'Blow to Royal Mail as BT and British Gas defect', *The Independent*, 15 January 2007

3 'Royal Mail seeks 6p on stamps to aid survival', *Financial Times*, 27 February 2007, p1

4 Q 5

5 Based on total network size of 14,263 as at end-September 2006 (Source: House of Commons Library, Standard Note SN/EP/2585, and Crown post office figure from DTI, *The Post Office Network: A consultation document*, 14 December 2006, para 2.7, hereafter *DTI consultation document*)

but also at least in part of government policies which have adversely affected the network's revenue. He said "[...] of course, as the Government becomes more efficient in what it does, in making payments and so on, all these things cumulatively do have an effect on banks and on post offices."⁶ **While, in our previous Report we accepted that the Post Office network was unsustainable, we did so only with reluctance and while stressing the role of government policies in contributing to the network's recent losses.⁷ The Government has clearly stated its view, with which we agree, that post offices are not simply commercial enterprises, but also play a vital role in many communities, especially rural and deprived urban ones. We also agree with the Secretary of State that, because of this vital social role for both individuals and small businesses, the network deserves to be supported by the Government.**

5. After a long period of uncertainty and now faced with falling profitability it is likely that many sub-postmasters may wish to give up their post office business. This could result in a significant and unplanned decline in the network, leaving parts of the UK with few or no post offices. The Government's response is to move to a smaller, but—it hopes—sustainable network with coverage throughout the UK. The Government proposes to adopt national access criteria based on the proportions of the population living within a given distance of a post office. There will be a maximum of 2,500 sub-post office closures where the sub-postmaster will be compensated, following area-by-area proposals drawn up by Post Office Limited and then subjected to local consultation.

6. A £1.7 billion support package for 2007–2011 will enable the restructuring to take place. We understand that this package will cover the compensation for the sub-postmasters of the 2,500 post offices that could close,⁸ the social network subsidy, development of Outreach services and Crown post office reforms. It also appears that the package will provide assistance in relation to the pension deficit,⁹ and cover the “forecast losses of Post Office Ltd to 2011.”¹⁰ **The Government should provide more detail on the exact composition of the £1.7 billion support package. This must make clear how much of the package will be contributions toward the pension deficit, whether any money will be made available for improvements to remaining branches, and what proportion of this £1.7 billion package has not been previously announced. We share the Government's hopes that the requisite European Union state aid approval will be given, but note with concern that there is no ‘plan B’ should this be refused,¹¹ particularly given the fact that the European Commission has announced that it is investigating**

6 Q121. The NFSP has also viewed the network's unsustainability in the light of “the scale of withdrawal of Government business from the network in recent years” (“NFSP welcomes post office package as first step to creating ‘viable and sustainable network’”, NFSP press release, 14 December 2006).

7 RMG, para 100

8 HC Deb 31 January 2007 c317W states that “Compensation to exiting sub postmasters is broadly expected to be based on 28 months remuneration—matching the levels awarded under the urban reinvention programme.” Of this sum, the first £30,000 would be tax-free, and any remainder subject to income tax (Qq 31-32).

9 Q 3

10 HC Deb 8 January 2007 c314W

11 Q 39

past UK Government aid to Royal Mail Group (although we accept that previous support for the network of post offices is not currently under investigation).¹²

7. The network subsidy is called the ‘Social Network Payment’. It is currently £150 million per annum. We have previously recommended that it be extended beyond 2008.¹³ We are pleased to see our recommendation realised in the Government’s new commitment to maintain this £150 million annual payment, now to be known as the Network Subsidy Scheme,¹⁴ until 2011 and its commitment in principle to a subsidy beyond 2011. We note, however, the ambiguity over whether the Social Network Payment will continue, as now, to be exclusively for the rural network, or whether it will be extended to the urban network.¹⁵ We also note that there is at present no commitment to index-link the subsidy. The net result could be a declining sum being spent on a broader range of post offices. We expect clarification of how the Government intends to maintain the network in these circumstances to be included in its response to the consultation.

Scale of proposed closures

8. There are now 8,000 fewer post offices than there were in 1979–80.¹⁶ This includes the 2,486 post offices closed between April 2003 and March 2005 under the Urban Reinvention Programme.¹⁷ It also includes over 1,000 rural post offices that have closed since April 2000, despite the fact that Government policy since November 2000 has been to maintain the rural network and avoid closures wherever possible.¹⁸ We have been told that currently only 4,000 post offices are commercially viable, while a further 1,000 to 2,000 could be “with some considerable effort”.¹⁹ This suggests that without subsidy the network could be between 35% and 42% of its present size.

9. The Government proposes a ceiling of 2,500 *compensated* closures—this would represent around 18% of the total network of 14,263. We asked about the future of the 480 Crown post offices currently under review, and the Secretary of State said that around 25 could close, but that “many” could either become franchises or joint ventures with existing retailers.²⁰ Allowing for this and for recent closures, this limit suggests a future network of around 11,600 at the end of the programme, along with a further 500 new ‘Outreach’

12 ‘State aid: Commission launches in-depth investigation of some aspects of the UK’s funding of Royal Mail’, European Commission press release, 21 February 2007

13 *RMG*, para 78

14 See ‘Post Office Network Subsidy Scheme Order 2007’, Draft Statutory Instrument 2007 (www.opsi.gov.uk/si/si2007/draft/20075740.htm) and explanatory memorandum (www.opsi.gov.uk/si/si2007/draft/em/uksidem_9780110757407_en.pdf)

15 Appendix 2, para 4.2

16 HL Deb 20 Feb 2007 cc1002-3, made up of 3,225 post offices closed between 1979-80 and 1995-96, along with a net reduction of 4,818 sub-post offices and 21 Crown post office closures since 1997.

17 New Economics Foundation, *The Last Post*, 2006, p2

18 ‘Government unveils blueprint for rural prosperity’, Department of the Environment, Transport and the Regions press release, 28 November 2000. This followed the Cabinet Office Performance & Innovation Unit recommending this policy until at least 2006, *Counter Revolution: Modernising the Post Office Network*, June 2000, p85-86 (www.cabinetoffice.gov.uk/strategy/downloads/su/post/postoffice.pdf hereafter referred to as *PIU report*).

19 Q 7

20 Q 18 A pilot scheme with six Crown PO sites transferred to WH Smith is underway.

outlets in community centres, public houses, or mobile post offices, to maintain services following rural closures. The Secretary of State said he was “quite clear that if you do not have about 12,000-odd post offices you will not get the national network that we need,”²¹ and he agreed that 11,600 was “a stable figure for the medium term”.²² This means that under current arrangements²³ only around a half of the reduced network would be commercially viable. However, while only 6,000 may be commercially viable under the current arrangements, more would be viable with subsidy, and still more could be viable if post offices were able to develop their service offerings.

10. It is not clear whether the suspiciously round figure of 2,500 closures was derived from a proper analysis of what was needed to provide a national network, or simply represents the maximum number that could be funded from the resources provided by HM Treasury. However, it is clear that the network of “about 12,000” post offices referred to by the Secretary of State takes into account only compensated closures: the Government’s proposals set no numerical limit on uncompensated ones.

11. As a result, if further sub-post masters decide to retire, the future network could be smaller than the Government says it intends. The Government has stated that further compensation for sub-postmasters leaving the network “will not be available beyond the end of the compensated closure programme.”²⁴ How the access criteria, which are discussed more fully below,²⁵ would be applied in these circumstances and how the stability of the reduced network planned by the Government would be maintained are far from clear.

12. The Urban Reinvention Programme was intended to create a robust network. Clearly, it failed, otherwise the Government would not now be considering further urban post office closures.²⁶ It is essential that the proposed restructuring does result in a sustainable network such that no further significant restructuring will be necessary for many years, with the network maintained even as sub-postmasters retire or resign in the future. We are concerned that there are presently no clear means to ensure this, and that the proposed access criteria may not prevent further unplanned shrinkage of the network (as discussed in more detail below). We do, however, welcome the fact that Crown and sub-post office closures will be considered together, rather than separately as previously.

13. While we are aware of suggestions that roughly half the closures would be in urban areas—i.e. settlements with a population greater than 10,000—and half in rural areas,²⁷ the Secretary of State could not confirm this as Post Office Limited had “not actually done the

21 Q 63

22 Q 30

23 See Paragraph 36 ff

24 HC Deb 19 Feb 2007 c549W

25 Paragraph 20

26 Trade and Industry Committee, *The Post Office Urban Network Reinvention Programme*, Seventh Report of 2003-04, HC 611-I & II, and *Post Office Urban Network Reinvention Revisited*, Tenth Report of Session 2003-04, HC 1204

27 HC Deb 18 Jan 2007 cc908-9

work yet.”²⁸ Clarification of the balance of closures between urban and rural post offices is needed as part of the Government’s response to the consultation.

14. We are also interested to know what criteria will be used to define a sub-Post Office. Many rural sub offices already open for limited hours, which inevitably limits access by customers to these offices. Any further restrictions on hours, to reduce network costs, could lead to further loss of custom and consequent loss of financial viability for individual offices. We believe that the 11,600 offices envisaged as part of the core network should open for a defined minimum number of hours while outreach offices would understandably offer more limited hours.

Distance-based criteria

15. To deserve the term ‘social network’ the remaining post offices must be not only stable in terms of their numbers, but also appropriately geographically distributed. Coverage criteria based on distance from post offices are not entirely new in the UK postal market. Royal Mail’s licence stipulates that no less than 95% of people must live within 5 km (3.1 miles) of a post office.²⁹ Local variability is limited by the stipulation that within the 124 individual postcode areas, i.e. the letters at the beginning of a postcode, 95% of people must be within 10 km (6.2 miles).

16. The Government suggests a national accessibility benchmark, with additional safeguards for ‘remote areas’ by further criteria at postcode district level, the first half of a postcode.³⁰ There would also be additional criteria depending on the nature of the area concerned: rural, urban or urban deprived. The table below summarises the criteria, followed by a comparison of the proposed coverage levels with the current situation (where data are available):

The proposed access criteria

<i>Category</i>	<i>Defined as...</i>	<i>Proposed distance-based criteria</i>
Nationally	–	99% of population within 3 miles of a PO; 90% of population within 1 mile
Urban areas	Settlements with more than 10,000 people	95% population to be within 1 mile
‘Deprived urban communities’	Within the 10% of most deprived areas across the UK	99% of population to be within 1 mile
Rural areas	Settlements with fewer than 10,000 people	95% of total rural population within 3 miles
‘Remote areas’	Nationally applied at postcode district level (38 districts excluded)	95% of population in postcode districts (first half of post code) within 6 miles

28 Q 62

29 The actual wording is within 5km of “access points capable of receiving the largest relevant postal packets and registered mail”, from Postal Services Act 2000 (as amended), section 11, condition 3, paragraph 2: www.psc.gov.uk/postcomm/live/postal-licences-and-operators/licensed-postal-operators/royal-mail/Royal_Mail_Licence_May_2006.pdf

30 ie. letters and numbers. HC Deb 8 Jan 2007 c310W

Proposed criteria compared with current coverage

Numbers of Post Offices and percentage of population

	Number of Post Offices*	Population within 'x' miles of a Post Office			
		3 Miles		1 Mile	
		current	<i>proposed</i>	current	<i>proposed</i>
Rural	7,754	99.0%	95.0%	81.95%	—
Urban	6,509	—	—	99.17%	95.0%
<i>Deprived Urban</i>	1,125	—	—	99.80%	99.0%
Overall	14,263	99.8%	99.0%	92.75%	90.0%

*as at September 2006, apart from deprived urban (March 2006)

— Not available or no criteria proposed or not applicable

Sources: DTI consultation paper (para 5.2), HC Deb 8 Jan 2007 c434W, c309W and c312W
 Postcomm, *Post Offices at the Crossroads: Annual Network Report 2005–06*

17. While these criteria remain within the terms of the Royal Mail's existing licence, and in one sense strengthen them by providing additional access stipulations, proposed coverage would be a significant diminution from current levels. 'Accessibility' could fall overall from the current level of 99.8% of people within three miles to 99.0%. Similarly, it could fall in rural areas from 99.0% to 95.0% within three miles, in urban areas from 99.2% to 95.0% within one mile, and in deprived urban areas³¹ from 92.75% to 90% within one mile. The criteria also allow for substantial numbers of people to be outside the specified distances from a post office. Using 2001 Census results, in England and Wales alone the proposed criteria could see two million people in urban areas further than a mile, and 475,000 in rural areas further than three miles, from their nearest post office.³² The new approach would see a change in policy regarding the rural network from maintaining the present network with no avoidable closures,³³ to meeting the new criteria.

18. The 1999 White Paper on the Post Office floated the option of this form of numerical distance-based access criteria. However, following geographical analysis of the then 18,400 post offices, the Government's Performance and Innovation Unit (PIU) came out against this approach in their 2000 report. The PIU found that "numerical access criteria could well undermine the Government's policy rather than strengthen it"³⁴ because relatively high coverage levels could be achieved while dramatically reducing the size of the network. The PIU found that two-thirds of around 9,900 rural post offices at the time (6,600) could be closed while maintaining the then coverage level of 99% of the population within three miles. Similarly, half of the post offices in deprived urban areas could be closed while

31 'Deprived urban communities' are based on the 10% most deprived Super Output Areas (SOAs, geographical units used for Census 2001 output and small-area statistics by the Office for National Statistics) in Indices of Deprivation. Supplementary evidence from the DTI states that as England and the devolved administrations "produce their own Indices of Deprivation, DTI will be working with Post Office Ltd to ensure that there is consistent application of the intention to protect post offices in the most deprived communities across the UK." (Appendix 1, para 2)

32 Total England & Wales populations of 39,362,000 (urban) and 9,507,000 (rural) (Source: KS01 "Usual resident population", in Office for National Statistics, *Census 2001: Key Statistics for the rural and urban area classification 2004*).

33 *PIU report*, p85

34 *Ibid.*

maintaining the then coverage level of 96% of those in deprived urban areas being within a quarter of a mile of a post office.³⁵ If such policies had been adopted then a significant proportion of the Post Office network could have been closed whilst maintaining these distance-based coverage levels.³⁶ The network is now some 4,000 smaller than at the time of that report, but as the proposed criteria are significantly less strict than those in the PIU analysis similar logic could be applied to the present case.

19. While we accept that the Government may have changed its mind on numerical access criteria it is not clear how the proposed criteria were determined. Therefore we would like to know whether any alternatives were considered, and on what basis the Government made its decision. We would welcome an updated analysis following that of the 2000 Performance and Innovation Unit report which would inform us of the resultant size of the network if the proposed criteria were strictly applied without limitations on closures (as Postwatch has also requested). We believe that this could be much smaller than the suggested level of around 12,000 outlets.

20. The Government's ceiling of 2,500 *compensated* closures and the safeguards implicit in the criteria for deprived urban and remote areas may limit the potential losses, and we welcome the assurance that the broader urban and rural criteria would be applied in each local area, rather than on a national or regional basis which could lead to undesirable variations across the UK.³⁷ However, we note the potential for a significant number of future closures without breaching the access criteria. We are unconvinced that distance criteria are sufficient, in an unrefined form, to maintain a network with a social, as well as economic, purpose.

21. Local area plans are intended to attempt to match those sub-postmasters who wish to continue the business with locations that are viable and thereby ensure the distance criteria are maintained. It is not clear what Post Office Limited will do if too many sub-postmasters want to leave the network in a given area, and/or remaining sub-postmasters are in the wrong places. Managing the network to this degree of detail would appear to require further incentives and/or direct employment of sub-postmasters to ensure coverage is maintained. We would welcome further clarification of what Post Office Limited intends to do to ensure that coverage is maintained.

22. There are 38 postcode districts, which are in remote areas and have a total population of 41,000 people, where the 95%-within-6-miles criterion is not currently met and could not reasonably be met.³⁸ The Secretary of State has confirmed that these remote areas will be exempt from "compulsory closures" under the restructuring programme.³⁹ He also suggested that the effects of recent closures in such areas could potentially be

35 Though there was a total of 8,500 urban post offices at the time of the PIU report, it did not give a figure for the total number of post offices in urban deprived areas.

36 The PIU report also noted that in the UK at the time 94% lived within 1 mile and 99% within 3 miles of a Post Office. In urban areas, 90% lived within ½ mile of a Post Office, and around two thirds within ½ mile of two or more. In rural areas, 85% lived within 1 mile and 99% within 3 miles of a Post Office (*PIU report*, p15 & table 5.2, p36).

37 Qq 81 and 82

38 1.4% of the total of 2,795 postcode districts; of these, 37 are in Scotland, and one is in Northern England.

39 Q 67

addressed by rapid roll-out of Outreach services.⁴⁰ We welcome these statements, while noting the concerns of the National Federation of Sub-Postmasters over the viability of the sub-postmasters' businesses in these areas, particularly given the absence of the option of a compensated exit.⁴¹ We also note the concerns of Postwatch that because these areas have been left outside the programme, Post Office Limited will have no duty to address service provision gaps that may occur there when sub-postmasters leave in the future. We believe that the Government should consider specific measures for the 38 excluded postcode districts to allay these concerns, and to ensure that similar service levels are maintained in the event of unplanned closures.

23. Once the proposed programme is complete, the network will continue to change due to the 300 or so 'natural exits', such as retirement of sub-postmasters, every year.⁴² The Government accepts this, and has stated that any such closures "would be subject to the access criteria above and, depending on local circumstances, services would need to be maintained or replaced with alternative service delivery methods."⁴³ **The stability of the reduced network is essential, and while we welcome the recognition of the inevitability of natural exits, we remain concerned that the access criteria could continue to be met even if key post offices closed. Therefore there needs to be provision to replace post offices in some instances.** The Secretary of State stated that Post Office Limited "needs to think about" incentives for sub-postmasters to relocate if necessary.⁴⁴ We would put it more strongly. **It is essential that a proper network is maintained and this will require not only incentives for sub-postmasters to move to offices where the need is greater. It will also require the opening of new post offices because significant changes in settlement patterns will result from large volumes of new house-building around the country. This strengthens the case for a clearly defined policy on the opening of new post offices.**

Beyond distance-based criteria

24. The PIU report found that a distance-based coverage approach would not "necessarily provide protection for the best offices", and that the aim should be avoiding closure of those post offices that contributed the most to their communities.⁴⁵ We agree, and believe that a more sophisticated approach is called for.

25. **We see it as vital that the proposed criteria should not be applied in an inflexible way.** So we welcome the Government's consultation which states that a "one size fits all" approach will not be taken, and that in drawing up closure plans Post Office Limited will account for "local conditions on a common sense basis to reflect obstacles such as rivers, mountains, valleys, motorways and sea crossings to islands to avoid undue hardship".⁴⁶ As

40 Q 69

41 Appendix 2, para 8.2

42 Q 36

43 *DTI consultation document*, para 5.3

44 Q 26, and noted in evidence from both the NFSP and Postwatch.

45 *PIU report*, Annex 5, p110

46 Appendix 1, para 5.2

Postwatch note, “distance and topography are good starting points”.⁴⁷ We believe that other natural and social barriers should also be taken into account. These might explicitly allow for other factors affecting actual accessibility, rather than raw distance alone, including practical travel or walking distances (rather than an ‘as the crow flies’ measure as proposed), e.g. steep hills, the availability of public transport (in rural areas in particular), and socio-economic elements, such as an intervening high crime area. Also, quality of outlet should be taken into account—the services offered, the number of customers, dependency of local businesses on post office services for such things as cash deposits and mail services. The Secretary of State has said that the profitability or otherwise of post offices will be a consideration when drawing up area plans.⁴⁸ We believe that decisions should also take deprivation and local needs into account, as we put it “a little bit of weighting at the margins”,⁴⁹ beyond the additional criterion for deprived urban areas which covers the 10% most deprived alone.

26. Whilst we accept the Secretary of State’s argument that too many and “overly complex” criteria could prevent “any changes whatsoever”,⁵⁰ we recommend the factors listed above as some which should be taken into account alongside mere distance criteria.

27. We believe that a strategic approach to restructuring the network should be an improvement on the experience of the Urban Reinvention Programme. However, we regret the time taken to arrive at this point, considerable uncertainty having been created for sub-post offices in the interim.

Local area consultation process

28. We welcome the Government’s frank admission of the deficiencies of the Urban Reinvention Programme, and are pleased that the Government and the Post Office are learning from that experience.⁵¹ We reiterate the crucial need for genuine consultation on the local area proposals, to avoid any accusations of a sham exercise. One test of the reality of consultation will be how many opposed proposals are modified as a result.

29. The restructuring programme is scheduled to take place over 18 months, running from summer 2007 to around the end of 2008. This timetable is shorter than under the Urban Reinvention Programme, and we agree with Postwatch and Age Concern⁵² that this timetable is too demanding to ensure that the process is better than under that programme, where the planning was too rushed to engender public confidence that the views of the wider community had been taken into account. We also believe that it is important that the Government’s considered response to the current national consultation process is published rapidly, but we do not see how proper account of

47 Appendix 3

48 Q 77

49 Q 80

50 Q 78

51 Q 87

52 *reportAGE* (Age Concern England’s Political Bulletin), February 2007, p4: www.ageconcern.org.uk/AgeConcern/Documents/Feb_Reportage_07.pdf

representations can be taken if, as the Secretary of State has suggested, this would be in March 2007.⁵³ A date of 30 April 2007 appears to strike the right balance between proper consideration and ending uncertainty.

30. We agree with Postwatch that “finally agreed principles must be robust and not open to perverse interpretation by Post Office Limited”, and that the process could benefit from being “trialled before the programme starts”,⁵⁴ for example in one region.

31. The exact process of consultation on the ‘local area implementation plans’ remains unclear. The Government has stated that these plans will be based on “groupings of adjacent parliamentary constituencies”,⁵⁵ but the Secretary of State also suggested to us that, in some cases this would not be so “where that is not a sensible thing to do”.⁵⁶

32. We agree that “the Post Office needs to do its homework” in drawing up the local plans, and we expect local councils to be involved, if only informally, in the process of drawing up these plans.⁵⁷ We urge Post Office Limited to supply information to parties affected by each local plan as soon as is practicable. All area proposals should be sufficiently visible locally, be specifically lodged with all tiers of local government from the county to unitary, borough, district, town and parish councils where applicable, and be available on the internet. They should include the maximum amount of information possible, such as footfall and usage information, and whether sub-postmasters wish to leave the network.

33. We reiterate our call for the local consultation period to be doubled from six to twelve weeks, in line with Government best practice and the period for the national consultation on the network currently underway. Such a period is necessary to allow for the cycle of council meetings in counties, unitaries, boroughs, districts, towns and parishes. The Secretary of State suggested that Postwatch had agreed on six-week consultations.⁵⁸ However, Postwatch have informed us that their joint Code of Practice with the DTI⁵⁹ “is designed for individual changes to the network, not for complex bundles of proposals involving a number of closures as well as the launching of new outreach services”, and that the Code “clearly states that in the event of the announcement of a large scale closure programme Postwatch and POL will review the Code of Practice.”⁶⁰ Postwatch believe six weeks to be “unreasonably brief”, and that twelve weeks is required.

34. While twelve-week consultations may prolong uncertainty, as the Secretary of State noted, we believe the longer period is essential if there is to be fair consultation,

53 Q 83

54 ‘Sorting out the Post Office network in Scotland started today’, Postwatch press release, 14 December 2006 (http://www.postwatch.co.uk/pdf/pressnews/14.12.06_gov_consult_scot_rurals.pdf) and Appendix 3

55 HC Deb 8 Jan 2007 c313W

56 Q 65

57 Qq 94–96

58 Q 99

59 *Memorandum of Understanding between Post Office Ltd and Postwatch Relating to Code of Practice on Changes to the Post Office® Network*, revised 13/06/06: www.postwatch.co.uk/pdf/policydocs/18.1.06MOU_Changes_Post_office_network.pdf

60 Appendix 4

including with elected representatives. We also believe that there is a need to ensure oversight on a national basis of progress on local area plans across the UK to prevent, as much as possible, variation in practice across the country.

Postwatch

35. We are aware of the Government's plans to bring a number of consumer bodies into a single organisation, subject to the view of Parliament on the *Consumers, Estate Agents and Redress Bill (HL)*. We understand that the likely timescale for the integration of Postwatch within this new single organisation is around mid-2008. Given the organisation's role in the consultation process it would be unfortunate if this major reorganisation were to occur in the middle of the restructuring programme. **We welcome the fact that the Secretary of State is "reflecting upon" the likely timetable for the moving of Postwatch's functions into the proposed single consumer body,⁶¹ and urge him to reflect quickly in order to prevent unnecessary uncertainty within Postwatch.**

Future viability and new services

36. While the costs of the post office network may be reduced through the proposed restructuring programme, revenues are likely to continue to fall without remedial action. For example, Post Office Limited has estimated that the share of its total transactions accounted for by Government will fall from 40% in 2002 to 10% by 2010. This would not matter if profitable non-governmental revenue streams were available. There is therefore a clear need to develop new revenue streams and, as far as possible, to maintain existing revenue streams.

A new Post Office Card Account (POCA)

37. As we have previously noted, direct payment of pensions and benefits has hit the Post Office network hard, but the blow has been lessened by the Post Office Card Account. **We welcome the Government's change of heart over the future of the Post Office Card Account ('POCA') and its new commitment to a basic account, with the same eligibility and coverage, beyond the end of the current contract with the Department for Work and Pensions (DWP) in 2010.**

38. According to the Government's response to our Royal Mail Group Report: "The detailed design of the new account, including the precise functionality, will be decided as part of DWP's tendering and contractual process."⁶² In response to questions about the limited functionality of the current card, the Secretary of State suggested that the DWP was "looking to see what else they could put on to it to make it a slightly more attractive proposition."⁶³ However, in doing so it appears that the contract for 'POCA2' will become subject to EU procurement rules. As the Secretary of State said in his Statement to the House of Commons: "the EU procurement rules leave us with no option but to tender

61 Q 142

62 Trade and Industry Committee, *Government Response to the Committee's Ninth Report of Session 2005-06*, First Special Report of Session 2006-07, HC 230, p7

63 Q 104

competitively for this product, and we must ensure that best value for money for the taxpayer is achieved, but the Post Office is well placed to put in a strong bid given the size of the network and the access criteria that we are now introducing.”⁶⁴ He has since told us that in tendering for ‘POCA2’ the Government “will have to consider how we specify it”,⁶⁵ and that while he “very much” hoped that the Post Office would win the contract,⁶⁶ the Government had “not done any calculations” on the price of failure of the Post Office to win the contract, “because we are hopeful that the Post Office will win it”.⁶⁷

39. We would welcome early clarification of the features of a ‘POCA2’. The existing card is very limited in its functions. Post offices would gain significantly if its replacement were to offer users a better service, including, for example, the possibility of making cash deposits into the account.

40. Given the vulnerability of many of its users, we believe that the move to ‘POCA2’ from POCA must be as seamless as possible,⁶⁸ and that accessibility should be a core stipulation in the ‘POCA2’ contract. The tendering process for ‘POCA2’ is a critical matter, as it raises the possibility that Post Office Limited may not ultimately succeed in winning the contract. We join the Secretary of State in hoping that the Post Office wins the ‘POCA2’ contract under the procurement process necessitated by EU rules, but we believe it is vital properly to consider the implications if this does not happen. We are concerned that failure to win the ‘POCA2’ contract will put further pressures on the Post Office network, and possibly necessitate more closures unless there was further extra sizeable financial support. More importantly, perhaps, no rival network offers anything like the coverage of post offices. The consequences of failure for remote and deprived communities could be severe. We will maintain a watching brief on this matter as the tender process develops.

New services, new revenues?

41. While we strongly support the principle of the Social Network Payment/Network Subsidy Scheme, we also wish to see enterprising sub-post masters enabled to build thriving and commercially viable businesses to serve their communities. A better POCA is one way to help them, but it is also vital to identify new sources of business they can undertake to replace the lost business that has, in the past, come from the government.

42. The future viability of the network, therefore, also depends on introducing new services at post offices. While the financial products introduced by Post Office Limited—savings, loans, credit cards, insurance—have been successful, the NFSP notes that these appear to be bringing in a “negligible £7 a month for sub-postmasters on average.”⁶⁹ The NFSP also believes that “proposals for new or expanded lines of work are grossly insufficient”, and

64 This is also stated in *DTI consultation document*, para 4.15

65 Q 107

66 Q 114

67 Q 108

68 Appendix 2, para 7.1

69 *Ibid.*, para 5.5

that this raises concerns that “considerable numbers of unplanned post office closures will be inevitable.”⁷⁰

43. We explored whether existing contracts entered into by Post Office Limited constrained sub-postmasters from introducing new products and services. We were told by the Secretary of State that sub-postmasters can offer new services, provided that the sub-postmaster's proposed service does not conflict with national contracts signed by the Post Office.⁷¹

44. The rise of internet shopping presents a possible opportunity for the Post Office network in acting as a repository and collection point for goods purchased online. Supplementary evidence from the DTI notes that the Post Office is now offering the ‘Local Collect’ service, which enables mail order and internet retailers to offer their customers the choice of direct delivery to a post office for collection (subject to space availability).⁷² We were also informed of trials in Norfolk with Argos to promote collection from post offices of items purchased. While “the results of the trial were mixed, with volumes lower than anticipated, the customer reaction was positive and suggests that there is an appetite for this type of service, particularly in rural areas.”⁷³ We also understand that the Post Office is “currently working on a proposition with a local authority and university with the aim of providing a convenient collection point for customers to pick up items when they are not in at the time of delivery.”⁷⁴ **We welcome attempts to offer services that allow post offices to expand their business in relation to mail order and internet retailers, find the information received on recent trials interesting, and await future developments with interest. We note that, by increasing footfall, such services can enhance the overall viability of the business in which the post office is located.**

45. The concept of post offices as ‘one stop shops’ for central and local government services and information has been raised before. The 2000 PIU report called for pilot projects for post offices as “internet learning and access points” and for staff to become ‘General Government Practitioners’ offering “advice and information on Government services”.⁷⁵ The previous Committee found that pilot ‘Your Guide’ projects received “positive reaction from consumers, content providers and sub-postmasters”, but that the Government’s assessment was that while the customers liked the scheme “it did not create significant new business or efficiency savings for government departments” and that national extension of Your Guide “would not deliver value for money.”⁷⁶ The previous Committee was also told that a similar information service “could be provided in the future, possibly in conjunction with commercial e-business projects which were in development.”⁷⁷ **We believe that it is time for the Government to revisit the concept of the post office as a shop front for**

70 Appendix 2, para 5.6

71 Q 126

72 Appendix 1, para 6

73 *Ibid.*

74 *Ibid.*

75 ‘Byers announces Post Office modernisation package’, DTI press release, 28 June 2000, and *PIU report*, p82

76 Trade and Industry Committee, *People, Pensions and Post Offices: The impact of ‘Direct Payment’ on post offices and their customers*, Eleventh Report of Session 2002-03, HC 718, para 78

77 *Ibid.*, para 79

government services, along the lines of the ‘Your Guide’ pilot schemes, with any necessary adaptations and with marketing, as the previous Committee recommended.

46. We are concerned that at present sub-postmasters may be constrained unnecessarily in their entrepreneurship by existing contracts.⁷⁸ It is not clear whether they are appropriately rewarded for their part in delivering Government services and information (such as handing out official documents relating, for example, to the Budget). We are also concerned about the levels of remuneration and commission for centrally-controlled aspects of the service, like foreign exchange and lottery ticket sales.

47. We welcome the Government’s commitment to increase the number of free (non-fee) cash machines at post offices to 4,000.⁷⁹ We see scope for further broadening this initiative.

Local decisions and devolution

48. The Government has suggested that there could be greater devolution in the future of issues such as network strategy, funding options and closure policies to local authorities in England, and the devolved administrations elsewhere in the UK.⁸⁰ **While we welcome a greater role for local people, we do not believe that this devolution is compatible with ensuring that the shrunken network still provides a socially and geographically adequate network of post offices, nor with the Government’s responsibility as shareholder. It could simply be a device for transferring financial responsibility from the Exchequer to council taxpayers and the devolved administrations.**

Ownership of Royal Mail Group and incentives

49. The long anticipated refinancing package for the Royal Mail Group (RMG) was announced on 8 February 2007, aiming to “re-position Royal Mail to compete more effectively with commercial rivals and address major funding challenges for the company.”⁸¹ Aside from the £1.7 billion for Post Office restructuring discussed above, the five year package includes a ‘phantom’ share scheme for RMG employees, similar to that of the John Lewis Partnership. This would see 20% of the current value of RMG allocated to the scheme. The Government says that this is “equivalent to a £1bn dividend distribution”, which we find surprising given that the RMG is probably technically insolvent because of its huge pension liabilities. The phantom shares would be offered free to employees equally, with annual profit shares payable worth up to an estimated £5,300 for each employee to March 2012, subject to company performance.⁸² The package also includes £1.2 billion in commercial loans for modernisation, and an escrow account investment of £1 billion to support the pension fund trustees (£850 million from reserves and a £150 million payment by Royal Mail).

78 Paragraph 43

79 Appendix 1, para 4.13.

80 *Ibid.*, para 6.2

81 ‘Government agrees financing framework for Royal Mail’, DTI news release, 8 February 2007, and ‘Royal Mail Unveils Financial Re-Organisation And Investment Plan’, Royal Mail Group news release, 8 February 2007: http://www.news.royalmailgroup.com/news/article.asp?id=1886&brand=royal_mail_group

82 *Ibid.*

50. We welcome the fact that the Government has finally made a decision on the financing of Royal Mail Group, but note the continuing uncertainty following the European Commission's decision to investigate Government support.⁸³ We are pleased that the Government has listened to the advice from this Committee and other interested parties. We note other aspects may prove controversial—such as the proposed closure of the final salary scheme to new employees—and we will await the result of consultations on those matters with interest, and may return to them in the future.

83 'State aid: Commission launches in-depth investigation of some aspects of the UK's funding of Royal Mail', European Commission press release, 21 February 2007

Formal minutes

Tuesday 27 February 2007

Members present:

Mr Peter Luff, in the Chair

Mr Brian Binley

Mr Peter Bone

Mr Lindsay Hoyle

Rob Marris

Anne Moffat

Mr Mike Weir

Mr Anthony Wright

The Committee considered this matter.

Draft Report (Stamp of Approval? Restructuring the Post Office Network), proposed by the Chairman, brought up and read.

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

Paragraphs 1 to 50 read and agreed to.

Resolved, That the Report be the Third Report of the Committee 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 Appendices to the Minutes of Evidence taken before the Committee be reported to the House.

[Adjourned till Monday 5 March at 3.15pm]

List of witnesses

Wednesday 24 January 2007

Rt Hon Alistair Darling MP, Secretary of State for Trade and Industry, Mr Jim Fitzpatrick MP, Parliamentary Under-Secretary of State for Employment Relations and Postal Services, Dr Elizabeth Baker and Mr Mike Whitehead, **Department of Trade and Industry**

Ev 1

List of written evidence

	<i>Page</i>
1 Department of Trade and Industry	Ev 21
2 National Federation of Sub-Postmasters	Ev 23
3 Postwatch	Ev 25
4 Postwatch (Supplementary)	Ev 27
5 Secretary of State for Trade and Industry	Ev 28

List of unprinted written evidence

An additional paper has been received from the following and has been reported to the House but to save printing costs it has not been printed and a copy has been placed in the House of Commons library where it may be inspected by members. Another copy is in the Record Office, House of Lords and is available to the public for inspection. Requests for inspection should be addressed to the Record Office, House of Lords, London SW1A 0PW (Tel 020 7219 3074). Hours of inspection are from 9:30am to 5:00pm on Mondays to Fridays.

PayPoint

Oral evidence

Taken before the Trade and Industry Committee

on Wednesday 24 January 2007

Members present:

Peter Luff, in the Chair

Roger Berry
Mr Peter Bone
Mr Michael Clapham
Miss Julie Kirkbride
Judy Mallaber

Rob Marris
Anne Moffat
Mr Mike Weir
Mr Anthony Wright

Witnesses: **Rt Hon Alistair Darling**, a Member of the House, Secretary of State for Trade and Industry, **Mr Jim Fitzpatrick**, a Member of the House, Parliamentary Under-Secretary of State for Employment Relations and Postal Services, **Dr Elizabeth Baker**, Director, Postal Services Policy, and **Mr Mike Whitehead**, Assistant Director, Postal Services Policy, Department of Trade and Industry, gave evidence.

Q1 Chairman: Secretary of State, thank you very much for coming and agreeing at relatively short notice to this evidence session. We are very grateful indeed to you and your colleagues. I always begin by asking the team to introduce themselves for the record and I would like to do that now.

Mr Darling: Let me introduce my colleagues: Jim Fitzpatrick who has responsibility for, amongst other things, on a day-to-day basis, the Royal Mail and the Post Office. I also have Dr Elizabeth Baker, who is a Director of the Royal Mail and Postal Services Policy Group within the Department of Trade and Industry, and Mike Whitehead, who is the Assistant Director of the Post Office Network Policy and has the advantage of having been dealing with this matter for some years—and therefore remembers the last time!

Q2 Chairman: I am not sure whether that is an advantage or not. Secretary of State, we are concentrating today on the Post Office network and most of our questions are about that but I would like to begin by asking about the financial package and the investigations over that and particularly the share ownership proposals put forward by the Royal Mail Group for the whole group. There has been some speculation in the press recently. It has been a long time waiting for the final decision on the financing package. Where are we?

Mr Darling: I would be very happy to do that. If you will forgive me, it may take a little time for me to set out the position but it will be helpful to the Committee if I do that. There are two aspects of this. One is the financial package of support that I announced for the Post Office last May and the other is that now the Post Office can put in place a system that rewards employees of the Royal Mail and allows them to gain from the increasing value of the company as improvements are made to its performance. The company put forward proposals some considerable time ago, basically putting in place an employee share-ownership scheme. The Government has been considering that. When I

became Secretary of State of Trade and Industry in May last year, I asked for the company and the DTI to engage in detailed work to see whether or not such a scheme would work, what its costs were, what the implications were. I did this because, as I have made clear on a number of occasions, I think rewarding employees for their effort, particularly in the case of the Royal Mail which needs to undergo some quite fundamental changes in the way it works because of the competitive pressures that it faces, is a good thing. It is not the only way in which you can reward staff and I was very clear that if we were going to agree to such a scheme we had to be satisfied that it was affordable, that it was the right thing to do and I also wanted to look at alternatives. For various reasons, partly because of the company's general financial position, it was not until the autumn that we were in a position to see the numbers, to see what they would actually mean. The position we are currently in is that I have said on the information I now have I could not agree to an employee share-ownership scheme. I think the biggest thing in my mind is the cost of it. If you give away 20% of a company, there is an upfront cost. It scores in public expenditure terms; it would have to be factored into our spending review settlement. Of course, when the employees cash in their shares in five or six years or whenever, there is also a hit to the public finances because, of course, as they are cashed in, the Royal Mail has to finance that and when you consider there are 200,000 or so employees in the Royal Mail, that could be unpredictable and, again, it is a largish sum that would have to be factored in. On top of that, of course, if we were to introduce such a scheme we would need primary legislation which would take at least 18 months by the time it was through the House, in place and so on. Because I was anxious to ensure that there is in place a scheme that allows employees to participate in the increasing value of their company, the Government and the Royal Mail have been in discussions over the last few weeks in relation to a scheme that would allow employees to benefit from the increasing value of their company,

24 January 2007 Rt Hon Alistair Darling MP, Mr Jim Fitzpatrick MP, Dr Elizabeth Baker and Mr Mike Whitehead

because it is important that their rewards are aligned with what the company is trying to do. Those discussions are at a fairly advanced stage. They need to be concluded pretty quickly for a number of reasons but at the moment are subject to some quite detailed discussions. My intention is to report to the House once we have an agreement, so that people can see what exactly has been agreed. On this aspect of your question, we have decided not to go down the road of an employee share-ownership scheme but we do want to put in place a scheme that would give in general terms an equivalent benefit. I am in complete agreement with Allan Leighton, the Chairman of the Royal Mail, who is leading these discussions that, given the scale of the challenges that are in front of the Royal Mail, it is only right that there should be a reward for employees.

Q3 Chairman: I do not want to pre-judge this Committee's reaction to that remark, but I think that will command some support on this Committee. We were very concerned about the proposals of the Royal Mail. They failed to provide us with any evidence justifying their claims for the share-ownership scheme, despite our requests, and I suspect what you are working towards—profit share with knobs on—might be much more acceptable to this Committee, but I could be wrong.

Mr Darling: I did read your conclusions on that. As with all these things, you can make a case for and against each particular type of incentive. Obviously I have to have regard to the public expenditure implications. The Government, one way or another, is making very, very substantial sums available to support the Royal Mail and the Post Office, as we will come on to. In May of this year—and I reported this to the House—it approaches £1.7 billion to help the company restructure, to make the changes, also to help them in relation to their pension deficit which they now have. That is a crucial part to helping the Royal Mail. The Committee and others will have seen that the Royal Mail has lost a number of contracts over the last few weeks. That is a matter of great concern, not just to the Royal Mail group but to the Government which is the owner of it and the sole shareholder.

Q4 Chairman: One of the biggest contractors was the Department for Work and Pensions.

Mr Darling: But it is not just that, it is other contracts with private sector people. I would say to the Committee and through the Committee to our colleagues in the House and outside, that the Royal Mail faces formidable competitive pressures. There are a lot of people now coming into the market who are competing fiercely and aggressively and the Royal Mail has to make some pretty fundamental changes to the way in which it works. But I strongly believe that, as the company changes—and remember this company has made a lot of improvements since Allan Leighton and Adam Crozier took it over four years ago: it has turned a lot of the problems around but it has an awful lot more work to do—it is right that all of the staff, from the board down to the people who work on the

shopfloor, can benefit from the increased value of this company. That is why I think a scheme of the sort that I have set up is something that we ought to support. We have put in place a substantial financial package. Of course it is subject to state aid scrutiny by the European Union, but there is a pretty substantial package. We have done that because we believe it is the right thing to do, but the postal market in Britain and across the world is becoming very competitive and anyone who thinks they do not have to change, they do not have to step up a gear, are fooling themselves and doing no one any favours whatsoever.

Q5 Chairman: That is a very helpful statement, Secretary of State. The competitive pressures of which you speak underline the need for urgency in resolving these questions in relation to incentive schemes and the financial package as well.

Mr Darling: Absolutely. The board knows that and Allan Leighton is working very hard to try to resolve the outstanding matters that we have.

Q6 Chairman: As I am sure your officials are as well.

Mr Darling: Both sides are, yes.

Chairman: Excellent. I think we can move on to the main subject of questioning for this session, the network itself. I turn to my colleague Julie Kirkbride.

Q7 Miss Kirkbride: Thank you for coming, Secretary of State. Your consultation paper says that at present the subsidy for the post office network is too high and that more, rightly, needs to be done to bridge the gap between costs and revenues. Given that that gap is never likely to be fully bridged and that there will be a need for subsidy, what target level of subsidy do you envisage for the future?

Mr Darling: You are absolutely right. As I said in the House on 14 December and at the debate we had earlier this month, there is no question whatsoever of the post office network being commercially viable. There are about 4,000 branches that are now commercially viable. I understand that with some considerable effort between 1,000 and 2,000 could become commercially viable but a national network of the sort that we think is necessary to serve the length and breadth of the country is never going to be commercially viable. I said when I made my statement to the House that the annual subsidy for the network, which is about £150 million, will remain at that level up until 2011, which is the spending period we are talking about. In addition to that, of course, we are making money available. The whole package is worth about £1.7 billion; of which the sum we announced last financial year, this financial year, has been in the public domain before, but the rest of it takes you up to 2011. That is to support the network. It will meet compensation payments, it will meet some of the continuing losses and other restructuring costs as well, but it is a very substantial amount of money. It is subject to state aid, as I say, but I hope we can get clearance for that. As you rightly say, the network cannot be commercial but, basically, as I said to the House, we

24 January 2007 Rt Hon Alistair Darling MP, Mr Jim Fitzpatrick MP, Dr Elizabeth Baker and Mr Mike Whitehead

are spending very substantial sums of money indeed. The subsidy will remain about the same but I had to do something about a network that was losing £2 million a week every week. Last year, it had gone up to £4 million; this year, if we did not do anything, it was heading up towards £5 million a week. You just cannot carry on like that. The other thing I was influenced by was the National Federation of SubPostmasters saying to us that the present situation is not sustainable. There were places where they reckoned postmasters and mistresses could make a go of things, if only the Post Office would recognise that in some areas you may have three post offices: two could survive, three cannot, and why do we not do something about it. That is what largely drove me to say that we do need to reduce the size of the network, but, as I said before, at about 12,000, it is still greater than the sum of all the UK bank branches in the country.

Q8 Miss Kirkbride: Given the social importance of the post office network, are you able to say that, at least in principle, the subsidy should carry on beyond 2011? It is never going to be viable. There will always be a subsidy for maintaining a wider nationwide network.

Mr Darling: I will put it this way: if any government of the future wishes to maintain a national network where people can get to a post office to get their pensions, benefits or whatever, it is inconceivable to my mind that it will ever be commercially viable and therefore it needs a public subsidy. When it comes to 2011, we will be into the next spending review and we will carry on, but of course it does need a government that is able and willing to spend that money. I can speak for the Government of which I am a member. I certainly believe that is necessary. Of course I cannot bind other governments of different political views. They might take a different view. Perhaps you are in a better position than I am to throw some light on that.

Q9 Miss Kirkbride: I am sure the Post Office will have friends amongst the new Conservative Government after the next election, Secretary of State, so we will not worry about that.

Mr Darling: It is a fine spending commitment you have just given.

Q10 Miss Kirkbride: As a backbencher, I am allowed to. I do not think I have a problem there.

Mr Darling: Do not bank on it!

Q11 Miss Kirkbride: Quite. The boys at the back, are they taking notes? Your paper states that there will be a maximum of 2,500 compensated closures. For clarification is that for the sub post office network only?

Mr Darling: The 2,500 refers to the sub postmasters. Remember, most of the network is owned by private businesses. These are people who have contracts with the Post Office. They are the people we are talking about. We will pay for up to 2,500 people to leave the Post Office Service. In addition, there are about 480 Crown post offices which the Post Office

itself is reviewing, not least because they contribute about £50 million a year loss to the Post Office at the moment. That is due to go up, they think, to about £70 million, so they need to do something about it. I understand that we are talking about a comparatively small number of them having to close—maybe under 25 or something like that—but, given the Crown post offices provide a lot of the businesses—about 60% of the financial services, for example—they are very important. The Post Office, as you know, is in negotiation not just with its staff but with others. It is looking, where possible, to enter into partnerships with companies like W H Smith, for example, where you get more footfall and therefore you are in a better position to guarantee a future. But, of the 480 Crown offices, a lot of them are very good revenue earners. They tend to be in busier places, on the busier high streets, and therefore they are important, but the 2,500 refers to the contracted side of things, not the Crown element.

Q12 Miss Kirkbride: The £1.7 billion compensation for the Crown post office closures will also come out of that money.

Mr Darling: It is not £1.7 billion for the Crown post offices.

Q13 Miss Kirkbride: No, the £1.7 billion overall package. The compensation for the Crown post offices will also come out of the package.

Mr Darling: That is the total package, so within that they have to cover all these things. As I say, the Crown element is the comparatively small part. The lion's share, if you like, is in relation to what most people would refer to as the "post office network".

Q14 Miss Kirkbride: What about people who might want to retire in the meantime? If you are a postmaster at the moment, are you hoping that some of these might retire early and be a little cheaper?

Mr Darling: It might be helpful if I explain what we are proposing—and remember this is all subject to the consultation taking place just now. We are getting a lot of representations on precisely how we will do this, so, by the time I report to the House in, probably, March there may be some changes. For each area the Post Office will identify, using the access criteria that I set out in the consultation paper, how many post offices it needs to meet those criteria. It will take into account the fact that there is a fairly large number of postmasters and mistresses—I cannot give you a precise number for obvious reasons but there could well be over 2,000 people—wanting out. In an area you may get a number of postmasters and mistresses saying, "We want to go." It could be, as a result of that, the desired outcome is achieved and that you have the right spread of post offices applying the criteria. The chances are, however, things being what they are, that it may not be as neat as that. I want the Post Office—and it is doing a lot of work for us at the moment—to be in a position to say, "Here is an area. Ten postmasters want out. They are perhaps in the wrong places, but perhaps we could persuade another postmaster to go to where a retiree is coming

24 January 2007 Rt Hon Alistair Darling MP, Mr Jim Fitzpatrick MP, Dr Elizabeth Baker and Mr Mike Whitehead

out, where there is a better market” and so move things around. The long and the short of it is that we are asking them to manage the thing. It has not happened up until now. A lot of our colleagues have complained that there are haphazard closures going on in areas, so you suddenly get a great gap with people not being able to use the post office. We do not want that. In any other business, people looking at their outlets will say, “Do we have the right coverage? Let’s take account of retirees. Let’s take account of low usage. Let’s take account of a new shopping development” or whatever and that is what they will be doing. After all this process has finished, once we have got the 2,500, once we have got the network, if you get a postmaster or mistress saying, “I want out,” if that would result in the access criteria not being met it is then for the post office to fill that vacancy so that they get back to the position they were in. It is always going to be the case that as people get older they will be coming out of the industry, but we want to get a network. That is why I thought it was much better to set out a national criteria based on distance, which would mean there was some public reference point as to where there ought to be a post office.

Q15 Miss Kirkbride: Because of that national network and the criteria you have set out, you believe that 11,600 post offices is the right figure.

Mr Darling: It is about that, but, remember, you are also adding back in about 500 remoter post offices, post offices in community centres, pubs, mobile post offices and so on. There is a lot of evidence from what post offices have done now where you can provide a more popular service. There are examples, even, where people can take people’s money to their own front door. That seems to me to be a good service, if you can do that. As I said in December, with a bit of imagination we can provide a more flexible service and, indeed, do what any other business is doing. Every other business in the land, to keep customers, asks, “What does my customer want?” rather than “What do I want?” If you can make changes to achieve that, then you should do it.

Q16 Roger Berry: There is a sub post office strategy and a Crown post office strategy. How are the two related?

Mr Darling: In relation to the exercise I have just been describing to Julie Kirkbride, if you take a particular area the Post Office will look at the Crown post offices in conjunction with the sub post offices. It would be a nonsense to look at them separately because, clearly, a post office is a post office.

Q17 Roger Berry: Exactly. My recollection of the Urban Regeneration Scheme, which was not that long ago, is that is precisely what happened then, which is why I am asking the question. They will be looked at together?

Mr Darling: Yes.

Roger Berry: Fine. That will do. Thank you.

Q18 Mr Wright: On the question of the Crown post offices, you mentioned the figure of 480 Crown post offices. That number is going to be reduced and I forget the figure that you mentioned.

Mr Darling: I cannot give you a definite figure because the negotiation is going now but it will be a comparatively small number and I think less than about 25. I cannot give you an exact figure because it is subject to negotiation, subject to discussion, and I do not want to mislead you in any way. I just want to give you a ballpark figure because the lion’s share of them will continue. Many of them, though, could end up in joint ventures or franchising. That means there is still a post office there but it may be in the same place as W H Smith, for example, or somebody else.

Q19 Mr Wright: We will take that on board. If there is a transference of the employees over to these franchises from the Crown post office network, will the employees enjoy the benefits of TUPE? Could you give that as a guarantee?

Mr Darling: That is something that the company is discussing with its employees at the moment. I think it is best that ministers do not get in the way of those discussions.

Q20 Mr Wright: The question of the Crown post office closures, whether there are 25 or however many there are, during the programme would you be prepared to suspend those closures in the franchises until such time as all of the discussions and negotiations have been finished?

Mr Darling: No, I am not sure I would want to give that commitment, partly because the post offices are already in fairly advanced discussions in relation to a number of post offices at the moment and I would not want to do something that got in the way of what might be a satisfactory outcome. Remember this is an 18-month process and I really do not want to stop anything that might be done to the Crown post offices which might improve the services they provide for 18 months, for example. As we go through areas, wherever it is, it is only right that you should look at both the Crown and the sub postmasters and mistresses offices at the same time.

Q21 Mr Wright: Would you agree that, whilst you do not want to give a commitment through the negotiations it would be beneficial if TUPE arrangements could be negotiated with the trade unions?

Mr Darling: I think it is entirely desirable that there should be proper discussions between the unions and the Post Office and those discussions are going on at the moment. I do not think it would really benefit from me commenting from outside.

Q22 Roger Berry: Given that the two exercises are taking place together, the proximity to Crown post offices will count in the proposed access criteria, so I now understand that part of it. In your statement in December you used the phrase—and I think you used it this afternoon—about wanting to have the right post office in the right place. The consultation

24 January 2007 Rt Hon Alistair Darling MP, Mr Jim Fitzpatrick MP, Dr Elizabeth Baker and Mr Mike Whitehead

paper accepts that coverage will need to be maintained in the face of natural wastage, which is something we are all very familiar with. Could you say a little bit more about how this would work? In the consultation document you talk about the restructuring programme operating until 2009. How will that process work, of trying to get the right post offices in the right place whilst addressing the need to compensate those who lose their jobs?

Mr Darling: Before I come on to that, Jim Fitzpatrick has reminded me that there are national agreements in relation to discussions on closures and TUPE and so on, but, as I say, those discussions are continuing. On Roger Berry's point, what will happen is that from about the summer of this year the Post Office will be able to publish proposals. In as far as you can do this, they will try to do it in an area that is aligned to parliamentary constituencies, so that MPs will have an opportunity to make their comments, and they will look at the Post Office provision there. For this purpose, a Crown post office and a post office operated by a sub postmaster or mistress clearly is "a post office", so they will look and see, applying the access criteria, depending on whether it is an urban or rural area or whatever, what should the pattern look like. Of course, I have always made it clear—I think I was asked about this in the debate earlier this month—that they will take into account things on an area level that you do need to take account of. For example, if there is a natural boundary, a mountain or something, you might need to make some adjustments.

Q23 Chairman: We will come on to the criteria in some detail later.

Mr Darling: Yes. I was just trying to explain it in general terms. Basically, if you are asking how do you look at the things together, this gives you an opportunity to look at the disposition of the Crown and sub post offices. It also allows you—and I think this is happening already, because a lot of postmasters are indicating in some areas that they want to go—to try to marry up who wants to go voluntarily, who wants to go as part of the compensation scheme, who wants to stay, and then how do you get within that area a network that meets the criteria that we have set out.

Q24 Roger Berry: You mentioned about looking perhaps at the basis of parliamentary constituencies and consulting MPs, which of course is what happened last time: we were consulted or captured, depending on which term you want to use. Where do local councils come into this? With the Urban Reinvention Programme, local councils came into this whole process way after that and justifiably felt they had a contribution to make to coming up with a plan for their communities.

Mr Darling: I think I said in reply to Julie's question that all this is subject to consultation. Over the last month or so, a number of representations have been made to me about the consultation process by Postwatch and by other people as well. I think every single one of us who were Members of Parliament in the last Parliament knows full well that there were

some consultations that were more successful than others. I believe it is very important that if people ask their opinion they should be asked for their opinion genuinely. I also think that this time the Post Office needs to do a good job and make sure that all the information that is available is available.

Q25 Chairman: We want to come to the consultation in a little more detail later as well.

Mr Darling: I am sorry, I thought that was what Roger was asking.

Chairman: We will come back to that in more detail.

Q26 Roger Berry: How do you intend to encourage sub postmasters to move to areas where the incumbent might want to retire and we want to keep it open. What specific incentives—

Mr Darling: Clearly this is something the Post Office needs to think about. The money we have given includes money that will allow them to do some restructuring. One of the things that was put to me by the National Federation, who of course represent most of the postmasters . . . The copyright on the phrase "the right post office in the right place" belongs to Colin Baker and not me but I thought it was quite a good phrase. Here is somebody who has given a large part of his professional life to fighting for postmasters. He is a realist, he wants to do the best he can for his members, and he made the point that actually the postal network would benefit from a spot of management. If you have a situation where somebody wants out but they are in a prime site, it makes sense to go to somebody who is maybe in not a good site and say, "Would you like to take over the post office that is doing quite well because that might be better for you."

Q27 Roger Berry: I am sure that makes sense. The question, of course, is how you intend to do that.

Mr Darling: That is for the Post Office to do. It is my job as the Secretary of State and the Government's job to make sure the Post Office is properly funded, to make sure there is a framework against which they can operate, but, as for the day-to-day management, that has to be for the Post Office and the Royal Mail too.

Q28 Chairman: My concern, Secretary of State, is you are announcing 2,500 closures, effectively, but, after that process has concluded, more sub postmasters will want to retire and there may not be people to take those places. 2,500 is not the end of the story. There could be a lot more closures afterwards.

Mr Darling: No, I do not believe there will. Suppose we did absolutely nothing—and I do not think anyone is arguing that—the only evidence is that post offices will close at the rate of about 300 a year, and I suspect it will increase because of various other factors if we did not do anything. The reason I have said we need to make a structural change now and bring the network down by 2,500 is because I think on the level of financial support we are providing we can do that. I also think that will enable the Post Office to be in a position—when every year there will

24 January 2007 Rt Hon Alistair Darling MP, Mr Jim Fitzpatrick MP, Dr Elizabeth Baker and Mr Mike Whitehead

be people coming forward saying, “I want out. I am too old. I want to retire” or whatever—to be able to say, “This person wants out, what are the alternatives?” The alternative might be another postmaster; it might be a community-backed venture, which is about 150 in the network just now; it might be a whole range of different solutions. But the point I made in the House the other day is that if we do not take the bull by the horns it will just be a drip, drip effect, which would be disastrous.

Q29 Chairman: You are saying that by doing this you create a sustainable and viable network and where a sub postmaster wants to retire subsequently it is your view that an alternative arrangement can be put in place or a new sub postmaster encouraged to take on the site.

Mr Darling: Yes.

Q30 Chairman: And this 11,600 figure is a stable figure for the medium term.

Mr Darling: Yes, because I have laid down the national criteria that need to be applied and that is what the Post Office needs to stick to. In other words, if somebody comes out of an urban area and that means they cannot hit the criteria, they have to find somebody else.

Q31 Chairman: That is helpful. I have two technical points before I bring in Judy Mallaber: tax treatment of the compensation package. After the experience of the Urban Reinvention Programme, is it taxable for the sub postmasters?

Mr Whitehead: Yes, Chairman. The first £30,000 is exempt from tax and then above £30,000 it falls within a tax liability according to—

Q32 Chairman: As income?

Mr Whitehead: Yes.

Q33 Chairman: Thank you very much. In urban areas when post offices closed, there was typically another use for the post office. In villages that is less likely to be the case. Will there be any consultation between you and the Department for Communities and Local Government on change of use and planning policies for these, that otherwise could be gaping holes at the heart of a community?

Mr Darling: I have had discussions with the Department. I think it is fair to say there is quite a variation between the attitude of local authority planning authorities up and down the country. I am afraid this is an example of where you can get a complete conflict of interest. You can get a postmaster wanting out—he has got his post office and it could sell for an awful lot more as a house than it can there. The local planning committee might take the view that it wants to preserve shops in its high street, and it will say, “No, you are not converting that into a house because we think it could be another retail outlet.” On the basis that we have devolved planning to local authorities, I think it would be difficult for us to insist that, come what may, if a postmaster wanted out—and remember the shop may predominantly be a grocer or something

like that. I think there are difficulties here. The other thing I have to say is that, whilst this problem has been raised with me, the DCLG tell me that they have not been inundated with requests of this nature. It is something we will keep under review, but, like so many matters, it is not straightforward.

Q34 Judy Mallaber: You used the phrase “haphazard closures” to an earlier question and you said that some consultations have been better than others. There have been some concerns expressed that the wrong sub post offices were closed under the Urban Reinvention Programme. Would there be scope to reopen any of those post offices, if that fitted into the plan once the consultation had taken place?

Mr Darling: Yes, we will have to reopen them, not just because, as you say, it may be the wrong decision was made. I have come across cases where the postmaster himself is saying, “Look, this was not a good decision at all because the sums just do not add up” and other people are saying “It is the wrong decision because people could not get to it,” but because the access criteria and the criteria for post offices is now different from what it was under the Urban Reinvention Programme, we will need to look at them. The only thing I would say to you is that you could not sensibly look at an area afresh, if you like, to make sure the right post office is in the right place if you ignored those post offices being subject to some consultation last time. Prior to me publishing proposals, I asked various people, including the Federation, “Would it make sense to look at these things again?” and the predominant view was that if you did not you would create far more difficulties than you would resolve. This is the time, when there is quite a step-change in approach, for us to look at areas on a proper basis so that we can then decide what the appropriate network ought to be.

Q35 Judy Mallaber: Looking into the future, can we presume that if we have an area of rapid growth and new build that would be the provision for adding new post offices in that situation on top of the network that would have been agreed as part of this current round of consultations?

Mr Darling: Yes, because the criteria are national criteria. If, for example, you built an entire new town of a large number of people in an area where there are no post offices, in order to get yourself within the national criteria set out in the consultation document you would have to provide a post office. In the next five years I am not sure if that problem will arise or not but the criteria are national criteria.

Q36 Judy Mallaber: The Post Office will be expected to keep this under continued review.

Mr Darling: It will have to because nothing is static. As I say, 300 postmasters, or thereabouts, come out of the industry every year. The figure is a bit lower at the moment because people have been waiting to see what we would do now. Therefore, there will be 300 instances or so every year where the Post Office will

24 January 2007 Rt Hon Alistair Darling MP, Mr Jim Fitzpatrick MP, Dr Elizabeth Baker and Mr Mike Whitehead

have to say, “So-and-so is retiring, what do we do about this?” There is nothing new in this. This has been going on for 60 years.

Q37 Chairman: What is new, Secretary of State, is your Government is proposing a massive increase in house building in many parts of the country. That means there will be large new communities developed. I understand your last answer—very encouraging—to say that, where those large new communities are developed, the Post Office will be under an obligation to open new offices.

Mr Darling: The obligation on the Post Office is to meet the criteria that I have set out. If they do not meet it, then they will have to do something about it. I said to Judy Mallaber that whether or not that situation would arise in the next five years is something that I am not in a position to say yea or nay to.

Chairman: That is an encouraging answer too. You are doing very well, Secretary of State. We are very pleased.

Q38 Anne Moffat: Secretary of State, you have already answered a couple of my questions on the £1.7 billion package. You have spoken about how it will be allocated but you have also said that when you announced it that would be subject to European state aid approval. What would happen if that was refused? Is that likely?

Mr Darling: I hope not. One has to say that we have got about the only liberalised market in Europe. It would be ironic if the European Union found that what we did was wrong and that what every other European Union Member State was doing was right. So far, we do not anticipate that. It is quite acceptable in state aid rules that governments do support post office networks, for example, so I am reasonably optimistic, but, as I am aware that those in Brussels who do these things study our proceedings probably more careful than you and I do, I should make clear that I very much accept they have the right to look at it and to ask us questions and see whether or not we have done the right thing. But I hope we have.

Q39 Anne Moffat: You do not feel the need to have a plan B, you are that confident.

Mr Darling: No.

Q40 Chairman: We shall move on, Secretary of State, to the national access criteria. Could I begin by asking you a very straightforward question about a change of policy, apparently, or a change of view within government. The year 2000 *Performance and Innovation Unit Report* came out specifically against numerical access criteria but that is not what you are advocating. Why?

Mr Darling: Because I took the view that the policy I had set out was better and one that I think I am entitled to take. I did think about this long and hard and it has to be said that, had the policy that we set out in 2001 proved to have no difficulties whatsoever then one would be reluctant to depart from it. If we stand back, what is it that I think is important? The

important thing is to have a national network of post offices. Why? Because, on any view, for the foreseeable future, at the very minimum there will be some people who will not be able to get their money from the banking system, pensions, benefits and so on, and the state has a clear obligation to make sure they have the means to do so. The post office network is also a way of providing other goods and services, particularly in rural areas where there are not banks or there are not nearly so many banks, and I think there is a very clear social need for it. I have always been clear about that, both before and after I published the consultation document. How do you achieve that? The most obvious one is to make sure you have a reasonable distribution of post offices. We published a criterion which is in here that nationally 99% would be within three miles and 90% of the population within one mile and so on.

Q41 Chairman: We will come on to the detail. You think the old policy was bad and the new one is better. That is a helpful answer.

Mr Darling: That is the long and the short of it, yes.

Q42 Chairman: Before I bring in Peter Bone, could I just ask you a question. What is a mile? The reason I ask that is because the Westlands Post Office, for example, in my constituency, is, if you drive, 2.4 miles to the town centre where the Crown office is. As the crow flies, it is less than a mile, and it is separated by a very dangerous road. That means that you could, under your access criteria, close the sub post office on Westlands. Is it as the crow flies or is it the most convenient journey?

Mr Darling: I think we have to recognise that we are not all crows and that most of us have to get to post offices by conventional means. As part of what we are getting in the consultation, we are looking to try to make sure you take account of things like a six-lane motorway or a mountain or a river or whatever. Also, one of the things Postwatch have been asking us to look at is in terms of transport links, for example.

Q43 Chairman: Is the mile as the crow flies or is it via the most convenient route?

Mr Darling: In many areas a mile will be a mile.

Q44 Chairman: A strict radius, with a compass.

Mr Darling: You can see where you go. In some rural areas, or even in urban areas where there is some natural boundary, then we have to use some commonsense.

Q45 Chairman: We will come on to that in more detail but you have suggested there is some flexibility in this mile criteria.

Mr Darling: I think we have to avoid being daft but equally we have to avoid being daft the other way, saying nobody lives within a mile of a post office because you have to go around a car at one point.

24 January 2007 Rt Hon Alistair Darling MP, Mr Jim Fitzpatrick MP, Dr Elizabeth Baker and Mr Mike Whitehead

Q46 Mr Bone: The Deputy Prime Minister, who seems to have a role in the post offices said in answer to an oral question to me that 99% of people live within one mile of a post office. Was he right?

Mr Darling: 99% of all people?

Q47 Mr Bone: That is what he said.

Mr Darling: Not having the benefit of Hansard in front of me, I do not know what he said. The criteria that we have laid out are in here—and I will not go through them line by line—but quite clearly 99% of all people do not live within one mile of a post office.

Chairman: Thank you. That is fine. The Deputy Prime Minister is wrong about that.

Q48 Mr Bone: It appears from these confusing figures we are getting that about 20% of people in rural areas do not live within a mile of a post office at the moment.

Mr Darling: We never said that they did. If you look at the rural criteria, we are saying that 95% of the rural population should be within three miles and 99% of the population in postcode districts within six miles. We have never said that 99% in rural areas live within a mile of a post office. Manifestly, they do not.

Q49 Mr Bone: I think we are establishing that there is considerable confusion around these figures.

Mr Darling: On your part, not mine.

Q50 Mr Bone: No, there is not actually. I have done a little more homework on this. 20% in rural areas clearly do not live within a mile of a post office. Now you are changing the criteria. You are now saying 95% but you are changing the distance. You are moving it to three miles. What on earth was the basis for moving it?

Mr Darling: If anyone is confused, I think it is you, with respect. Why do you not look at what is in the consultation document that we set out. They are the criteria on which I propose to operate. As I said to your Chairman, it is different from what we have done in the past but nobody has ever suggested to the best of my knowledge that 99% of people live within a mile of a post office. You only have to go to rural Scotland or rural Wales to see that is not the case. Indeed, I dare say someone will ask me about the 38 postal districts—one in particular, since he has one of these coveted districts—and I intend to demonstrate quite graphically the problem that we face. However, I am setting out a criterion, a benchmark, if you like, that allows the post office to do some decent planning and to get a national network.

Q51 Mr Bone: I understand that for the poll of the post offices that the Government wants to do they have moved the criteria from one mile to three miles in rural areas and I want to know why.

Mr Darling: There is consideration in rural areas. It is not a practical proposition to have 99% of the population within one mile, unless, of course, you are proposing to embark on quite a major expansion proposal and get it right.

Q52 Mr Bone: I am not making myself clear—that is not the question—the question is: Why have you moved away from the benchmark of one mile to three miles? You could have said, “We plan to have 60% of the rural post offices within one mile.” Why have you moved away from that benchmark?

Mr Darling: I shall ask Mike Whitehead, if I may, but I think I am right in saying that there is no criteria at the moment that says you have to be within a mile of a rural post office. None.

Q53 Chairman: There is a statistic which says how many are but not a benchmark. Is that right?

Mr Darling: There will be lots of statistics, no doubt, but the only criteria that are around are the ones in the consultation document. If it helps you resolve your confusion, read the consultation document. You will see the criteria there.

Q54 Mr Bone: We are clearly going to have agreement on the second part because we are using the Government Performance and Innovation Unit. They clearly state, using your new criteria, that up to two-thirds of new post offices could be closed and still be within your new criteria, which would mean the closure of 5,000 rural post offices. When you go to urban post offices, if the new criteria were in place, 3,000 could close. You could have a total of 8,000 post offices closing and still meet your access criteria. How do you balance that up with the 2,500?

Mr Darling: I am proposing to reduce the network by 2,500. I am not proposing to do more than that.

Q55 Mr Bone: But your criteria would allow that to happen.

Mr Darling: I believe the criteria we have set out would allow us to operate a network that would be 2,500 less than we have at the present time. I am not sure where you got the other numbers from but they are your numbers, they are not mine.

Q56 Mr Bone: We must be fair on this, Mr Chairman. This is from the Government's Performance and Innovation Unit. It is not my figures; it is the Government's figures.

Mr Darling: Firstly, I do not think it exists any more, but, secondly, it has never looked at the proposals that I published last December. It does not exist any more, does it?

Mr Whitehead: Not in its present form.

Q57 Mr Bone: The fact that it has been abolished means that what they originally said was wrong.

Mr Darling: It means your whole argument falls apart.

Q58 Mr Bone: I give up, Mr Chairman.

Mr Darling: Good.

Q59 Chairman: This is quite an important point and I want to make sure I have understood it. The PIU report said, as I understand it, that 99% coverage at three miles could mean that two-thirds of rural post offices closed. That was their figure in 2000. We have already established it was not a very good report.

24 January 2007 Rt Hon Alistair Darling MP, Mr Jim Fitzpatrick MP, Dr Elizabeth Baker and Mr Mike Whitehead

Now you are going to 95% for three miles, which means to my very simple mind that more than two-thirds of rural post offices could close if that PIU report is accurate.

Mr Darling: I do not think that is right, and I will ask Mike Whitehead to expand on this. We did a lot of work on this over the summer, leading up to the announcement in December. If we apply the criteria that I have set out, we can end up with a network that would be about 2,500 less than at this present time; still about 12,000 if you include the remote services being provided. I believe that will allow us to meet the national criteria. I dare say that you can get somebody to look at the figures any way you want and you can come up with a number greater than that but the Government's position is as I set out.

Q60 Chairman: I have in front of me the PIU report from 2000—and I quote word for word—“But the PIU's analysis showed that it would be possible for the Post Office to close down two-thirds of its rural outlets while still ensuring that 99% of people in rural areas live within three miles of a post office.” You are saying that was wrong. Why should I believe that what you are saying is right?

Mr Darling: There were about 19,000 post offices, if I remember rightly, at the time they wrote their report.

Q61 Chairman: That could be the explanation in part.

Mr Darling: I am saying to you that clearly there would have been no point in setting out the criteria that I set out if it did not result in the distribution of post offices that the Government intends. I believe that this is the outcome. That is what we are working towards. Part of the consultation period is to allow this Committee and indeed others to respond to what we are doing, but we put these proposals forward in good faith. I believe the outcome will be as I stated.

Q62 Chairman: I do not think we have covered the breakdown between urban and rural. If we have, I apologise. We have heard a suggestion recently that it has been half urban, half rural. Can you confirm?

Mr Darling: I am not in a position to tell you it will be half and half. I am in a position to say that, if you look at the post offices that will go, there will be both urban and rural, self-evidently—partly for the reasons I have set out—but, as to the proportions, no. We cannot do that because the Post Office have not actually done the work yet.

Q63 Mr Bone: Can we be clear on this, Secretary of State. Perhaps I was baiting you a little bit at the beginning but are you saying that if we stick to these criteria you are proposing only 2,500 post offices would be allowed to closed?

Mr Darling: That is what the Government is proposing, that we close 2,500 post offices. Of course, I have mentioned the Crown post offices' position and I have also said that in years to come there will be closures, but those will almost certainly

need to be replaced. I am quite clear that if you do not have about 12,000-odd post offices you will not get the national network that we need. I do not know if someone is going to come on to the 38 postal districts. There is something there we perhaps should clarify but you may be coming on to that.

Chairman: I am very grateful to you: you have correctly anticipated the next series of questions. Mike Weir.

Q64 Mr Weir: The criteria allow for a percentage of the population to be somewhat further than either one or three miles from their nearest post office. Would it not be useful for members of the public and Parliament to have access to information on how post offices in their communities or constituencies fare against these criteria and so understand how the criteria might affect them?

Mr Darling: I think it was Roger Berry who asked me about this—the lessons from last time, if you like—and if you take a particular area, whether it is your area or anybody else's, it is necessary, when the post office puts proposals, to tell people how they reach that proposed solution. In other words, if they say, “Here is a post office: x% of the population are within so many miles” so that you can actually see how they made those calculations, that is quite important. It is all part of the process of being open with people. It would be nice if there were some sort of national consensus over it, though perhaps that is too much to expect, but the one way to antagonise people is to withhold information from them which we might legitimately expect to get.

Q65 Mr Weir: Under the Urban Reinvention Programme in my own area, I put this very point to the Post Office and they assured me they were looking at the town of Arbroath, for example, as a unitary to see how many post offices were needed there, and then the next week I got a letter from them saying that a post office was closing there. There seemed to be no overall look at an area. You have talked about parliamentary constituencies. I have one post office in my constituency, Edzell, which is right on the border of the adjacent parliamentary constituency. Is there going to be flexibility to reflect the fact that sometimes a business crosses over parliamentary boundaries?

Mr Darling: I said, again to Roger Berry, I think, that the intention is to look at these things and try to align them with parliamentary constituencies but clearly there is a number of areas where that is not a sensible thing to do. It is not just rural constituencies. I do not know enough about Edzell post office to know where its main business is coming from but it is quite possible that it would come from somebody else's constituency. Let's face it, most of our constituents do not identify usually with their constituency but rather with the area they are familiar with. If you take an area like a city, like Edinburgh, for example, there will be lots of people using particular post offices in my constituency that live somewhere else. You might want to look at a city or an area that covered the Edzell post office in a slightly different way. Would it be helpful if I said

24 January 2007 Rt Hon Alistair Darling MP, Mr Jim Fitzpatrick MP, Dr Elizabeth Baker and Mr Mike Whitehead

something to you in relation to the 38 postal districts? It does affect you and you may be interested in it.

Q66 Mr Weir: I am just coming on to that. The Secretary of State said I have one and in fact I have two, because, although it is a Perthshire postcode, it crosses the border. Not only that but I happen to live right in the middle of one of these exempted areas, so it is of great interest to me what you are going to say about this. The majority of these 38 exempted areas are in Scotland, mostly in the Highlands, Islands, Perthshire and Angus. Why should they be exempt?

Mr Darling: They are exempted mainly because their populations are much lower than anywhere else in the United Kingdom. You are right. If you had 38, 37 of them are in Scotland, most of them in the Highlands. There is one in Northern England around Hexham. The position there is that very often you have a very low population. If you were to try to apply the national criteria you would end up having to build quite a lot of post offices. Let me give you an example. This may help the Committee. If you look at the postal district IV4, of which the Committee is no doubt intimately aware.

Q67 Chairman: Inverness, is it?

Mr Darling: It is Inverness—so that is your starter for ten. It is slightly to the south and west, around Loch Ness. There are 510 people living there. There are 19 post offices serving 510 people and yet almost half the people do not live within six miles of a post office. Let me take another one, IV27. If you imagine the weather forecast and look at Cape Wrath—it is that top triangle of Scotland where you can walk for two or three days and not see anybody—1,500 people live there. There are 12 post offices serving those 1,500 people and yet just under 27% live more than six miles away. Clearly, if you applied the national criteria, you would be building post offices to serve maybe one or two people and that would not make any sense. I can tell the Committee that it follows, because it does not meet the criteria, that there will not in fact be any compulsory closures in any of those 38 districts. In those areas, it is the case that we will fail to meet the national criteria. That has been the case for some considerable time, but it also follows, because of that very fact, that there will not be any closure in those 38 districts. I am happy to provide the Committee with the details in writing if you would like me to, since there are rather a lot of them and I do not suppose everybody is familiar with the postal districts.

Q68 Mr Weir: That is very interesting and welcome.

Mr Darling: I thought you would be more cheerful than that! It has maybe ruined your campaign against post office closures.

Q69 Mr Weir: Not at all. I was going to ask about DD9, which is the one I know best for obvious reasons. DD9 covers a large area taking in the town of Brechin all the way up to the top of Glenesk. There are four post offices in DD9, two in the town

of Brechin and two just outside, one being Edzell and one being Little Brechin. There is a vast area going up Glenesk, Glenmark, all the way up Invermark, where there is nothing. There used to be a post office at Tarfside, up Glenesk. Is it the case that these areas, where post offices have previously been closed under the criteria, may have to build new post offices? Equally, these people are being left without postal services. For example, why are you not looking at outreach services to go into these areas which have now, in the likes of Glenesk, not had a post office service for some years because the post office closed?

Mr Darling: There might well be a case for doing outreach services in areas like that. Just looking at DD9, according to the information I have, 94.3% of the population live within six miles of the post office. I agree with you, that means that about 6% do not. You are right there are four post offices and there will be no compulsory closures of those four post offices and I am sure you will be very keen to impart that good news to the postmasters there. Going back, I picked IV4 because it illustrates the problem. You have 500 people and 19 post offices¹—which gives you a ratio that other parts of the country do not have—and yet almost half of the population live more than six miles away. It would not be a practical proposition to be opening new post offices to serve all these people because it just would not work.

Q70 Mr Weir: With respect, that was not the question I asked. I did not ask you to open new post offices. I asked you about outreach services.

Mr Darling: And I said: Yes, that is a possibility. It is. One of the things the Post Office is looking at is how they can get postal services to new customers, so, yes, that is something.

Q71 Rob Marris: I would like to ask you what you mean by building post offices.

Mr Darling: Opening new ones.

Q72 Rob Marris: You said “building” at one point. It will not surprise you to know I have been on a parliamentary visit to one of the 19 in IV4, which I believe is the smallest post office in the United Kingdom. You may know it. It is about one metre by one metre. It is a cupboard in somebody’s house by the lake.

Mr Darling: The loch.

Q73 Rob Marris: I am English. I call it a lake, so it is by the lake.

Mr Darling: No, it is not.

Q74 Rob Marris: You now clarify it. When you say opening post offices, it could be one like that, in theory.

Mr Darling: Yes. Firstly, it is a loch—right? We only have one lake and it is a loch! In relation to what you are saying, I was making a general point that if you want to get up to the national criteria in the 38

¹ *Witness's Note:* There are actually four post offices in the IV4 district. Please see the supplementary information printed in Appendix 5 below.

24 January 2007 Rt Hon Alistair Darling MP, Mr Jim Fitzpatrick MP, Dr Elizabeth Baker and Mr Mike Whitehead

districts you might indeed have to be building them. I am saying that we are not proposing to do that. I said that we are not going to close any post offices in those 38 districts under the scheme, but I also said to Mike Weir a few moments ago that it could well be that some different form of providing a service might be considered. Whether it would work or not, I cannot say. You are absolutely right, a lot of these post offices are not the sort of post office that you might imagine on the high street, with bright lights; they are in somebody's house or in the corner of a shop and so on, but it could be that those services could be provided in a different way.

Q75 Miss Kirkbride: You probably do not have these figures to hand, but, for the Committee's interest, could you tell us, of these 38 areas, how many post offices there are, how many people they serve and what subsidy is on them.

Mr Darling: I certainly cannot give you the last figure offhand. In the time available, even with the most agile mental arithmetic, I would not be able to give you the total population.

Q76 Chairman: Write to us.

Mr Darling: We might have a stab at it.

Mr Whitehead: The total population of the 38 districts is around 41,000, which is an average of just over 1,000 per postcode district which is affected by this situation. Throughout the rest of the country, the average population per postcode district is around 20,000–21,000. They are very small groups of population on average.

Mr Darling: We will give you further details.

Mr Whitehead: We can supply the details, apart from the subsidy per office.

Chairman: That is a helpful indication. Thank you very much.

Q77 Judy Mallaber: The distance criteria are, in a sense, arbitrary, and you did earlier start to move on to talking about some other criteria that might be taken into account if we were not going to be, as you put it, "daft" in how we develop those programmes. Could I start with one area of potential factors which are broader factors than you mentioned earlier, like the number of customers, the quality of the Post Office and its range of services. Are those issues that should be taken into account as well as distance?

Mr Darling: The overarching criteria will be the ones we have talked about several times this afternoon. When the Post Office is looking at particular areas, it will take account of, for example: is the post office heavily loss-making? To give you an example: in a town you have three post offices. On the criteria: two could serve and meet those criteria, so one post office might be the subject of closure. If you looked at the three and one was very profitable, one was on the margins, one was making a great losses, you might decide to close the loss-making one and that might help the one that was on the margins, and so on. They will be looking at what is practical and so on. I was at pains to say on 14 December—because there was a feeling last autumn: "They will go through all the loss-making ones"—that there are lots of post

offices, those which are seeing a handful of people every week—and Rob Marris has given an example—where there will not be that many people but the individual transactions are quite high, but it will be kept open because to take it away would mean there would not be a post office for an even greater distance. Yes, the Post Office will look at that, but one of the things we are using this consultation period to do is to get views from people as to the various things they think ought to be taken into account. My overarching objective is to provide a network which fits with the criteria that I set out.

Q78 Judy Mallaber: Could we go through some of the other practical issues we started to touch on earlier. I have a list of those that have occurred to us. Practical accessibility, not just raw distance: for example, actual road distance; whether you have a steep hill; public transport; whether you can get there; whether somebody has to go through an area that has very high crime or antisocial behaviour. There are all sorts of factors that could be taken into account. Are they ones which could be looked at in conjunction with the criteria you have laid down? If I get a proposal saying: "This one is going to close" are those factors I will then be able to argue back, saying, "There are these reasons why: I really cannot expect a pensioner to walk up this steep hill or through that horrible area to get to the post office"?

Mr Darling: I think the answer to your question is this: of course, especially at this stage, I will look at anything the Committee or you as an individual or, indeed, anybody else who responds to the consultation process puts forward. We are going to have to reach a view at the end of this as to what sort of things will or will not be taken into account, because it would be unfair if something is taken into account in one area but not in another area. The caveat I would have to enter is that I want to avoid getting ourselves into a situation where it becomes virtually impossible to do anything because if you have enough criteria then it will not be possible to make any changes whatsoever. Going back to the very first question I was asked by the Chairman and Julie Kirkbride, we need to do something about the size of this network if it is going to be sustainable in the future for any government. I did also say that we need to be sensible about the way in which you apply these things. Mike Whitehead was the official responsible for the policy behind the Urban Reinvention Programme and it might be helpful to ask if he has any observations on the point Judy Mallaber was making.

Q79 Judy Mallaber: There are two phases. You could say. "At the end of this phase we are going to rule out what you said about steep hills" or whatever it is, so you could be going to rule out everything at this stage, or you could be saying, "There is a list of factors which if they were acute could be taken into account in a sensible analysis when it comes to it."

Mr Darling: I am prepared to listen to what anyone has to say but, by the time we report to the House at the end of the consultation period, people will be

24 January 2007 Rt Hon Alistair Darling MP, Mr Jim Fitzpatrick MP, Dr Elizabeth Baker and Mr Mike Whitehead

entitled to have a reasonable understanding of what the rules are rather than getting into a situation where people are not really sure at all.

Mr Whitehead: As the Secretary of State says, we are not ruling anything out at this stage. There are discussions underway at the moment between Post Office Ltd and Postwatch who will have quite a significant role in assessing the proposals at the local areas when they are being formulated. They are in detailed discussions about the range of factors, beyond those that are just flagged up in the consultation document, which will be taken into consideration as proposals are being developed.

Q80 Chairman: Could you think of putting a measure of socio-economic need into the access criteria as well: outside our top 10%, in the most deprived wards? Again, going back to Westlands Post Office, it is in a deprived area, not top 10%. It should get a little bit of weighting at the margins in considering whether to close or not to close.

Mr Darling: I am certainly prepared to look at representations of that but I think we need to avoid a situation where the criteria become so complex that we lose sight of what we are trying to do. We are trying to be sensible about these things. In a network that is not commercial, obviously the social considerations are important. We want to avoid a situation where, basically, you cannot do anything because you have so many criteria that you are paralysed.

Q81 Judy Mallaber: Could I move on to the question about how the thresholds are going to be applied in practice. You said you would be looking at things on a constituency basis or maybe a group of constituencies or part of Edinburgh or whatever. When you are looking at these criteria, are they going to be applied in terms of those percentages and so on within each of those area plans or is it just that they have to even out over the country as a whole? To which areas are the thresholds going to be applied?

Mr Darling: They would have to apply to the areas concerned. You could not have a situation where somebody in your constituency was 20 miles away from a post office and you assured them, "But don't worry, looked at as an average over the country you are actually within three miles of it."

Q82 Judy Mallaber: Mike cannot come and argue "I have to get all mine within three miles" and I then have mine going 20 miles.

Mr Darling: No. I think the criteria have to mean something to people. You cannot possibly argue that you have met the goal because you have grossly overprovided in one corner of the kingdom and you have grossly underprovided in another.

Q83 Mr Clapham: Secretary of State, I hear what you say about the need to take a reasonable approach in the way in which you apply the criteria but there is also a reference in the document at 5.2 to an additional criterion being used to safeguard post

offices in a rural or deprived urban area. Could you say a little about what that additional criterion may be.

Mr Darling: It is really what I have just been saying over the last few minutes. My starting point is that there needs to be national criteria that people can point to but there will be areas where you need to take a sensible view of things, whether it is natural boundaries, whether it is particular incidence of deprivation. I am using this consultation period for just now to look at all the things that people have said to us and then in March, when we publish our conclusions, we can be a little bit more definite. I welcome people's suggestions, but, as I have said on a couple of occasions now, we need to make sure that we have got something that is understandable and workable.

Q84 Mr Clapham: In terms of the way in which the criteria may be used in some areas and we see post offices closed, will it be transparent? Can it be questioned by the local community, by the Member of Parliament, for example?

Mr Darling: Yes. What will happen is the Post Office will put forward proposals, the local MP and anyone in the locality will be able to respond. I did say earlier that we need to avoid some of the problems that arose the last time. Certainly in my experience as a constituency MP there were times when it was rather more difficult than you would like to get some basic information out of people. One of the things that I think it is also fair to know is, if the local postmaster or mistress say they want to go, that people should be told that. Sometimes the impression was created last time that they did not want to go. I think we have all had that experience.

Q85 Mr Clapham: In terms of the way in which it is going to be approached, there is likely to be, is there not, the involvement of the local authorities. In many of my rural areas, I have 13 parish councils.

Mr Darling: The answer is yes. If you have a consultation period, there is nobody that is not allowed to respond to it. Obviously when the Post Office start this process they will do their best to write to all the people they have on the books, as it were, who have a legitimate interest. Local authorities, parish councils and so on are very much part of that. I cannot think of anybody who would not be able to respond.

Q86 Mr Clapham: The reason I am asking about parish councils is that quite often it is an area that is missed in consultation. It tends to go out to the large council but the parish council tends to be missed.

Mr Darling: We will try to make sure it does not happen.

Chairman: We will go into more detail on the closure process.

Q87 Mr Wright: You have really answered the questions I was going to ask in terms of the difficulties we had over the Urban Reinvention Programme and the difficulties experienced by local people in responding to the consultations. In terms

24 January 2007 Rt Hon Alistair Darling MP, Mr Jim Fitzpatrick MP, Dr Elizabeth Baker and Mr Mike Whitehead

of the lessons that we have learned, we are not going to go through the same process again, are we? Could you just go into detail about what the process is going to be. How will the Post Office connect with customers, with the local community in trying to reach them through the consultation process?

Mr Darling: I cannot give you a detailed account just now. Indeed, it would be wrong of me to do so because I am consulting and if I pre-empt that by saying “This is the process” then people would be understandably concerned. I think we can learn. It might be helpful if Mike were to explain some of the things that we have learned from the last experience. Again, it would be helpful when this Committee comes to do its report to know if there are things that Members have within their own memory that did not work. We do not want to repeat things that went wrong last time. Mike, if I remember rightly, the process started off in a most difficult manner and by the end of it a number of lessons had been learned. I think there are things that we need to do better next time.

Mr Whitehead: Yes. Last time it started off with individual post offices being put out as proposals without any sort of pattern or grouping. That was moved to the approach of using area plans based on parliamentary constituencies and then at a slightly later stage the consultation period was lengthened from four weeks to six weeks and provision was made to extend it again if it covered public holidays. There was also a process for bringing Members of Parliament and local authorities into the consultation process at an earlier stage than being the case at the start of the programme. That is going to be the starting point, we believe, this time around. That will be the sort of approach that we will be looking to follow.

Mr Wright: I had an experience in the Urban Reinvention Programme where one of my post office proposed closures was opposed by the local community, by the local authority, by myself and we were supported by Postwatch, yet it still closed, and there were real reasons for that. In terms of that, have we learned lessons from that point of view, that a consultation should be a true consultation. Where there is a proven need by the watchdog, that should be taken into account and, indeed, should be acted upon.

Q88 Chairman: Could I reinforce Tony’s point. I get consulted by the President of the Post Office on closures. I am not being consulted; I am being told what is about to happen.

Mr Darling: I want the consultation to be a genuine process but I cannot say to you that—having consulted and if there is a number of objections—the Post Office does not take a different view. At some point they have to make a decision but it has to be a reasonable decision. It has to be based on the evidence they get and the evidence they had already. I want the process to be open. I want people to be able to have a genuine say. I understand the point you make. I think all of us will have had experience

with various bodies, both public and private, frankly, where your opinion is being asked and you get the impression that it is not quite as significant.

Jim Fitzpatrick: Mike and I attended Postwatch national council yesterday. It is the second meeting we have had with that collective in the past month: I know the Secretary of State met with the leadership of Postwatch two or three weeks ago and I met with them last week. Notwithstanding the inability to give conclusions today, we are doing everything we can to refine the exercise that Postwatch will conduct in due course by engaging with them, as well as others, as much as we can at the moment, so that, as we described earlier on, having learned the lessons from the Urban Reinvention Programme and listened to those who will be undertaking the real consultation when Post Office Ltd come forward with their restructuring proposals in due course, we hope to be in the best possible place to make sure it is as effective as possible.

Q89 Mr Wright: My bone of contention was not necessarily with the process. In terms of the consultation from the four post offices that were closed in the Urban Reinvention Programme in my constituency, three of which were supported by Postwatch—and indeed there was very little opposition to that—but this particular one gained the support of Postwatch. Whilst I accept the argument that, yes, we can go out to consultation but the due process has to be seen to be done, once you get the watchdog on your side to suggest that that post office should not shut, it is very difficult to go back to the community to say, “It was a true consultation. We went to an independent watchdog. They supported us but unfortunately the Post Office said, ‘Sorry, a waste of time, it is going to shut’.” I believe we need to give more strength to Postwatch if they say in their opinion, and it was a measured opinion, that that post office should remain open. I am sure other colleagues can give exactly the same picture, though I believe that, where those circumstances prevail, if they are given those powers then that should certainly weigh very, very heavily on the Post Office to reconsider.

Mr Darling: As Jim said, I have spoken to Postwatch fairly recently. They are quite clear they do not want to be the judges. They want to make sure they have a proper process, they want to look at the proposals, they want to be able to make their representations, but they do not want to be in a situation where they are the people who decide yes or no. I understand that in any consultation you will get a lot of evidence pointing in one direction and maybe the decision goes a different way. It is important is that you have a transparent process. People may not always like the decision, and that is inevitable in any decision-making process, but they can see there was fair play. As I said a few moments ago to Judy Mallaber, over the next few weeks I want to reflect on what people have got to say with a view to us coming up with criteria and a process that is clear to people before the proposals are made.

24 January 2007 Rt Hon Alistair Darling MP, Mr Jim Fitzpatrick MP, Dr Elizabeth Baker and Mr Mike Whitehead

Q90 Roger Berry: The word “consultation” is being used in different senses here, which is why Mr Whitehead could say, in a sense, getting local councils involved “at an earlier stage”. The process with the Urban Reinvention Programme last time was quite simple. The Post Office came forward with a proposal to close x post offices in a particular area and then there was the consultation. The criticism that many of us made at the time, particularly local councils, was that they were not involved in a prior discussion with the Post Office so that they could inform the Post Office of their local knowledge and that might influence the package that goes out for consultation. There might be agreement that x post offices out of y should be closed, but there might be great debate about which should be the ones to be put up for a formal consultation exercise for closure. When, Mr Whitehead, you referred to local councils being involved at an earlier stage this time, presumably that can only mean before a final set of proposals for formal consultation are put out for the public. Am I right?

Mr Darling: We are not talking about two consultations. In a particular area the Post Office needs to do its homework. It needs to talk to councils about planning consents there may be in the pipeline. Maybe they will want to talk to their views on particular needs and particular area transport links and so on.

Q91 Roger Berry: They did not do that last time, so is that what they are going to do this time?

Mr Darling: That is not a formal consultation as such.

Q92 Roger Berry: Just to be clear, Secretary of State, that dialogue with the local council before they put out a proposal for consultation will take place this time, will it? It certainly did not take place last time. And I welcome it. I am delighted.

Mr Darling: What is necessary is for the Post Office to do their homework. The whole purpose of the consultation period, of course, is to allow people to say, “No, you are not right. We can make a different case and that needs to be considered.” Tony was mentioning Postwatch. About—I do not know—60 or 70 proposals were withdrawn outright as a result of what Postwatch said and—I do not know—about 15% were altered as a result. So Postwatch did then and will in the future have some influence. Do you want to add to what you were saying?

Q93 Roger Berry: With respect, was the answer to my question yes or no?

Mr Darling: Which particular question?

Q94 Roger Berry: With respect, the one question I asked last time. Is the implication of local councils being involved “at an earlier stage” that there will be dialogue in the areas to which you specifically referred with the local council in terms of special local needs, *et cetera*, before the formal proposal is put down on paper and then goes out to consultation?

Mr Darling: Yes. I mean, the Post Office—

Q95 Roger Berry: Is it yes?

Mr Darling: Yes.

Q96 Roger Berry: Thank you.

Mr Darling: I do not want to be in a position where you have one impression and I have another. There will not be two formal consultations, if you like.

Q97 Roger Berry: I know that.

Mr Darling: The Post Office consults with councils and anyone else and then another thing is put out. The Post Office has a certain amount of basic information. It will need, no doubt, to check things, to ask things and so on. Certainly the complaint that was made in some consultations last time was that a lot of this came as news to the local authority and that is a situation that I would dearly like to avoid.

Mr Whitehead: The idea is to improve the homework, to make sure that the contacts with local authorities comes in at an earlier stage and feeds in before the proposals are being developed.

Q98 Roger Berry: In my constituency there were proposals to close two sub post offices. In relation to one of them, I got the impression that more people were campaigning to keep it open than were actually using it. But the information on footfall and revenues and so on of that sub post office was not available. Strictly commercially confidential, that information was not accessible. I eventually did get the figures. The figures would have demonstrated that not a lot of people were using this sub post office. If we are going to have a transparent consultation, as you have rightly said, Secretary of State, how can we give people access to some of the information without breaching commercial confidentiality, which I understand is a problem? Because, in some cases, if you look at the figures and the Post Office looks at the figures, they know privately that this post office is going to be very difficult to sustain, this is the marginal one. How can we get serious consultation when people are unaware of some of these difficult circumstances?

Mr Darling: I have some considerable sympathy with you in relation to this. I think most Members of Parliament do. We need to put as much information as possible in the public domain. In relation to footfall, for example, whilst on one level you could argue it is commercially confidential, clearly anyone seeking to buy that post office or take it over would want to know those numbers. I certainly agree with you that if it is the case that the post office is being used by a handful of people then people should be told that. As you say, there have been cases where you have a meeting of 2,000 people and if only the 2,000 people all used the post office then the problem would not have arisen in the first place. I think it is important and I will do everything I possibly can to make sure that information is out. One of the other things that was not available last time was the fact that sometimes postmasters had asked the Post Office to go. Petitions were sometimes being run from the Post Office to keep it open. I think we need to avoid getting ourselves into that situation. I should make one thing clear for postmasters and

24 January 2007 Rt Hon Alistair Darling MP, Mr Jim Fitzpatrick MP, Dr Elizabeth Baker and Mr Mike Whitehead

mistresses: where you are dealing with personal information, like their income and so on, I can quite see that they are entitled to the same degree of privacy that anybody else would expect them to get, but where the public need to know something, if the Post Office assertion is “Nobody is using this post office,” you then have to come up with the facts.

Q99 Roger Berry: The period you are suggesting for local consultation is six weeks. As you know the last time the Committee looked at this it felt that was not sufficient. Government practice recommends 12 weeks. Will you extend the period of local consultation to that 12 weeks, to allow stakeholders to have a proper say in the future of their local post offices?

Mr Darling: I think I am right in saying we discussed this with Postwatch about a year ago and they agreed with us that six weeks was appropriate plus public holidays, if there are any, falling within that period. The contrary argument is: the longer it goes on, the greater the uncertainty, which could affect the wellbeing or viability of a branch. I think it was a year ago since Postwatch last canvassed opinion.

Mr Whitehead: There was a subsequent renegotiation of the code of practice relating to post office closures and relocations which agreed on six weeks as being appropriate for local proposals.

Mr Darling: Twelve weeks is normal for national proposals. For example, this one is a 12-week consultation.

Q100 Chairman: Postwatch have written to the Committee ahead of this meeting. They say, “As noted above, an unreasonably brief consultation period at local level with MPs, local authorities, customers and others will not have the 12-week consultation period recommended by the Trade and Industry Committee.” They have suggested to us they want 12 weeks.

Mr Darling: They have raised these matters with us. All I am saying to you is that a year ago they thought six weeks was appropriate.

Q101 Chairman: You have changed your mind about the PIU report and they have changed their minds here.

Mr Darling: I have no problem with them changing their minds whatsoever; I am just telling you that 12 months ago they suggested that six weeks was adequate. I am mindful of the fact that postmasters sometimes say to us, “The longer you keep this going, the more difficult it becomes for us” and we have to take that into account too.

Q102 Roger Berry: In a sense, the uncertainty has started now and there is something a little strange when the consultation on the broader principles is going to be for 12 weeks and the consultation for the detail, the things that really matter in individual communities, would last for only six weeks. Is that not a strange way to do it?

Mr Darling: It is not strange at all. In one case we are following Cabinet Office guidelines, which is 12 weeks for government consultations, and in the

other we are following what was agreed with Postwatch 12 months ago, which was six weeks. I quite accept, as the Chairman has said, they have changed their minds. However, at the time that we published this we had agreed six weeks, so I think it is entirely consistent with what the going rate was at the time.

Roger Berry: Okay. I give up.

Chairman: We might return to this, Secretary of State. Before I bring in Rob Marris, Judy Mallaber wants to say something.

Q103 Judy Mallaber: You do have to accept the cycle of meetings of, say, local organisations that would want to be consulted. Six weeks is not necessarily satisfactory for organisations that find it hard to organise themselves. My question was following on from the previous one about this taking the knowledge of local authorities, the dialogue, with them at an early stage. Can you give an assurance that that is going to be with each of the levels of local authorities? I have three tiers of council in my area and in some areas the county and the town council are in a better position to feed that dialogue than the borough might be. You would not just be going to add one level of local government and not consulting the rest.

Mr Darling: The Post Office have to go to the appropriate council to find out whatever information they require. You are quite right in saying that doing the necessary local consultation is not achieved simply because you went to one particular council, if the other level or levels had the information you need. As I have said, we need to make sure the homework is done properly, so the consultation can be conducted in the best way possible. We would also need to make sure that the information that is gathered (unless it impinges on somebody’s individual personal circumstances where they are entitled to their privacy), things like footfall and who uses post offices, is a very relevant consideration.

Chairman: We may return to this as well. We will move the subject to the Post Office Card Account.

Q104 Rob Marris: It will not surprise you, Secretary of State, that I want to ask you on this. You and I have been battling this around for several years since I was on the Work and Pensions Select Committee and you were Secretary of State for Work and Pensions with the Post Office card account. My understanding is that over four million people use a Post Office card account to get their benefits and pensions and that the Post Office card account is quite an important source of income for any sub postmasters and mistresses—although it costs the DWP £1 per transaction in contradistinction to about one penny per transaction for bank transfers. The DWP contract expires in 2010. There now seems to have been a change of heart in Government and the possibility of renewing that contract in some form is being discussed. I understand from papers from your Department that the envisaged Post Office card account Mark II would have the same

24 January 2007 Rt Hon Alistair Darling MP, Mr Jim Fitzpatrick MP, Dr Elizabeth Baker and Mr Mike Whitehead

eligibility criteria as the current account but would include similar features to the current one. Could you say what features would not be similar?

Mr Darling: On one point of detail, my understanding is the Post Office card account costs 80 pence, not £1, but you are right that pension or benefit direct into an account is just less than a penny. Therefore, in DWP terms, clearly there is quite a significant impact on its administrative costs. In relation to the Post Office card account, you are right, there are about four million card holders. The Government did decide it would continue the Post Office card account after 2010. I looked at this quite carefully. I am quite clear that you need the Post Office card account not just because it is desirable that the Post Office should have a product to sell but also because there are people who will not, for one reason or another, be able to get their money through the bank and a Post Office card account is the right thing to do. Incidentally, for the sake of completeness, there are other bank accounts which the Post Office can operate which does help them on footfall. You are also right in saying the Post Office card account is one of the things which brings people into a post office, which is very important in terms of, again, footfall. We are proposing to have a successor to the Post Office card account. We want it to do what it can do now. When we say that it may have different functionality that is because the DWP is looking to see what else they could put on to it to make it a slightly more attractive proposition. They have not reached that stage yet, so, no, I cannot tell you exactly what it would be. They are considering that. This is a tender process that will happen in the next couple of years or so.

Q105 Rob Marris: That would be additional features, not a subtraction of features.

Mr Darling: The basic product will maintain what we have at the moment, but at the moment it has its limitations and I think they would like to see what you can do to improve it. As I said in the House on 14 December, of course, because of European Union law we do have to tender this product.

Q106 Rob Marris: Could you design the account so you did not have to put it out to tender? Or would that design out its usefulness if one were to adopt that approach?

Mr Darling: I suspect you are right, that if you designed it out to being something that was not terribly useful then perhaps it would not attract the interests in the European Union. But we did take legal advice. Believe me, it would have been much easier for a whole host of reasons; not least I would have preferred to have said, "Look we are just going to continue the thing," for us to have done so. But the overwhelming legal advice, you will appreciate—and I am sure the Committee would agree with this—is that the Government has to obey the law. The best advice we have is that we have to put this out to tender and that is something that we will have to do. It would be really disastrous if we did the wrong thing, someone challenged it and you lost two years. The long and the short of it is I want the Post

Office card account to continue; it is my intention that it should do so, so we continue to offer that service to people.

Q107 Rob Marris: Did you get legal advice on what could be done to increase the chances of the Post Office winning that tender, what legitimately the Government might be able to do within European Union rules?

Mr Darling: The legal advice we obtained was whether or not we had to tender it. We will have to consider how we specify it. If you will forgive me, this is an area where the Government will have to do some thinking. We will no doubt get lots of legal advice which will be of great interest to other people as well. We are reflecting on that but we will stick within the law.

Q108 Rob Marris: We have been talking about the viability of the Post Office network, which is not viable at its current numbers. I think there is general agreement on that. How adversely would the viability of that network be affected if the Post Office did not win that contract for the Post Office card account Mark II?

Mr Darling: We have not done any calculations on that basis because we are hopeful that the Post Office will win it. The viability of the network depends on a number of factors.

Q109 Rob Marris: Most commercial organisations, I would have thought, would have had a plan B. We are talking about something three years away, which is a fairly short timeframe. Is it not March 2010?

Mr Darling: It runs out in 2010.

Q110 Rob Marris: And there is no plan B at the moment.

Mr Darling: The Government has all sorts of plans, B, C, D, E and F. I am anxious not to get myself into a position where I expose the Post Office to more difficulty than I need to.

Q111 Rob Marris: I think you may need to, Secretary of State. Correct me if I am wrong, you are indicating today that the Post Office and your Department have done no work as to the viability or otherwise of the Post Office network.

Mr Darling: No, that is not what I said.

Q112 Rob Marris: That is what I wanted to get clear from you.

Mr Darling: We do lots of work on all sorts of scenarios affecting Royal Mail and the Post Office—and the two are pretty linked. You asked me specifically about the tender process. That is clearly something we have to take into account. We have to tender but to run up the flag of defeat at this stage would not be advisable.

Q113 Rob Marris: Has the Post Office or your Department done any work on the viability of the Post Office network if DWP does not award that contract, Post Office card account Mark II, to the Post Office?

24 January 2007 Rt Hon Alistair Darling MP, Mr Jim Fitzpatrick MP, Dr Elizabeth Baker and Mr Mike Whitehead

Mr Darling: We are not working on a detailed plan that presupposes the Government does not win this contract. However, all the time, given the amount of money involved, I am looking at all sorts of things that might be necessary for the Royal Mail and for the Post Office. It makes sense to do that.

Q114 Rob Marris: Do I deduce that you have done some work but no detailed plan?

Mr Darling: I am saying to you that our proposal at the moment is to tender. I hope the Post Office will win this contract—I very much hope it will—but there are all sorts of things going to happen to the Post Office between now and the next three years, and of course the Government has to look at these things and the Government does an awful lot of forward planning in relation to the Post Office and the Royal Mail, as you would expect. However, one of the things I am very conscious of is that here we are trying to support something that is a public service. There are others out there who commercially would not mind a slice of the action and who are extremely interested in all sorts of things we might be doing or considerations that might be crossing our minds and so on, and there is sometimes a very fine line to tread here between being terribly helpful and terribly foolish.

Rob Marris: I want you to win the contract, absolutely, and you tantalise me with the glimpse of all the kinds of things that might happen in the next three years but I will not succumb to that temptation.

Q115 Chairman: Could I ask one question about the functionality of the Post Office card account. I have had complaints from my sub postmasters that they cannot even correct an error if they withdraw too much money by mistake. If they press an extra nought and the person gets £600 rather than £60 out, they cannot even correct that mistake. Will you at least make sure that mistakes can be corrected—and this means allowing deposits to be made in the Post Office card account?

Mr Darling: If that has happened, I will certainly look at it. It surprises me, given the fact that we spent £500 million on the Horizon computer, that it cannot correct any mistakes.

Rob Marris: Nothing in IT should be surprising.

Q116 Chairman: I am told it happens and it cannot even correct a simple mistake. The poor old age pensioner walked out with her entire life savings instead of just the money she wanted.

Mr Darling: As Rob has just said, perhaps with IT projects nothing should surprise you, but that one does. I will come back to you on that. Perhaps you could let me have the details, in case it is a single computer problem as opposed to a systemic problem

Q117 Mr Weir: We talked earlier about outreach services. Could you tell us what levels of satisfaction are being seen from those who have been involved in the Outreach trials so far? There are some interesting comments in your consultation documents dealing with some of the things that have been done.

Mr Darling: I am told that quite a large percentage of people have expressed themselves to be very satisfied. I cannot tell you how representative that sample was, but that is the sort of independent analysis that was been done for the Post Office. Once people see what is on offer, rather than put the theory to them, they quite like it. I think people quite like the mobile post offices. Two or three times on the television I have seen post offices in the pub, which people in the pub quite appreciate—I hope not for immediate consumption! There is work that is published by the Post Office and I will happily send it to the Committee.

Q118 Chairman: We approve of this innovation heartily. It is happening in my own constituency too.

Mr Darling: I think I am right in saying there is stuff and they have published it, but, if they have not, I will see if we can get it published so you can see it.

Q119 Mr Weir: How quickly do you see a roll out of these services to rural areas like mine, for example?

Mr Darling: I hope we can do it reasonably quickly. We are talking to the Post Office as to how they can do that. If it works, then you want to see it expanded. Perhaps, again, it would be helpful if we or the Post Office could let you have a note on what the prospects are there.

Q120 Chairman: Could we turn to making the network viable, not just through subsidy and through rationalisation but giving it business. Could I just ask you whether you accept that Government policy has withdrawn business from the sub post office network. I do not think we have pinned you down on this yet, despite several attempts in the past.

Mr Darling: As I said on 14 December, when I published the Statement, the fundamental problem the Post Office faces is that for over a number of years now—and you can track this back since the mid 70s—people's habits have been changing.

Q121 Chairman: That is not in dispute: the internet is there and it is a reality. But government has withdrawn services ahead of that natural process.

Mr Darling: I was going on to say that, since the mid 1980s, people have been having pensions and benefits paid into their own account. There is no doubt about that. The percentage has been increasing all the time. Yes, it is the case—and Rob Marris mentioned this—that departments like the Department for Work and Pensions—and I was Secretary of State there—are under understandable pressure to reduce their administrative overheads. Without digressing too much, when I became Secretary of State for social security we were still paying out money on Giros that were based on wartime ration books. They had not changed in 50 years, which was frankly ridiculous. They were wide open to fraud, to theft. It was not effective. Yes, of course, as the Government becomes more efficient in what it does, in making payments and so on, all these things cumulatively do have an effect on banks and on post offices. If you look at the mail business, for example, email is having a profound effect on the

24 January 2007 Rt Hon Alistair Darling MP, Mr Jim Fitzpatrick MP, Dr Elizabeth Baker and Mr Mike Whitehead

way people communicate—although, interestingly, the internet and eBay, for example, is resulting in an increase in parcel business. We have to support the Post Office when dealing with these changes.

Q122 Chairman: I think we can settle that as a compromise situation. I am grateful for some accommodation in your position. You have taken decisions which have removed business from the Post Office network.

Mr Darling: I am saying that people's changing habits—

Q123 Chairman: Which the Government has actively encouraged.

Mr Darling: What I think is best is the Government is transparent about the amount of money it gives the Post Office. Let me give you another example where the same accusation has been made in relation to the DVLA for example. By a happy coincidence, I was Secretary of State for Transport.

Q124 Chairman: There are a lot of bodies buried around the place!

Mr Darling: You may say that I fully deserve to be Secretary of State for Trade and Industry where the chickens all come home to roost! There is a case where people say, "We would like to be able to renew our tax disc in the evening when it is convenient to us." For a government to say, "You cannot do it," despite the fact that technically you can do it is daft. Of course that has a knock-on effect. If more and more people renew their tax disc online and not through their post office, of course there is an effect, but to turn round to people and say, "No, you cannot do any of these thing" does not work. However, none of that helps us because we need to be concerned with how we support the network that is left and the right thing to do is to be transparent subsidy.

Chairman: Roger Berry mouths: "You are not going to get anywhere" and he is right.

Roger Berry: That is not true.

Q125 Chairman: I am sorry, I misunderstood. My lip-reading is bad.

Mr Darling: He said he was in full support of what I was saying, I think you will find!

Q126 Chairman: Let us look positively at the future. What about sub postmasters being able to act freely to enter into partnerships with competitors of the Royal Mail Group, like the Parcelforce competitors, internet vendors, catalogue companies and that kind of thing?

Mr Darling: This is something which you touched on on the floor of the House the other day. If we look at the mail business, since liberalisation of the market, it is open to anybody to go to the Post Office and say, "Look, we want to distribute our mail, we want to use your network." If the negotiation does not work out, you can go to Postcomm, and there have been some examples where Postcomm and a price has been fixed and so on. In relation to individual postmasters, subject to what I am about

to say, being businesses they can enter into any business relationship they think appropriate, and, as you know, most of them do other things like groceries or whatever, which has always been the case. Where I think the difficulty arises is this: the Post Office does have national agreements in relation to travel insurance, for example; in relation to paying certain utility bills (Centrica, for example). They say there that you cannot bring in business which competes with that, nor will they allow businesses to come in and cherry-pick the bits they have got. Interestingly, the National Federation of SubPostmasters also say to us that they support the idea of there being certain Post Office brands. Because the Post Office can enter into a national agreement, it can protect the whole network. I think I said to you in reply that one of the concerns they have is that the very post offices that we are all bothered about, say the majority that are not commercially viable, are not the ones which are going to get this additional business because the ones that will be cherry-picked are the ones that are doing all right. My view is that I accept there are cases where there is a commercial case, and it is for the good of the network that you have these nationally protected products, if you like, in that you do not allow competition. But the whole idea of providing a liberalised market was to open the thing up. The ultimate arbiter here ought to be Postcomm rather than ministers of the day or the Post Office and so on.

Q127 Chairman: A philosophical point underpinning this is that for most of these businesses we are talking about post offices all the time, when actually we are talking about rural shops and urban shops typically, of which the post office is a part of their business—sometimes a large part, sometimes a modest part—and what happens in that part then dictates their commercial freedom with the other part of their business. For example, they cannot take PayPoint, which large numbers of postmasters are desperate to take on but they are not allowed to.

Mr Darling: They can take PayPoint—and, indeed, many of them do have PayPoint—but they cannot use PayPoint to offer a service that competes with one that the post office has a contract for.

Q128 Chairman: This is the argument about monopolists down the years.

Mr Darling: It does raise a profound issue, because the Post Office has a number of contracts where they have a national agreement to sell a particular product, whether it is a banking product, travel insurance, whatever. They have that. The deal is that they sell it throughout all or most of their outlets, and that allows them to support the network, which is why the National Federation of SubPostmasters say that is a good thing. Obviously, if they were to say to whomever they have entered the contract with, "But, by the way, we will let your key competitor into the post offices which have lots of people coming in," then they may not get the same national deal. You could take the view that the Post Office should not have any national deals at all.

24 January 2007 Rt Hon Alistair Darling MP, Mr Jim Fitzpatrick MP, Dr Elizabeth Baker and Mr Mike Whitehead

That is the extreme. You could take that view and say to individual postmasters: “Make your own agreements. Bring in whoever you want. That’s fine” except that most postmasters and mistresses are in no position to negotiate anything like the sort of contracts that a national organisation could do. So, yes, there is a conflict there. We are trying—and we have probably not reached the endpoint yet—to balance the advantages that national agreements can bring with allowing postmasters to get their extra business in.

Q129 Chairman: The BBC contract for licence renewal, which is now not available through post offices, it is only available through PayPoint. Because of economics, PayPoint will only be installed in areas where there is a reasonable level of business for their terminal. I look at a map of my constituency and I now see that all my rural constituents cannot pay their licence fees using a local facility because there is no PayPoint anywhere in the rural parts of my constituency but lots of post offices. If only PayPoint could be put in some of the rural post offices, then they would be included again in a financial sense to this particular product.

Mr Darling: About 1,400 post offices have PayPoint at the moment. It was the BBC that decided they were going to sell their licences through there. They did it because of the financial savings.

Q130 Chairman: And of course some of the other innovations that were offered by changing the mechanism of payment.

Mr Darling: Yes, but predominantly they were looking to save money, and like any other organisation they decided to do that. The position is, though, that post offices can offer services as long as they are not competing with what the Royal Mail are doing. I agree with you that the advantage of the Post Office network is that it does have a truly national network. PayPoint does not. I checked the position in my own constituency. As it happens, there is broadly the same number of PayPoints as there are post offices, but I suspect in rural areas that will not be the position.

Q131 Chairman: I have six PayPoints and 29 post offices.

Mr Darling: I could well imagine that is the position. One of the reasons I want to make sure there is a national network is so that, from the Government’s point of view—and the BBC is not the Government—we can provide services that we need to do nationally. This is one of the things I looked at because, at first blush, you think, “Why not just open the doors to anybody,” but I can quite see that if you have a national contract that is supporting the network and you undermine that, you could create more problems than it solves. One final point: the number of letters being sent in the country at the moment, as I understand it, is broadly static. I suspect, if anybody else comes in, it would be

substitution rather than new business. It is not the same for parcels, but for letters that is certainly the case.

Q132 Chairman: Let us look at the question of the Post Office itself and its ability to introduce new products—Post Office Counters Limited. To what extent do contracts with banks and financial institutions it has at national level inhibit its ability to offer its own new financial products?

Mr Darling: I am not aware that it does, but before I was definitive on that I would want to write to you. I think you met Alan Cook, who is the Chief Executive. I am not sure if you have met him this time round but you certainly met him on previous occasions. He wants to expand the amount of financial services the Post Office offers. He very much sees that as being the key thing in the future. Since he has become Chief Executive, he has brought new products into it. Again, one of the things he can offer is a national network, perhaps to banks which do not have a national network, which is why I am a bit wary. Another competitor could come in and, let us be clear about it, they will go into the branches where the customers are; they will not go into the rural post offices. I think we have to be careful that we strike the right balance between having an open market and not really destroying the very thing that we want to protect.

Q133 Chairman: I am anxious to ensure that post offices are enterprising at local level and the Post Office is enterprising at national level as well.

Mr Darling: I very much agree with that. It is striking that balance. If this is an area which obviously you do want to pursue, I am happy to let you have some further information on the points you raise and you may want to see Alan Cook as well.

Q134 Chairman: I am concerned and this Committee has been concerned that post offices have not always paid economic rates for their services. With foreign exchange, in particular, it is thought that the handling fee payable to the post offices does not reflect the commercial value of the operation. For example, Lottery terminals in post offices. The Post Office Counters creams off 1% of the 5%—so 4% goes to the sub post office and 1% to Post Office Counters Ltd nationally—only because that terminal happens to be in a facility where there is a post office. It seems there is some scope for Post Office Counters being a bit more generous for some sub post offices.

Mr Darling: I think you looked at this at the end of 2004, or maybe the Report you published early in 2005. I did have a look at this and essentially I would say two things. Firstly, it would not do Post Office Ltd any good at all to be entering into a series of uneconomic contracts because that would just add to the problems they have. They have to be economic about these things, as a commercial organisation should, but equally they have to make sure that *vis-à-vis* their dealings with the sub postmasters—and there is a contract there as well—the economics

24 January 2007 Rt Hon Alistair Darling MP, Mr Jim Fitzpatrick MP, Dr Elizabeth Baker and Mr Mike Whitehead

stack up there as well. Otherwise we are just going to end up with a situation where more and more people are running up bigger and bigger losses.

Q135 Chairman: Finally on this subject, I had a rather good letter from one of my postmasters recently objecting to the fact he was expected to hand out copies of the summary Budget document on behalf of the Chancellor of the Exchequer, saying that he thought this was a very important service he was providing and that he should be paid a decent fee for doing so rather than getting it just for nothing. What about the Government using sub post offices as a proper shop window for all their services and paying a bit of money for that very important service, drawing the attention, often of deprived communities, to the range of services available there to help them?

Mr Darling: I am sure the thousands of people who flocked in to get a copy of the Chancellor's Budget would of course buy other things in the shop as well and it would be a very attractive loss leader! We do need to look at what information is on offer. I was in a post office in my constituency at the weekend and I was looking at what was about. Most of them were Post Office products. I know there have been problems in the past. I know the DWP, for example, used to put a lot of pensions information there. Indeed, one of the problems that arose in relation to the pensions information was provided with Serps and the leaflets were still there some time after it became apparent that the information had changed.

Q136 Chairman: Online terminals make all that easier now.

Mr Darling: Yes, except not everybody is getting their information from online terminals.

Q137 Chairman: You could use post offices as access point for the internet as well.

Mr Darling: You could. This was one of the things we looked at five or six years ago, although the initial evidence was not encouraging, in that I think I am right in saying over 80% of people said they could get the information they were being offered elsewhere. Actually this was another PIU report, if I remember rightly.

Q138 Mr Clapham: The consultation document, Secretary of State, refers to the possibility of community ownership, different forms of ownership—maybe a local mutual, maybe a cooperative. Is there any evidence that such type of ownership could maintain the service in areas where there is a vulnerability?

Mr Darling: Yes, there is. I think I am right in saying there are 150 of them in the whole country. There are various forms and some of them are companies limited by guarantee, some of them are charitable. There are some that take advantage of various local grants and so on and they put a package together. It very often is not just a post office but a shop, petrol station or something like that. So, yes, they can work. Clearly there has to be somebody who is the

designated postmaster or mistress for accounting purposes but there are many examples of where this works well and I would like to see more of it.

Q139 Mr Clapham: I understand that the licensing arrangement is that there must be a named person, but, from what you are saying, that has not been a barrier.

Mr Darling: I am not aware that it is, although I would be foolish to say that it has not been a problem somewhere. For obvious reasons, you need to have somebody who is in charge of the money. If you have a committee, as you know, it is not always satisfactory. As I understand it, you get the postmaster, you have a nominated deputy, and they can operate the Post Office business—and obviously you need somebody who knows how to work the IT and people who know what the rules are and so on. You do need to know because if anything goes wrong and the Post Office go to see it, they have to find out who was dealing with the cash or who was selling a particular product at the time. But I am not aware that it has been a problem. I do think community ownership is a good thing for two reasons. One, I think it is good *per se*, but, also, in an area where people say, "Look, we want to keep the post office," if it is opened by a community then there is a greater chance that people will say, "It is ours. Instead of going into town, why don't we go to the local village post office?"

Q140 Mr Clapham: The 150 alternative ownership post offices that you referred to, are they in a particular area? Are they more rural? Is there any evidence of such ownership in some of the urban areas?

Mr Darling: I think they are nearly all rural. Again, as this is public knowledge, I do not see any reason why we should not let you know where they are.

Chairman: Finally, Rob Marris.

Q141 Rob Marris: I have never been a big fan of Postwatch, Secretary of State, even when we got Postwatch and Postcomm, but it did do better over the Urban Reinvention Programme in Postwatch, I think. I understand that Postwatch is due to be merged into some kind of wide consumer body in about mid 2008 which will be when you are still going through or have just gone through the Post Office restructuring and all the sorts of things we have talked about earlier today. Do you think there will still be the voice of the consumer or will it get lost because of that merger?

Mr Darling: Again, there are two points here. The House of Commons is about to debate the Bill that would achieve this and the House of Commons will express a view as to whether it is a good thing or not. As it is a Government policy—

Q142 Rob Marris: It is a Government Bill.

Mr Darling: It is, therefore it must be a good thing. Amongst other things, we are bringing together energywatch, Postwatch, National Consumer Council into one single body. Postwatch

24 January 2007 Rt Hon Alistair Darling MP, Mr Jim Fitzpatrick MP, Dr Elizabeth Baker and Mr Mike Whitehead

have said to me, “This is likely to be happening when we are busy giving you advice on post offices.” That is something I am reflecting upon. There are downsides to putting it off: costs and uncertainty among staff—which they are equally aware of—but obviously that is something I will look at.

Chairman: Secretary of State, that concludes our evidence session. As always you have been an extremely cooperative and helpful witness, even occasionally frank. We are very grateful to you. You have promised us some things in writing. We look forward to getting them. Thank you very much.

APPENDIX 1

Memorandum by the DTI

POST OFFICE NETWORK

Access Criteria

1. We are finalising information on the postcode districts that will be exempt from meeting the proposed criterion of 95% of the population to be within six miles of the nearest branch. We will provide this information separately in the next few days.²

2. As the Committee will be aware, a rural area is defined as a settlement of less than 10,000 inhabitants. There is no departmental definition of a remote area as no access criteria proposals refer specifically to “remote” areas. However, implicit in the proposed postcode district criterion is a safeguard for people who are in “remote” areas. In relation to deprived urban areas, the consultation document defines deprived urban as the 10% most deprived Super Output Areas as identified by indices of multiple deprivation. As each of the four nations produce their own Indices of Deprivation, DTI will be working with Post Office Ltd to ensure that there is consistent application of the intention to protect post offices in the most deprived communities across the UK.

3. Before the proposed access criteria, the only reference point was the requirement in Royal Mail’s licence to ensure that a given percentage of population be within a given distance of an access point within postcode areas. When considering options for the future, DTI took the view that, with only 124 postcode areas, access criteria on this scale would not be robust enough to meet the need to retain a nationwide network, or to ensure that communities, particularly in remote areas, would retain a reasonable level of access. The change in emphasis to the smaller geographical scope of postcode districts, of which there are 2,795 in the UK, provides a much more localised means of measuring service levels whilst giving Post Office Ltd the freedom it needs to modernise delivery and improve the financial footing of the network.

4. The Government implemented all of the proposals in the PIU’s June 2000 report, including preventing all avoidable rural closures. The PIU’s view was that there would be little value in introducing numerical access criteria, but the Government believes that there is now a compelling need to do so to ensure reasonable access to a nationwide network. Our proposals take account of the PIU’s primary concerns about the implementation of numerical access criteria and acknowledge that “there cannot be a ‘one size fits all’ approach to access criteria”. That is why, in addition to the national access criterion, we are setting additional ones to safeguard the particular needs of people in remote areas and those in deprived urban areas and will also require Post Office Ltd to take into account local geography such as lakes, islands, valleys and mountains when drawing up implementation plans. We want the company to take a strategic approach to modernising the network and to ensure that we have the right post offices in the right places.

Post Office Ltd will be required to implement the necessary transformation of the network in accordance with the Government’s access criteria and with a maximum of 2,500 compensated sub-post office closures.

Post Office card account

5. It is the case that the only money that can be paid into the existing Post Office card account is through electronic transfers of benefits, pensions and tax credits from the relevant Government computer systems. This does mean that if a customer withdraws too much money from a Post Office card account, that the extra cash cannot be paid straight back in. This might happen when the sub-postmaster makes a mistake and enters the wrong amount to be withdrawn on their computer. There have also been reported incidents of pensioners, who are used to asking the sub-postmaster for all the money in their account, being given several hundred pounds because they did not realise their winter fuel payment had been paid into their Post Office card account that week. This is a far from ideal situation and it is an issue that DWP were already aware of. The detailed design of the new product that will come in from 2010, including the possibility of a facility to correct mistakes, will be dealt with as part of the tendering and contractual process.

²See Ev.29.

Post Office Pilots

6. The Post Office's report of the Core and Outreach pilot schemes, being trialled throughout the country, was published on 8 March 2006. While the Committee will be aware of the report, a copy is enclosed for ease of reference³. The pilots have proved to be popular with customer satisfaction running at around 93%. This compares favourably with satisfaction levels at traditional branches.

The Committee will be aware that the proposals announced by the Secretary of State on 14 December, included support for Post Office Ltd to open about 500 new Outreach locations to help mitigate the consequences of managed closures in rural areas. The 500 new Outreaches will be rolled out at the same time as the closure programme and we expect Post Office Ltd to consider using the Outreach model in future as branches closing through natural attrition are replaced in accordance with maintaining the new national coverage criteria.

The Committee also asked about trials of post offices as parcel collection points. Post Office Ltd already offer services, in conjunction with Royal Mail and Parcelforce Worldwide, whereby customers can, for a small fee, have items redelivered for collection at their local Post Office branch if they are not in at the time of delivery. Also, the Local Collect service offers mail order and internet companies the opportunity to provide their customers with a choice to have the item delivered direct for collection at their local Post Office branch, space permitting.

Post Office Ltd has recently conducted a trial in the Norfolk area with Argos to promote the convenience of collecting purchases from the local Post Office branch. This trial helped to test processes as well as customer reaction. Although the results of the trial were mixed, with volumes lower than anticipated, the customer reaction was positive and suggests that there is an appetite for this type of service, particularly in rural areas.

Post Office Ltd is currently working on a proposition with a local authority and university with the aim of providing a convenient collection point for customers to pick up items when they are not in at the time of delivery.

These trials will provide Post Office Ltd with valuable information with which to develop the offer. Their aim is to come up with a robust proposition for mail order/internet companies and local authorities and other government departments that provides their customers with a convenient access point to collect items, which in turn helps to support the Post Office network and the Sub-postmasters business.

Community Shops & Post Offices

7. Numbers and locations of Community shops. It is difficult for Post Office Ltd to accurately identify which of the 14,000 post offices in the network are "community run" operations. The reason is that whilst a community might run a sub-post office by, for instance, forming a company limited by guarantee, a co-operative or a charitable trust—the fundamental business relationship with Post Office Ltd remains the same as with any other sub-post office. Responsibility for cash and post office stock needs to remain with a single named individual—a "sub-postmaster". Post Office Ltd has a contractual relationship with the sub-postmaster alone and therefore has no business need to identify the associated retail provision or whether individual locations are staffed by community or volunteer groups. However, the Village Retail Services Association is developing a directory of all community owned shops trading in England, Wales and Scotland. Currently, there are some 150 community owned shops listed, including 130 that also have a post office. Full details are provided at Annex A.³

Financial Services

8. The Committee expressed interest in the financial service products available at the Post Office. Post Office Ltd has created a joint venture with the Bank of Ireland that has seen the introduction of a range of financial services in the last couple of years. For example, the Instant Saver account, introduced in April 2006, as well as car and home insurance have proved to be very popular with customers. Post Office Ltd's partners continue to look to develop their portfolio for products that meet, or are well matched to, the needs of customers. As announced on 14 December, Post Office Ltd plan to increase the number of free-to-use ATMs available at post offices to 4,000.

As with all providers, Post Office Ltd is bound by the regulatory framework set by the Financial Services Authority (FSA). Sub-postmasters are not qualified to give financial advice but can and do act as introducers to financial products available through the Post Office. Beyond this, there is no regulatory obstacle to expansion of financial services available at the Post Office.

³Not printed.

APPENDIX 2

Memorandum by the National Federation of SubPostmasters

1. THE NATIONAL FEDERATION OF SUBPOSTMASTERS

1.1 The National Federation of SubPostmasters (NFSP) is the only body representing the interests of subpostmasters throughout the United Kingdom. Sub post offices make up 97% of the national network of post offices and are run by subpostmasters, private business people.

2. BACKGROUND

2.1 The Trade and Industry Committee took oral evidence on the post office network on 24 January 2007. The witnesses were the Secretary of State for Trade and Industry; the Under Secretary of State with responsibility for postal services; and Department of Trade and Industry officials. The National Federation of SubPostmasters has been asked to provide the Committee with a brief written submission following the evidence session. In our submission we address the main issues raised that are most directly relevant to the sub post office network.

3. GOVERNMENT INVESTMENT

3.1 In December's press statement announcing proposals to preserve the national post office network, the Department of Trade and Industry declares plans for "an investment package worth up to £1.7 billion for the Post Office designed to preserve the national network, and set it on a firm footing."¹ However, in response to question 3 of the evidence session, Alistair Darling, the Secretary of State for Trade and Industry, seems to indicate that the £1.7 billion sum may also be used to help Royal Mail Group in relation to their pension deficit.

3.2 Mr Darling's response to Q7, suggests that some of the £1.7 billion announced includes money that has already been paid or allocated prior to December 2006. NFSP is very unclear about the nature of the Government's investment.

3.3 NFSP would like to know whether any of the £1.7 billion is to pay for Royal Mail Group's pension deficit; whether any of the £1.7 billion has already been paid or previously allocated; what precisely the £1.7 billion is intended to pay for and how the sum is to be broken down.

4. SOCIAL NETWORK PAYMENT

4.1 In December the Government announced that there will be a need for an ongoing social network payment of up to the current level of £150 million a year. In the oral evidence session, Alistair Darling confirmed that the payment will continue at this level until 2011. This payment is made to Post Office Ltd, and up to 2008 it had been ear-marked for the rural network. Between 2003 and 2006 it was reserved to cover the assigned office payments to subpostmasters; rural network infrastructure including IT and cash delivery; and pilot work to test new ways of delivering services.

4.2 NFSP is delighted that the Government recognises the ongoing need to provide financial support to the parts of the post office network that are not commercially viable. However, we have a number of concerns regarding the social network payment. Firstly, NFSP understands that this payment is now due to cover the urban deprived network and other urban non-commercial post offices, as well as the rural post office network. Even with a reduced rural network, this seems to indicate a thinner spread of the fund. We would welcome an explanation of the rationale behind this decision. We are also concerned that the £150 million will not increase with inflation and remains at the 2003 level over the following eight year period until 2011. This represents a real terms reduction in the social network payment.

4.3 The social network payment is a payment which is made to Post Office Ltd. This sum is clearly essential to support the infrastructure necessary to maintain the non-commercial parts of the post office network. However, NFSP is concerned that there is no sum available to provide direct support to the sub post offices. When subpostmasters' businesses are not viable, post offices close.

4.4 Last year's independent research study by Ipsos MORI draws worrying conclusions about the viability of sub post office businesses.² The research shows that in January 2006, 40% of subpostmasters were unable to cover their post office staff costs, overheads and personal drawings from their net post office pay—ie they made a loss. An extremely worrying 39% of subpostmasters, 54% in urban deprived areas, said they saw no future whatsoever for their business. NFSP believes the Government needs to provide ongoing payment directly to the non-commercial parts of the network for the social and economic service these post offices provide. The social network payment to Post Office Ltd is a necessary but not sufficient payment to support these important functions.

5. NUMBER OF POST OFFICES

5.1 Alistair Darling confirms that following the Government's proposed closures there would be around 11,600 post offices and 500 remote services (answers to Qs15, 30, 59 and 63). Mr Darling agrees that this is a stable figure for the medium term and states that "if you do not have about 12,000 odd post offices you will not get the national network that we need". NFSP welcomes these comments. It is essential for subpostmasters to know their offices have futures, both individually and as part of a wider thriving network. Without this, subpostmasters will find it very difficult to invest in their businesses. Nor will it be easy to sell post offices on to new owners when existing incumbents need to retire or move on. Such outcomes would result in a stagnating network.

5.2 It is also necessary for Post Office Ltd clients to know the number of post offices is fairly stable. Fears of an ever diminishing network are not likely to bring in new business or renewed contracts if there are alternative networks or methods of service delivery. Additionally, NFSP is pleased to see recognition of the need for a minimum number of post offices. The strength of the network lies in its depth and reach, and we fear an ever reducing network will inevitably undermine its force.

5.3 However, NFSP is deeply concerned about how we can be sure that the number of UK post offices will stabilise at around 12,000. Closures do not only happen through closure programmes, such as that currently proposed by the Government. Post office closures also occur when subpostmasters resign and a replacement cannot be found. As we have seen, subpostmasters are currently very pessimistic about the future. The Ipsos MORI research into subpostmaster income suggests they have reason to be so. For instance, between 2004 and 2006 average overheads rose by 19% and staff costs by 12%. Over the same period, subpostmasters' personal drawings from their post office business reduced by 6% in real terms. Ipsos MORI found a quarter of subpostmasters were using personal savings and a quarter supplementing their income with pensions.³ A study carried on behalf of the regulator, Postcomm, supports many of these depressing implications. Last year Postcomm found that in urban areas affected by the previous closure programme, 43% of subpostmasters were considering selling their post offices.⁴

5.4 Central Government work for post offices is reducing. In 2000 two-thirds of the state benefits paid in the UK were paid over the post office counter. These transactions brought in around 40% of the post office network's income. By 2006 the Post Office card account, now the main vehicle for benefits payment at post offices, was bringing in 10% of a sub post office's net pay. Last June the BBC decided to discontinue the provision of TV licensing services through post offices; the DVLA has encouraged internet renewal of vehicle excise duty; and Post Office Ltd did not obtain the contract for conducting new passport interviews. In January this year the Department for Work and Pensions announced that it will transfer its bulk mail business from Royal Mail (like Post Office Ltd, part of Royal Mail Group) to UK Mail.

5.5 Meanwhile the new much-trumpeted banking and financial services are bringing in minimal income for subpostmasters. Following encouragement from the Government, over the past three years Post Office Ltd has introduced a range of financial products designed to bring in considerable new business into the network. These include personal loans, credit cards, savings accounts, guaranteed equity bonds and insurance. In January 2006 we found these services were bringing subpostmasters a negligible £7 a month on average.⁵

5.6 We have noted that the Government's announcement in December reveals no plans to provide direct payment to subpostmasters for the social and economic services they offer. The announcement does make a few suggestions about new sources of income for the network, including looking at the role of local authorities, up to 4,000 cash machines, and market and business opportunities from internet companies and other mail operators. But NFSP believes these proposals for new or expanded lines of work are grossly insufficient. Without considerable financial backing and/or significant new (and successful) services for the network, we are deeply concerned that many subpostmasters will not be able to go on and considerable numbers of unplanned post office closures will be inevitable.

6 RETAINING THE "RIGHT" SUB POST OFFICES

6.1 In his answers to Qs 14 and 30, the Secretary of State for Trade and Industry addresses the issue of getting the right subpostmaster, in the right post office, in the right place. Under the proposed closure programme it is highly likely that some subpostmasters will want to leave and some will want to stay in the network. However, there will not always be a direct match between those that want to leave and those whose offices are no longer needed. Similarly those that want to stay may not have offices that are well-located or otherwise viable.

6.2 NFSP believes there needs to be financial assistance to help Post Office Ltd manage this issue. Post Office Ltd will need resources to match subpostmasters with post offices. Money will also be required to help individual subpostmasters transfer offices—eg to cover costs in moving, soft loans to help upgrade mortgages on post office properties etc. Moved subpostmasters may also require some security of tenure—people are less likely to swap offices if only offered the usual three month notice period. Such issues will need to be resolved in order to retain the "right" post offices, and their management clearly has to be funded.

7. POST OFFICE CARD ACCOUNT

7.1 NFSP is delighted that there is to be a successor to the Post Office card account after 2010 and that the Department of Trade and Industry hopes Post Office Ltd will be able to provide it (Qs 104–115). However, little detail about the proposed successor has been released. NFSP is extremely concerned that there should be a seamless migration between the card account and its successor and that account holders—many of whom are amongst the most vulnerable and least literate in our society—will not have to fill out further forms or overcome other hurdles in order to use the new account. It is essential that Post Office card account customers can continue with their chosen account and are not cajoled into opening bank accounts.

7.2 We also note the comments about increasing the existing functionality of the card account for the successor product. NFSP supports this vital proposal and we are well aware of criticisms directed at the account's failure to address issues around financial inclusion. We believe that this offers an excellent opportunity to develop an account which genuinely meets the needs of people on low incomes. We recommend that note should be made of existing research around banking for people on low income, and this should be used to inform the design of the card account's successor. For instance the Treasury Committee and the National Consumer Council have highlighted shortcomings of the high street banks' basic bank accounts—including issues around account opening, direct debits, penalty charges, counter access, cheque clearing times, day-to-day account monitoring and face-to-face support.^{6,7} NFSP is keen to work with the Department for Work and Pensions and Post Office Ltd to ensure that a new re-vamped Post Office card account makes important inroads in the promotion of financial inclusion, as well as retaining and developing a critical source of income for the post office network.

8. EXEMPT POSTCODE DISTRICTS

8.1 Under the Government's proposals for access criteria to post offices in remote rural areas, 95% of the population should live within six miles of a post office service. However, 38 of the 2,795 postcode districts throughout the UK do not currently meet this criterion, and they would continue to be exempt from doing so. In answer to Q74, Mr Darling stated that the Government "are not going to close any post offices in those 38 districts under the [proposed closure] scheme."

8.2 NFSP asks whether the 38 postcode areas include any areas of over provision of post offices. We are concerned that there could be towns or larger villages within these areas where there is more than one post office; and where the viability of one of the offices could be hugely improved were one of the post offices to close. NFSP is concerned that post offices remaining after a new closure programme are sustainable for their subpostmasters. We believe it would be a mistake to exclude the 38 postcode areas if there is any chance of overprovision within them. To do so could result in unplanned closure of offices, which could well lead to the worst outcome for local residents, as well as subpostmasters themselves.

REFERENCES

- ¹ Department of Trade and Industry, press release 14/12/06.
- ² Ipsos MORI, March 2006, *Subpostmaster Income Wave 3—research study conducted for the National Federation of SubPostmasters*.
- ³ See 2.
- ⁴ Postcomm, October 2006, *Post Office Urban Reinvention—One Year On*.
- ⁵ See 2.
- ⁶ Treasury Committee, November 2006, "*Banking the Unbanked*": *Banking Services, the Post Office Card Account and Financial Inclusion*.
- ⁷ National Consumer Council, November 2006, *Three Steps to Inclusive Banking: Compliance, Standardisation and Innovation*.

National Federation of SubPostmasters

9 February 2007

APPENDIX 3

Memorandum by Postwatch

POST OFFICE RESTRUCTURING

I am pleased that your Committee will be seeing Alistair Darling soon to discuss the Government's proposals for the future of post offices. It is therefore timely to share with you some of the points that Postwatch will be making in response to the DTI's consultation.

There are two areas to comment on before I come to our response to the DTI.

First, I would remind you that the Trade and Industry Committee were rightly critical of Postwatch in its report of July 2004 on the Post Office Urban Reinvention Programme (extract enclosed), for not ensuring that there were adequate consultation procedures in place before the closure programme started. The Committee went on to recommend a 12 week consultation period for local proposals on the closure of post offices.

We have learnt the lessons of the Urban Reinvention Programme. In our response we will argue that the consultation process must be fully agreed and ideally trialled before the programme starts, and that twelve weeks' consultation on local proposals is necessary to allow consumers and their representatives sufficient time to respond to closure plans.

Second, as you know, the Consumers etc Bill currently in the House of Lords would merge Postwatch, Energywatch and the National Consumer Council into a new, single organisation. Postwatch has no argument with the principle of this, but does have major concerns on two fronts—timing and location.

On *timing*, the intention is that Postwatch will cease to exist in the current form by the middle of 2008. The post office closure programme will still be in full swing at that point. It is important that Postwatch retains the capacity and credibility which will enable it to play a full part in this programme. Frankly, this will not be possible if, over the next 18 months, we are planning for this merger. We are strongly of the view that the merger should be deferred until 2009 to enable Postwatch to play its full part for the benefit of consumers.

On *location*, DTI have still to announce a decision on whether the new merged consumer body will be based in London. (I should point out that Postwatch is already a dispersed organisation. Only about a half of our staff are based in London. Our customer service and complaints teams—together around a third of our staff—are in Belfast. And the rest are in small, two and three person, regional and national teams around the UK.)

Postwatch, along with Energywatch and the NCC, are in a state of serious and damaging uncertainty until an announcement on location is made. Furthermore, while DTI recognise that it is essential for the existing bodies to retain sectoral expertise, there appears to be no corresponding recognition of how difficult this will be to achieve if the new organisation is based outside London. Again, the impact will be particularly damaging in relation to Postwatch's work on the post office network, where it is crucial that we retain our skilled and experienced staff.

Turning to the DTI's consultation, there are of course things to welcome in it, notably its recognition that post offices play an important social role, and the Government's commitment to support post offices financially beyond 2011. We also agree fully that there is a need for planned restructuring in order that the outcome is as good as possible for consumers. And we are supportive of the concept of 'outreach' solutions replacing brick and mortar post offices.

That said, Postwatch has a number of serious concerns with the consultation:

- (i) *The criteria for closure.* Distance and topography are good starting points for considering closure, but other factors—such as the walking distance to the closest alternative post office, the availability of public transport and socio-economic factors such as those provided by the index of multiple deprivation—need also to be explicitly taken into account.
- (ii) *The scope of the programme.* We are concerned that, so soon after the Urban Reinvention Programme was meant to have created a viable urban network, this new closure programme is intended to cover urban as well as rural areas.
- (iii) *The effect on deprived urban areas.* In line with Postwatch's statutory duty to protect vulnerable customers, we shall argue strongly for the retention of the current rule that post offices in deprived urban areas should not be closed if there is no alternative within half a mile.

Such post offices focus disproportionately on pensions and other benefit transactions. This makes them particularly valuable in deprived urban areas, where a high proportion of customers lack bank accounts. But because of the poor return which such business gives the subpostmasters, these offices are also particularly vulnerable to closure.

- (iv) *The need to protect the most rural areas.* The Government proposes that thirty eight post code districts (mostly in the Scottish Highlands and Islands) be exempted from the protection from post office closure given to other deep rural areas. Postwatch believes that this is wrong in principle.
- (v) *The time scale.* The proposed programme of up to 2,500 funded closures to be completed over 18 months starting this summer is far too demanding if the process is to be properly thought through, tested and modified. The programme should begin only once the processes are agreed to be fit for purpose, and should not be subject to an arbitrary end date.

As noted above, an unreasonably brief consultation period at local level would mean that MPs, local authorities, customers and others will not have the twelve week consultation period recommended by the Trade and Industry Committee. This will lead both to a lack of public support for the process and to poorer quality decisions.

- (vi) *The need to prevent unplanned closures.* Postwatch will argue that the DTI decision document should explain what steps will be taken to prevent additional and unplanned closures which, together with the 2,500 planned closures, could leave many customers without adequate access to post office services.
- (vii) *Postwatch's role.* The role which the Government proposes for Postwatch is—to say the least—inadequately explained in the consultation document. For instance, Postwatch must have scope to challenge and influence the proposals of Post Office Limited where it can demonstrate flaws or areas for improvement.

Postwatch has already had very constructive discussions with Post Office Limited about consultation procedures and Postwatch's role in the closure programme. This must be clearly set out in the DTI decision document, so that MPs, local authorities and others are aware how and when Postwatch will intervene. Clearly also the extra resources necessary to fulfil the agreed role will have to be endorsed by the DTI.

Finally Postwatch believes that the proposed closure programme is likely to be conducted in a more inclusive and responsive way if Post Office Limited and DTI know from the outset that your Committee will be taking an active interest in its progress. If the Committee were to call for regular reports from Post Office Limited, Postwatch and other interested parties, that would help ensure that Post Office Limited keep to the spirit of the review processes as well as the letter. I am sure Parliamentary colleagues from all parties would welcome the Committee's involvement.

I hope that the above sets out our position clearly enough. Please do not hesitate to contact me if you would like any clarification or additional information.

Millie Banerjee CBE
Chair

15 January 2007

APPENDIX 4

Memorandum by Postwatch

POST OFFICE NETWORK

Thank you for sending through a copy of the uncorrected transcript of the evidence heard by the Committee on 24 January. We have also had the opportunity to review the recording of the session and representatives of the Postwatch team were present on the day.

We have had time to consider the answers given to the Committee by Alistair Darling, Jim Fitzpatrick and their supporting officials. We have the following comments to bring to the Committee's attention.

Investment in the post office network

Mr Darling stated that some of the money given to Post Office Limited (POL) is to restructure the network with the goal of putting "the right post office in the right area". Postwatch agrees that restructuring should include funds to move offices to the optimum location. We look forward to hearing from POL and DTI about how this will be done.

We would also suggest that some of this restructuring funding be put into an investment fund for improvements to remaining branches such as additional counters, improved disabled access and facilities, better lighting and cosmetic enhancements. This is particularly important for rural post offices which were unable to access funding of this type in the urban reinvention programme.

Access criteria

Questions 61–63 from the oral evidence session appear to imply that strict application of the proposed access criteria would result in no more than 2,500 closures, leaving a network of approaching 12,000. But our understanding, from the PIU report and from DTI officials, is that the figure of 2,500 closures does not arise from applying the proposed access criteria. It is highly important that the Government is pressed on what relationship, if any, there is between the figure of 2,500 and the access criteria; and what the size of the network would be if the proposed access criteria were applied strictly.

Exempt postcode districts

Postwatch welcomes the confirmation from Mr Darling that there will be no compensated closures in these areas. However, we are concerned that there may be gaps in service provision that POL should be seeking to fill either with a bricks and mortar post office or with an outreach service. If there are no minimum access criteria in these areas then if a sub-postmaster resigns there will be no requirement on POL to put in place replacement provision.

Length of consultation

Mr Darling was mistaken to point to the Code of Practice on Changes to the Post Office Network as evidence that Postwatch had supported a six week consultation period on local area proposals. It was also incorrect to suggest we have changed our minds. We have not.

The Code of Practice is designed for individual changes to the network not for complex bundles of proposals involving a number of closures as well as the launching of new outreach services. As the DTI know, the POL/ Postwatch agreed memorandum of understanding on the Code of Practice clearly states that in the event of the announcement of a large scale closure programme Postwatch and POL will review the Code of Practice. The memorandum is published on our website:

http://www.postwatch.co.uk/pdf/policydocs/18.1.06MOU_Changes_Post_office-network.pdf

We have made it clear to the DTI that we believe a 12 week consultation period is needed if the process is to be seen as inclusive. Post offices rarely reopen once closed. It is therefore essential that local communities have the time they need to understand what is being proposed and why, to discuss the proposals and to suggest improvements.

Rushing consultation will make it look like decisions have been taken in advance and the consultation is not being conducted in good faith.

If there are any issues on which we have not commented but on which the Committee would welcome views please let me know.

APPENDIX 5

Letter to the Chairman from the Rt Hon Alistair Darling MP, Secretary of State for Trade and Industry

POST OFFICE NETWORK

Thank you for the opportunity to appear before the Committee on 24 January to discuss in more detail the Government's proposals for the future of the Post Office Network. At the Hearing, I promised to provide the Committee with additional information on a number of issues of interest.

In preparing the information, it has come to my notice that the information provided to my Department by Post Office Ltd was not wholly correct and that as a consequence the Committee was given incorrect data concerning the number of post office branches in one of the exempt postcode districts. The actual number of branches in postcode district IV4 is four, not nineteen. I am sorry about that, however the information was provided in good faith and I have reminded the Post Office that they must provide both Ministers and the Select Committee with accurate advice. I have also attached a letter from Alan Cook, Managing Director of Post Office Ltd, explaining how this happened, together with the additional information you sought on the exempt postcode districts.

As Alan mentions in his letter, Post Office Ltd has calculated population and accessibility using established methodologies. As the Government's proposed access criteria relates to smaller geographic (postcode district) areas, I agree that it is right for POL to review the applicability of these methodologies ahead of the proposed network transformation.

I can confirm that the commitment I gave to the Committee, that there will be no compensated closures in the 38 exempt postcode districts, remains. In addition, I shall be reflecting further, in the light of consultation, on whether there should be any exemptions to the postcode district criterion.

I understand that the Committee is preparing a report to inform the consultation process and that my officials have separately provided the other information you required so as not to delay your timetable.

Yours Sincerely

Alistair Darling

2 March 2007

Letter from the Post Office to the Department of Trade and Industry

Dear Alistair

I wanted to write to you personally to explain and apologise for an error that has been identified in a set of data that we have recently supplied to your team. As you drew upon this information at your recent appearance at TIC, I wanted to let you know as quickly as possible, as I understand you will want to inform the Committee promptly.

As you are aware, during the work we have undertaken to determine the current population accessibility to Post Office® branches, we identified 38 postcode districts which currently fail to meet the future planned criteria of 95% of the population within six miles.

Subsequent to this analysis we were asked to quantify the number of Post Office® branches within each of these districts. It has been brought to my attention that the latter data set contained some incorrect information. The original number of 19 branches quoted for the district of IV4, is in fact four branches. The reason for this is that branches in IV40, 41, 42, 43, 45, 47, 48, and 49 were inadvertently captured in the IV4 calculation.

I am aware that, as soon as the error was discovered, we alerted your team to this fact and accepted that a mistake had been made.

Please also find enclosed, as requested by TIC, the additional data related to the 38 Postcode Districts, namely number of branches and estimated population.

For information, the population calculations and subsequent accessibility measures have been derived using established methodologies. Post Office Ltd uses these for calculating and reporting adherence to the requirements within the Royal Mail License ie the General Universal Service Obligations. As a part of our continuing preparation for delivering the anticipated Network Change Programme we are reviewing this methodology to establish whether it is sufficiently robust to determine affected populations at a smaller geographical level. We will of course keep you fully informed of this review.

Please do not hesitate to contact me if you wish to discuss this matter further.

Yours sincerely

Alan Cook
Managing Director

1 March 2007

<i>Postcode District</i>	<i>No of POs</i>	<i>Estimated Population</i>
AB36	1	573
AB37	5	813
DD9	4	2,820
DG10	1	3615
FK21	1	1,150
IV13	0	470
IV16	1	803
IV23	3	825
IV26	2	2,535
IV27	12	1,582
IV28	1	928
IV4	4	510
IV52	1	784
IV53	0	628
IV54	3	1,222
IV63	2	1,007
KW11	1	306
KW12	2	526
KW9	1	1,675
ML12	6	2,001
NE48	9	2,595
PA22	1	247
PA29	5	911
PA42	1	1,126
PA60	1	188
PH10	4	878
PH11	2	816
PH16	2	876
PH17	0	480
PH18	1	756
PH20	1	303

<i>Postcode District</i>	<i>No of POs</i>	<i>Estimated Population</i>
PH21	2	3,025
PH25	1	878
PH31	1	548
PH35	1	266
PH49	2	441
TD3	1	794
TD7	3	1,305

ISBN 978-0-215-03361-1



9 780215 033611