



House of Commons
Public Accounts Committee

Oversight of the Post Office Network Change Programme

Fifty-third Report of Session 2008–09

*Report, together with formal minutes, oral and
written evidence*

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The Public Accounts Committee

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Summary

The post office network has been in decline since 1965 and, since 2000, Post Office Ltd has been making operating losses. In 2007, the Department for Business, Innovation and Skills (the Department) and Post Office Ltd agreed a £1.7 billion strategy to make the network financially sustainable, including a £150 million annual subsidy. One element of this plan was the Network Change Programme, whereby up to 2,500 post office branches were to be closed.

The Network Change Programme was expected to initially cost £176 million, mainly in compensation to sub-postmasters. Annual savings of £45 million were forecast, but the Programme was expected to generate a £17 million loss in the 2006–07 to 2010–11 period of the strategic plan. The formulation of the programme and the decision as to the number of post offices to be closed focused principally on the size and spread of the network that could be obtained for a particular level of funding. The Department had access to earlier research on the social value of the rural post office network, which informed its subsequent decision that the £150 million annual subsidy represented value for money.

The series of undertakings designed to protect post office users during the closure programme were largely met. But there was criticism of the local consultation phase of the programme from some of those taking part. Complaints included that too little time had been allowed for consultation, that the decisions had already been made and that the public were not being listened to properly.

A large proportion of the benefits of the programme and the annual savings are not being separately monitored. Even if the forecast savings are achieved, there is still a need for Post Office Ltd to expand its government-related revenue if the network is to become financially sustainable. There have been positive developments in this area and the company is planning to extend further its range of local and central government business. The Department is also taking action to monitor the service delivered by the post office network, which is important in ensuring that the network provides value for money and informing future strategic decisions. However, there are presently some gaps in this monitoring, particularly around the impacts of closures and setting national standards of quality of service.

On the basis of the Report by the Comptroller and Auditor General,¹ the Committee took evidence from the Department, Post Office Ltd, and Consumer Focus on planning the Network Change Programme, the undertaking to protect users and performance against them, and monitoring the progress and impact of the programme.

1 C&AG's Report, *Oversight of the Post Office Network Change Programme*, HC (Session 2008–09) 558

Conclusions and recommendations

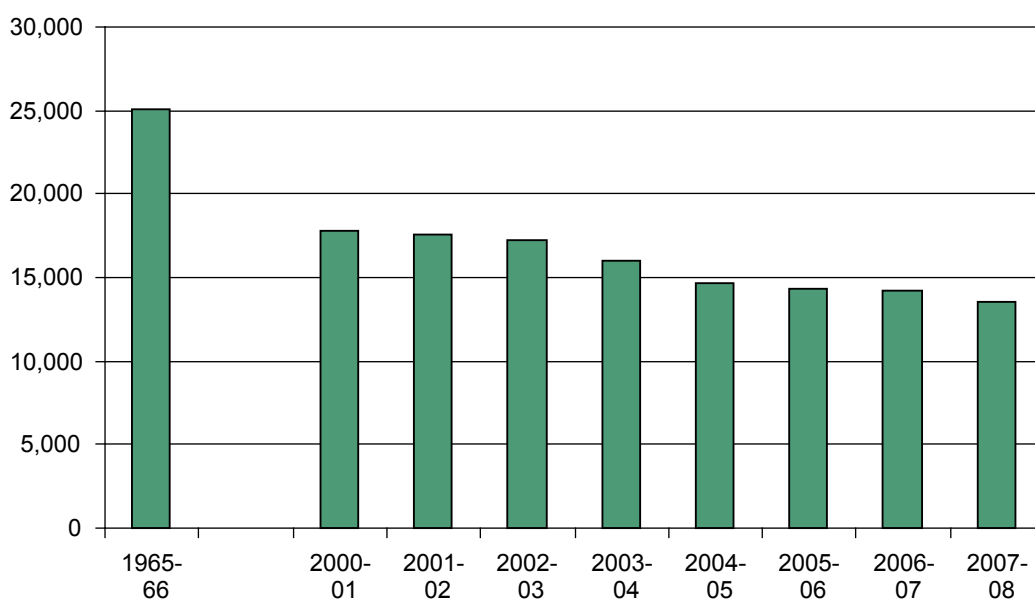
- 1. Of the four elements comprising Post Office Ltd's strategy to achieve financial sustainability, the Network Change Programme was the only one expected to make a loss during the period 2006–07 to 2010–11, and it had the smallest expected impact on profitability thereafter.** In view of the distress for users, the upheaval for communities, and the relatively modest financial benefits caused by the programme, in any future planning of changes to the post office network, every effort should be made to explore alternatives to compulsory closures.
- 2. The Department's research on the social and economic benefit provided by post offices has to date been largely limited to the rural network.** The Department should also assess the equivalent benefit provided by the urban network, especially in deprived areas.
- 3. The Department's assessment of the social and economic costs of the closure programme was inadequate.** The Department did not undertake any specific economic and social research to support its decisions in 2006. Instead it drew on older work, largely completed in 2003. This analysis simply assessed the economic benefits provided by the network as a whole and did not consider the impact of closures.
- 4. The Department must now rectify the weaknesses in its evaluations by considering the impacts of closure on rural communities.** It must evaluate the benefits from its £150 million annual subsidy, and the benefits lost through closures. This work must compare the economic and social characteristics of communities with, and without, post offices, and the differential impact made by Outreach services.
- 5. The Postal Services Bill currently before Parliament includes provision for the annual publication of information about the post office network.** In view of the potential value of such information, the Department should secure annual publication of this information irrespective of the future progress of the Bill.
- 6. The aim of a consultation process is to allow stakeholders the opportunity to contribute their views at a time when they could have some effect on the final decision.** However, only a small percentage of people were even aware of the consultation, and because the total number of closures had already been determined, local concerns about the scale of the Programme were in effect ignored. There is a danger that the whole process of consultation will be brought into disrepute if key questions such as this have already been determined. In the future, the Department and Post Office Ltd should carry out consultation early enough in the decision making process for the public's view to have a real influence on outcomes, rather than make just minor adjustments to details of implementation.

7. **Post Office Ltd have undertaken to hold similar consultations on any future permanent closures of branches or Outreach services.** To ensure better communication and stakeholder participation, the Department should extend the minimum consultation period of six weeks when required by local responses and public holidays. Consumer Focus should also be given the power to enforce changes to Post Office Ltd's communication material and processes.
8. **The Department and Post Office Ltd are monitoring savings in sub-postmasters' pay from the programme, but these are only two-thirds of the annual savings expected from the Programme.** They should extend their monitoring to include the remaining savings expected from the Programme, both to provide assurance that it is delivering all the forecast benefits, and to allow corrective action to be taken if it is not.
9. **Under vigorous commercial leadership, Post Office Ltd appears to have begun to improve its range of central and local government business.** We are glad to see that the company is not relying solely on the Post Office Card Account, but seeking out new opportunities to enlarge the range of government services and revenue streams it offers, and to win new customers, such as in local government. The Department should support Post Office Ltd in seeking such business and in encouraging the innovation and entrepreneurship that is necessary if the network is to become financially sustainable.
10. **The Department expects there to be future voluntary post office closures, while Post Office Ltd has expressed its strong desire to do everything possible to open replacement offices.** However, the enquiry did not produce a clear picture of what the Department and Post Office Ltd expected a sustainable post office network to look like. The Department should set out its expectation on the size, spread and composition of post office network it is working to achieve.
11. **Post Office Ltd intends to undertake internal reviews of each Outreach service after one year in place.** Users are concerned that this review will result in such services being withdrawn. We recommend that the Department clarifies its position and intentions over the future of any Outreach outlets that may be closed after this one year period.

1 Planning the Network Change Programme

1. From a peak of 25,056 offices in 1965–66, the post office network decreased to 14,219 sub post-offices in March 2007 (**Figure 1**). Post Office Ltd has been loss-making since 2000 and, despite financial support of £150 million per year from 2003, was at risk of insolvency by 2005–06.²

Figure 1: Number of post office outlets in 1965–66 and 2000–07



Source: C&AG's Report, paragraph 1.6, Figure 3

2. Post Office Ltd identified the key cause of its poor financial position as the decline in its traditional government business, due to the move towards alternative and more convenient forms of service provision, such as payment of pensions and benefits directly into bank accounts. As a result of these changes, government business as a proportion of post office revenue fell from 43% in 2003–04 to 26% in 2007–08.³ Increased use of the internet and competition from bodies such as Paypoint had also reduced business, but Post Office Ltd had also been used to being in the position of a monopoly supplier and had not been sufficiently entrepreneurial.⁴

3. The original initiative for change was taken by Post Office Ltd in 2005, when it took the view that its current business model was no longer financially sustainable.⁵ Post Office Ltd's response was a proposal for a £1.7 billion strategy aimed at returning the post office network to a financially sustainable position by 2010–11, to which the Department agreed. The strategy contained four elements, one of which was the Network Change Programme.

2 C&AG's Report, paras 1.6–1.10, 1.12 and 4.4

3 Qq 15 and 62; C&AG's Report, para 1.7

4 Qq 48, 59, 101 and 134

5 Q 42

The Programme involved the closure of up to 2,500 post offices and the setting up of at least 500 Outreach outlets—more limited post office arrangements, for example provided as a mobile service. **Figure 2** shows the four elements of the strategy, the expected net contribution to profitability between 2006–07 and 2010–11, and the expected annual savings thereafter.⁶

Figure 2: Expected impact of planned initiatives on profitability

Initiative	Net Impact on profitability (£ million)	
	Total between 2006–07 and 2010–11	Annual impact thereafter
Restoring Crown offices to profitability	31	56
Central cost cutting efficiencies	245	122
Network Change Programme	-17	45
Developing and expanding new business	39	70
Total	298	293

Source: C&AG's Report, Figure 5

4. Of the four elements of the strategy the Network Change Programme was the only one expected to make a loss over the 2006–11 period and it had the lowest annual expected savings thereafter. Nonetheless, the Department considered the programme to be an integral part of the overall strategy. In addition to the £45 million annual savings the Programme would put the network on to a sustainable long-term footing, which would mean lower costs to taxpayers and guarantee an effective level of service. Taken overall, the benefits were very considerable.⁷ The Department saw its role as ensuring that appropriate and good levels of post office services were provided in a sustainable and affordable way. Post Office Ltd was also looking at introducing new business streams, but the status quo was not an option since the post office network was dwindling and post offices were changing in an uncontrolled and uncoordinated way.

5. The £45 million annual net savings forecast from the Programme consisted mainly of £30.4 million in direct savings in sub-postmasters' pay, and £15.6 million of reduced overhead costs.⁸ The latter savings were reductions in the costs resulting from the very existence of a post office branch, and would not be incurred if the post office did not exist. An example of such costs would be the cost of delivering cash to post offices; if there were fewer post offices there would be savings in trucks and staff.⁹ In addition to these annual savings, Post Office Ltd also forecast one-off savings occurring in 2008–09 and 2009–10, worth £42 million over the two years, because of a reduction in the cost of holding some £750 million in cash in post office tills every night.¹⁰ Taken together with the annual

6 C&AG's Report, paras 1 and 1.12–1.14

7 Qq 3–4

8 C&AG's Report, Figure 7

9 Q 20

10 C&AG's Report, para 2.16

savings, the cash flow benefits for the programme between 2006–07 and 2010–11 were forecast to total £159 million, at a forecast cost of £176 million (**Figure 3**).

Figure 3: Forecast benefits and costs of the Network Change Programme over the duration of the overall strategic programme

Year	Cash flow (£ millions)					Total
	2006-07	2007-08	2008-09	2009-10	2010-11	
Benefits	-	2	59	53	45	159
Costs	-	-71	-105	0	0	-176

Source: C&AG's Report, Figure 6

6. To assess the financial impact of the proposed changes, Post Office Ltd and its advisors prepared a modelling programme which produced scenarios of different sizes of network, the costs involved, and the effects on the financial position of the company. The Department reviewed the model with the help of its own external advisors and used these scenarios as the basis for its decision that the most appropriate option in terms of cost benefit was to make 2,500 closures.¹¹ The number was chosen as it was felt to strike the correct balance between the provision of social and economic benefits throughout the United Kingdom, and the relative cost of different sizes of network to deliver those benefits.¹²

7. The model did not take into account the impact of different levels of closures on the wider social and economic benefits.¹³ However, the Department also had access to existing research from 2003 and 2005 on the social and economic value of the post office rural network. This research examined the social value of the rural network, but did not reach any conclusion as to the size of the network which would be most appropriate.¹⁴

8. The research carried out in 2003 estimated that the rural network provided annual benefits of £590 million a year, from which the Department estimated that the network remaining after the closure programme would have benefits worth around £455 million a year.¹⁵ The research focused mainly on the rural network; there was less research on the impact on the urban network. The Department extrapolated to some degree from the research on rural areas. It was aware, however, that many people in urban areas had readier access to alternative services, except in deprived areas, which was why measures were taken to provide extra protection for people in such areas.¹⁶

11 Q 32 ; C&AG's Report, paras 2.5–2.9

12 Q 35

13 C&AG's Report, para 2.10

14 Qq 33–34

15 C&AG's Report, paras 2.11–2.12

16 Q 38; C&AG's Report, para 2.12

9. The Ministerial decision on the optimal number of closures was made on the basis of the model and, hence, the financial costs and benefits to Post Office Ltd. The evaluation and quantification of the social value of the network were only taken into account in informing the subsequent decision that the annual subsidy of £150 million represented value for money.¹⁷

17 Q33; C&AG's Report, paras 2.11–2.12

2 The undertakings to protect users and performance against them

10. In the May 2007 announcement of its decision to proceed with the Network Change Programme, the Department made a number of undertakings designed to protect post office users. These included:

- minimum access criteria, setting out the maximum distance that most users would have to travel to their nearest post office;
- the development of area plans for closures in conjunction with interested parties, particularly Postwatch, followed by local public consultations on the plans, and
- the provision of at least 500 Outreach outlets.¹⁸

11. The access criteria do not guarantee any particular number of post office outlets, but Post Office Ltd has estimated that they could theoretically be met by a network of as few as 7,500 outlets.¹⁹ Nonetheless, at the end of the Programme there would still be nearly 12,000 outlets and the Department and Post Office Ltd were jointly committed to maintain a network of around this size.²⁰ The 7,500 figure was a theoretical number that did not take account of the actual distribution of branches at present, and the Secretary of State had said that the Government had no intention of introducing a further programme of closures.²¹

12. The access criteria were also included in drawing up the area plans of the branches proposed for closure, along with other factors such as the level of customer usage, financial benefit of closure, and branch size relative to surrounding branches.²² The access criteria also required a higher density of offices in urban deprived areas, which has tended already to be the case because of the role of post offices in paying benefits.²³

13. The Department committed to Post Office Ltd holding consultations on the closures but an important factor angering local people about the consultation process was a feeling that whatever they said, nothing would change, and that the process was a sham.²⁴ The Department felt that there had been serious consultations and they had listened to the representations that were made.²⁵ 190,000 people had responded to the local consultations and had received replies.²⁶

18 C&AG's Report, paras 3, 3.1 and 3.4

19 Q 17; C&AG's Report, para 3.7

20 Q 60

21 Qq 17–19

22 C&AG's Report, para 3.13

23 Q 72

24 Qq 53, 97 and 132

25 Q 97

26 Q 99

14. One of Post Office Ltd's aims in the consultation had been to establish that the facts on which it had based closure proposals were correct.²⁷ The most common reason for overturning a closure had been fresh information about transport links, and it said that decisions had not been based on political influence. If respondents showed that the proposals were based on factually incorrect information, then changes were made to the plans. However, while much of the campaigning had been about the principle of closing post offices at all, the consultation had been around whether the facts on which individual decisions had been made were correct.²⁸

15. In the early stage of the consultation process only 18% of people had been aware that a consultation was going on in their local area, and Postwatch had gone on record to say that it considered the six week local consultation period to be too short. However, the process as a whole had been quite protracted and had taken some 32 weeks. This period had included a pre-consultation period of discussions between Post Office Ltd and Postwatch of 11 weeks and the six-week local consultations.²⁹

16. Postwatch's involvement with the implementation of the programme had considerable influence prior to the local consultations, and 261 closure proposals were changed at this stage as a result of its interventions.³⁰ A further 92 proposals had been withdrawn after the local consultations.³¹ In addition, Postwatch had played a role in escalating complaints after the consultations, which generally had not led to the abandonment of closures, but did lead to commitments to improvements in receiving branches, for example in access for people with disabilities.³²

17. Postwatch's role was to monitor each closures at all stages of the implementation process, but it did so within the framework that there were going to be 2,500 closures. The role was difficult for an independent consumer organisation to undertake, since it involved accepting that objecting to one closure would lead to another office being proposed instead.³³

18. One factor that Post Office Ltd considered when planning the closures was whether a post office was supporting the last shop in a village, but this did not always prevent closure. Post Office Ltd had also been reluctant to publish financial information about individual offices, partly because they needed the postmaster's permission, but also out of concern that to do so might affect the viability of neighbouring post offices. Post Office Ltd had, however, supplied such information in writing to many MPs.³⁴

27 Qq 53 and 131–132

28 Qq 131–132

29 Qq 11 and 129; C&AG's Report, para 3.20

30 Qq 98 and 130; C&AG's Report, para 3.14

31 Q 98

32 Q 130

33 Qq 126–127

34 Qq 26, 56–59 and 97

19. Outreach services are alternative ways of providing post office counters at a lower cost to Post Office Ltd than traditional sub-post offices. Outreach services come in three main forms:

- Partner Outreach, where there is a permanent post office counter in a retail establishment. Of the different types of Outreach, these are the most similar to traditional post office branches;
- Hosted Outreach, where a sub-postmaster from another post office ('core sub-postmaster') comes to a local hall, church, school or pub and carries out post office transactions there for a limited number of hours on certain days of the week, and
- Mobile Outreach, where the core sub-postmaster parks a van in the local area for a few hours on one or two days per week.³⁵

20. Post Office Ltd prefers to have a location for such services, rather than a mobile Outreach, but the latter are used where a suitable location cannot otherwise be found. If a more permanent solution becomes available at a later date, then the company will usually choose that option, although it depends to some extent on the core sub-postmaster.³⁶ In a recent survey of 895 post office customers using Outreach services, 83% of customers were satisfied, with 94% of respondents finding the location convenient.³⁷

35 Q 68; C&AG's Report, Appendix 3

36 Q 69

37 Q 7

3 Monitoring the progress and impact of the programme

21. The Network Change Programme was expected to be finished in late 2008, but the programme overran, primarily due to delays in establishing Partner Outreach outlets.³⁸ **Figure 4** sets out the progress against targets as at the end of March 2009. The projected final cost of the programme was £161 million, against a forecast of £176 million, which was mainly due to sub-postmasters opting to work out the full notice period, which reduced the compensation that they were paid.³⁹

Figure 4: Key achievements against targets

	Target (for the whole Programme unless otherwise stated)	Outturn at end of March 2009
Costs of Programme (Of which compensation paid to sub-postmasters)	£176 million	£156.9 million ¹
	<i>£139.7 million</i>	<i>£122.3 million¹</i>
Savings in sub-postmasters' pay	£19.6 million as at 31 Mar 2009	£18 million
Branches closed under the Programme	Up to 2,500	2,383
Outreach services established	Minimum 500	433
Customer migration	80%	88%

Note 1: The 'Compensation paid to sub-postmasters' includes both compensation paid and amounts committed to payment.

Source: C&AG's Report

22. At the end of March 2009, savings in sub-postmasters' pay was £18 million, against a target of £19.6 million. However, Post Office Ltd was not separately monitoring the central efficiency savings or reduced cash holding costs allocated to the Network Change Programme, as distinct from the other initiatives in the overall strategic plan.⁴⁰

23. The aim of the Network Change Programme, and the overall strategic plan, was to create a sustainable post office network. The Department and Post Office Ltd were jointly committed to a level of service and a network of around 12,000 outlets, but could not guarantee that there would be no further post office closures, because that would be a choice for individual sub-postmasters.⁴¹

24. If a post office closed through a decision by the sub-postmaster, Post Office Ltd would immediately start a search for a replacement outlet.⁴² The action then taken would depend

38 Q 5; C&AG's Report, para 4.2

39 C&AG's Report, para 4.3

40 Qq 14 and 20–22; C&AG's Report, Figure 10, Note 3

41 Q 60

42 Q 60

on whether the retiring sub-postmaster wanted to sell the shop and post office, or wanted to close the business and keep the premises. In the former case, Post Office Ltd intended to fill the position temporarily from its reserve of sub-postmasters, while trying to find a permanent replacement. In the latter case, it would approach local retailers to take on the contract. There were more difficulties in these circumstances, and typically at any one time there were some 200 locations where a new site was needed for a sub-post office. In order to protect customers, the process of dealing with such situations was subject to a code of practice, agreed between Post Office Ltd and Consumer Focus. Post Office Ltd was optimistic about the fact that, since the closure programme, it has been easier to find new sites due to the impression that the network is now more viable. The company also forecast that, even allowing for natural wastage, it expected the network to be substantially the same size in 2015 to that at present.⁴³

25. Post Office Ltd believed that its network would not be truly sustainable without redeveloping the government services side of its business.⁴⁴ The company could not fight against the internet and direct payments into bank accounts, and was instead marketing itself on the basis of its physical contact with 24 million citizens every week, thus enabling a cost-effective way of providing government services to the populace.⁴⁵ It would be looking for business in two key areas. These were:

- Identity management services for central government—where people have to prove who they are. Post Office Ltd recently signed an agreement to record photographs and signatures for transmission to the DVLA for producing drivers' licences, and was looking for similar work with the Passport Agency and the UK Borders Agency. It had also been marketing itself to take on transactional work on administrative tasks such as those performed in Job Centres or HMRC inquiry offices, and believed that its focus on cost-effectiveness would be attractive to Government departments under financial pressure, and
- Local government services—Post offices provided a cash office and a local hub that could be the basis for selling a range of local services, such as council tax payments and canvassing local opinion, direct to local authorities.⁴⁶

26. In addition to Government-related business, Post Office Ltd also intended to build on its improvement of other revenue streams, in which public trust in the post office brand was more valuable than it had ever been. It had 2 million financial services customers, was the market leader in foreign exchange, the third largest travel insurer and had a book of 850,000 home and car insurance policies.⁴⁷ As well as developing these streams further, the company was in the process of reintroducing the Post Office Bank, and intended to launch a current account in 2010. Its banking activities would attempt to tie in with the Government's financial inclusion agenda, although Post Office Ltd admitted that this

43 Qq 61, 74–75, 107 and 122–124; C&AG's Report, para 4.5

44 Q 63

45 Q 65

46 Qq 63, 65 and 73

47 Qq 71 and 90

would probably not bring much direct benefit.⁴⁸ There was a risk arising from the fact that despite these revenue streams, the key drivers for sub-post offices are cash withdrawals, routine banking transactions, and the mails business. As such, the relationship with Royal Mail and the impact of part-privatisation could be significant, although Post Office Ltd emphasised that it has formal inter-business agreements with Royal Mail for the next five years.⁴⁹

27. In addition to receiving information from Post Office Ltd on the size and spread of the network, the Department had requested Consumer Focus and Postcomm, the postal services regulator, to carry out research. In particular:

- Postcomm was asked to look into the social value of the post office network, and commissioned NERA/Accent to carry out research on this, and
- Consumer Focus would be undertaking research into the quality of service provided by the remaining network, particularly focussing on the performance of Outreach services.⁵⁰

28. Consumer Focus has already carried out initial research on some Outreach services, finding some welcome signs of good service, but also a need for improvement in the consistency and reliability of service. Post Office Ltd has also been carrying out research on customer satisfaction with Outreach services; the latest findings based on a sample of 895 respondents was that there was an 83% satisfaction level.⁵¹

29. The Department had asked Postcomm to conduct some independent research into the impact of the network on communities, which would be available to inform the formulation of policies from 2011 onwards. However, the Department had not set guidelines for levels of service, for example on hours of opening, taking the position that it would be more appropriate to decide on the service levels locally, because circumstances vary across the country.⁵²

30. Post Office Ltd will review internally the contracts for the new Outreach services after the first year. This review allows both Post Office Ltd and the sub-postmaster some flexibility in the provision of the service and the level of commitment they make. It has, however, also prompted fears that some Outreach services might be withdrawn after the first year, although Post Office Ltd have said that this is not their intention and that the closure of an Outreach service will trigger a full consultation process under a Code of Practice agreed with Consumer Focus.⁵³

48 Qq 101–102 and 113–115

49 Qq 93–95

50 Qq 5, 7 and 107; C&AG's Report, paras 4.6 and 4.9

51 Qq 7 and 134

52 Qq 5–6 and 81–82; C&AG's Report, paras 4.6 and 4.9

53 C&AG's Report, para 3.27

Formal Minutes

Wednesday 15 July 2009

Members present:

Mr Edward Leigh, in the Chair

Keith Hill

Mr Don Touhig

Mr Austin Mitchell

Draft Report (*Oversight of the Post Office Network Change Programme*), proposed by the Chairman, brought up and read.

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

Paragraphs 1 to 30 read and agreed to.

Conclusions and recommendations read and agreed to.

Summary read and agreed to.

Resolved, That the Report be the Fifty-third Report of the Committee to the House.

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

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

[Adjourned till Wednesday 14 October at 3.30 pm

Witnesses

Monday 29 June 2009

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Mr Alan Cook, Managing Director, Post Office Ltd, **Mr Ed Mayo**, Chief Executive, Consumer Focus, **Mr Simon Fraser**, Permanent Secretary and **Ms Joanna Shanmugalingam**, Director, Post Office Policy, Department for Business, Innovation and Skills

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List of written evidence

Post Office Ltd

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Oral evidence

Taken before the Committee of Public Accounts on Monday 29 June 2009

Members present:

Mr Edward Leigh, in the Chair

Mr David Curry
Nigel Griffiths
Keith Hill

Mr Austin Mitchell
Geraldine Smith
Mr Alan Williams

Mr Amyas Morse, Comptroller & Auditor General, **Mr Ed Humpherson**, Assistant Auditor General, and **Mr Chris Shapcott**, Director, National Audit Office, gave evidence.

Ms Paula Diggle, Treasury Officer of Accounts, HM Treasury, was in attendance.

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL OVERSIGHT OF THE POST OFFICE NETWORK CHANGE PROGRAMME (HC558)

Witnesses: **Mr Alan Cook**, Managing Director, Post Office Ltd, **Mr Ed Mayo**, Chief Executive, Consumer Focus, **Mr Simon Fraser**, Permanent Secretary, and **Ms Joanna Shanmugalingam**, Director, Post Office Policy, Department for Business, Innovation and Skills, gave evidence.

Q1 Chairman: Good afternoon. Welcome to the Public Accounts Committee, where today we are considering the Comptroller & Auditor General's Report on the Department of Business, Innovation and Skills' oversight of the network change programme in the Post Office. We welcome Simon Fraser, the Permanent Secretary of the Department for Business, Innovation and Skills. I believe it is your first appearance before the Committee.

Mr Fraser: It is indeed.

Q2 Chairman: Let us hope it is the first of many. You are very welcome. We welcome Alan Cook, who is the Managing Director of Post Office Ltd, and Ed Mayo, who is the Chief Executive of Consumer Focus. Is that right?

Mr Mayo: It is.

Q3 Chairman: Mr Fraser, perhaps I will start by addressing my questions to you but please feel free if you want to pass them on. Now, of course, this is not a policy committee so it is not for us to question whether it was right to have a closure programme or not, and I will say straight away that you have been, it seems to me, reading this Report, Mr Fraser, efficient in driving through the closure programme. So if we were totally an efficiency committee, we would find, I am sure, that 98% of post offices planned for closure have indeed been closed, so that is that in that sense but, of course, we are also entitled to ask, I think, what it is going to achieve: what it is going to achieve for the taxpayer and what will be the impact on communities of this closure programme. Of course, as we know, it has been very controversial in many parts of the country. I am now looking, Mr Fraser, at Figure 5, at the impact of planned initiatives on profitability. This is key to this because nobody presumably wants to close down post offices. We are trying to make the Post Office

more efficient and save money. What worries me is it will be 2011-12 before savings from the closure programme are greater than the cost of implementing it. In other words, it has cost quite a lot to implement this brief and it will not be until 2012 that we get this money back but, even more important than that, looking at Figure 5, savings were only expected to be £45 million, an underwhelming 50% of total planned savings for a bigger initiative. Has it been worth it?

Mr Fraser: First of all, Mr Chairman, thank you very much, and the efficiency of driving through the programme is largely down to Alan Cook and his colleagues. As regards whether or not the programme is worthwhile, it is important, I think, to remember that the network change programme is part of a broader strategy put in place by Post Office Ltd in order to return them to profitability, with a limited subsidy, after 2011, and this is an integral part of the broader strategy. I think it is necessary of course for the Post Office to have a sustainable and affordable network going forward.

Q4 Chairman: I am sure we would accept that, Mr Fraser, but the fact is, you had 190,000 pieces of correspondence, you had 800 meetings with MPs, you are obviously going to make savings across the board, and other things are listed here. Out of all this, the process we are talking about today, you only save 50% of what was supposed to be saved. Perhaps you should have concentrated on other areas.

Mr Fraser: I think £45 million a year in savings is a not inconsiderable sum in its own right. In addition to that of course there are other savings that result from this programme because, as I was saying, we are putting the network on to a sustainable long-term footing. That will mean lower costs to taxpayers in terms of future subsidies and will also

guarantee an effective level of service. So if you look at the benefits overall, I think they are very considerable.

Q5 Chairman: You have closed 2,500 post offices. I know Outreach has been put in, although some of that has come late, but are you now doing any sort of social monitoring of this process? Are you doing some detailed work on the impact on the communities where these post offices have closed?

Mr Fraser: It is of course important to take into account the impact on the communities and that was done in advance through the consultation process but, having implemented the programme, we are indeed pursuing that further and we have asked Postcomm to conduct some independent research.

Q6 Chairman: When will we know the answer to all that?

Mr Fraser: That is designed to give us further information with a view to being able to formulate policies from 2011 onwards.

Q7 Chairman: When will we know the answer to that?

Mr Cook: I was just going to comment that I do not think it would be appropriate for Post Office to wait until the PostCom research is published, so we have been doing research regularly, almost every other month, to check the level of acceptability of the Outreaches. Our last survey, which was based on 895 customer responses, gave us an 83% satisfaction level with customers for the Outreaches; 88% say that they regard that Outreach as their main service point, so they still regard that as their main post office to use, with 94% finding the location convenient. I guess the actual answers to those questions are less important than the fact that we will continually monitor to make sure that the Outreaches are doing what they set out to do, which is effectively to provide 85% of the product range at hours suitable and at locations suitable to the public.

Q8 Chairman: So we are going to have a detailed piece of work which will monitor the social impact of what you have done. That will happen. Thank you. Obviously, as I said right at the beginning, this programme has achieved what you set out to do. You set out to close 2,500 post offices, and you have, but obviously it has been controversial, there has been resentment—what lessons have you learned from overseeing it?

Mr Fraser: First of all, we did not set out to close 2,500, Chairman. We set out to close up to 2,500 but of course, putting in place 500 alternative Outreaches. The objective was to ensure the sustainability of the network. I think what we have learned is that the process, as the Report says, has been effectively taken forward. It is important to have consultation. It is important to engage with consumer representatives in the process so that a range of views are represented, and it is important, of course, to be sure that the measures that are being taken will indeed achieve the objective, which is a viable and sustainable network.

Q9 Chairman: What I was hoping you would say, Mr Fraser, is that you would give me an honest answer and say, “What I have learned is it is not worth a candle and I’m not going to do it again.”

Mr Fraser: That would not be the conclusion that I would draw, Chairman.

Q10 Chairman: No, I thought it might not be. Is it worth a candle?

Mr Fraser: It is worth a candle because it is going to ensure that we have in place a reduced but effective network which Post Office Ltd themselves believe is more sustainable and indeed at a scale which I believe they wish to sustain in the future.

Q11 Chairman: You mentioned consultation and the importance of that. Why, if consultation is so important, do we read in paragraph 3.20 that in the early stage of the process only 18% of people were aware that the consultation was actually going on in their local area?

Mr Fraser: That was in the local consultation. That was at the beginning, in fact, of the local consultation but shortly later, as the consultation was taking place, that figure more than doubled. May I just point out also that the total consultation process was one of about some 32 weeks, if you take into account both the national level consultation, then the internal discussions between Post Office Ltd and PostWatch and then the local consultations. So there was quite an extended period of consultation at different levels.

Q12 Chairman: Anyway, you learned, surely, one thing, that everybody has to be absolutely aware, if this ever happens again, of what is going on, what they can do about it—that is fair, is it not?

Mr Fraser: I believe that consultation and communication are extremely important.

Q13 Chairman: You are learning how to become a Permanent Secretary already, Mr Fraser, but you can loosen up a bit if you wish to.

Mr Fraser: I am sorry. I am just replying to the question.

Q14 Chairman: Mr Cook, if we look at Figure 10, why are you only monitoring savings on postmasters’ pay? Are there not other things you should be monitoring?

Mr Cook: The £45 million saving comes from two primary sources. The first is actual savings on the fixed element of a sub-postmaster’s pay, and the second is on the cost of running the infrastructure of an additional branch. It might be worth just supplementing Mr Fraser’s remark about the value of doing this at all. One of the huge values of doing this in addition to the saving to Post Office Ltd £45 million is the fact that the income that is generated by the closing post offices has migrated to neighbouring branches. 88% of that income in fact has migrated to neighbouring branches, which makes those neighbouring branches more viable. This is a strange business where Post Office Ltd has a bottom line but every individual sub-postmaster

has a bottom line, and it is no good Post Office Ltd getting back into profit if individual sub-postmasters cannot earn a living from running their branch. So the migrating income to neighbouring branches makes the network more sustainable.

Q15 Chairman: Mr Fraser, we read in paragraph 1.7 that government business as a proportion of Post Office Ltd revenue fell from 43% in 2003-04 to 26% in 2007-08. We, the taxpayer, are subsidising the Post Office. Why is one bit of the government subsidising the Post Office while other bits of government are encouraging citizens to move away from the Post Office?

Mr Fraser: I am not sure that other bits of government are encouraging citizens to move away from the Post Office, Chairman. I think it is just that alternative forms of provision of services are more convenient and sometimes more secure for consumers and therefore, with technology and other developments, different forms of provision of service become available.

Q16 Chairman: But we own this business and we read that the decline in business reflects several factors, including the payment of most state pension and benefits directly to customers' bank accounts. What you are saying is that is just the modern world and there is nothing we can do about it.

Mr Fraser: I think it depends what customers desire. The fact is that, I think, nine out of 10 newly retiring people choose to take their payment directly to the bank account. What we have done is to seek to help the Post Office in developing new streams of business and of course we have introduced a new Post Office card account.

Q17 Chairman: I have one last question and I think this is quite important. You have these access criteria. If we look at access criteria alone, you could do with as little as 7,500 outlets. Just remind us how many outlets you have at the moment.

Mr Fraser: At the end of the programme there will be nearly 12,000.

Q18 Chairman: So we have 12,000. If we were looking just at access criteria, you could go as low as 7,500. That obviously alarms people. What reassurance can you give us on this issue?

Mr Fraser: That there will not be further reductions?

Q19 Chairman: Down to 7,500.

Mr Fraser: There are two answers to that, Chairman. The first is that 7,500, as I understand it, is a purely theoretical number. It does not actually take account of the actual distribution of branches on the ground at present. The second is that the Secretary of State has said that the Government has no intention to introduce a further programme of closures.

Q20 Keith Hill: This first question is for Mr Cook. The Chairman, if you recall, asked about the arrangements for monitoring the results of the programme and you, Mr Cook, told us about some

of your findings to date but we read in paragraph 2.16 of the Report that over half the forecast benefits of the programme up to 2011, and one third of the annual savings thereafter are not being separately monitored. So what confidence can we have that the closure programme is delivering the cost savings claimed for it?

Mr Cook: The closure programme, as you know, as Mr Fraser has already said, is part of a much larger cost reduction programme to fix the company as a whole. The cost savings come in two main categories. One is the removal of the fixed element of the agent's pay for the post office in question, and once that post office has gone, by definition, it is not paid. The variable element of their pay would then hopefully be paid to a neighbouring sub-postmaster because he takes on the work that sub-postmaster would have taken. That is factual and it is already in the bag, for want of a better expression. As far as the overhead costs, if I were to give an example, would be the costs that are associated with the post office being in being at all. For example, we will deliver cash to every post office in the land. The cash in transit crews will stop at fewer locations, we need less cash in transit trucks and less crew members to deliver that cash. So those savings have been taken but they would not have been possible if those post offices had not closed.

Q21 Keith Hill: Nevertheless, you would not dispute the fact that large areas of the programme are simply not being monitored?

Mr Cook: No, I would not accept that at all. I have just said—

Q22 Keith Hill: The areas that you have identified are relatively small aspects of the savings programme, are they not, agents' fees and delivering of cash, cash in hand at post offices? My recollection from the Report is that it is quite a small element.

Mr Cook: One of the features of this business is that it is made up of lots and lots of small elements. You have to pay attention to the detail to get the scale savings. You say cash in hand in a post office: every night we have £750 million sitting in the tills. That costs us a lot of money.

Q23 Keith Hill: That is not the same as the cost of moving it around, is it?

Mr Cook: No, but the cost of having the cash in the post office overnight, earning no interest, is material. Another example of the cost saving is not just the cost of moving it but the cost of having it at all. If we get it back to our cash depots, then it is the equivalent of being banked.

Q24 Keith Hill: Let me ask you about the wider social and economic benefits of the programme. In paragraph 2.10 we learn that you only began to look at the social and economic advantages of the reduction programme once you made the decision to close 2,500 post offices. Do you accept that?

Mr Cook: We only looked at the social—sorry?

Q25 Keith Hill: The wider social and economic benefits were only examined once the decision was taken in principle to reduce the size of the network by 2,500 post offices. Is that correct?

Mr Cook: That is not true. There was a national consultation—

Q26 Keith Hill: Just a minute. It says so in paragraph 2.10, which you agreed when you signed off the Report.

Mr Cook: Let me give you my interpretation. There was a national consultation for 12 weeks on the principle of closing 2,500 post offices and there was therefore comment on that. I think what you are referring to is that when individual closure plans were being made in the 42 area plans, one of the criteria that we looked at was the social and economic provision in that village. So, for example, if that post office was directly or indirectly supporting the last shop in the village, that would be a material factor when we were examining the proposals as to whether to close that post office.

Q27 Keith Hill: How did that lead you to the 2,500 figure?

Mr Cook: As I was saying, that conversation was part of the local consultation. The national consultation was consulting on the 2,500 closures.

Q28 Keith Hill: So you actually dispute the contention of the National Audit Office in paragraph 2.10 . . .

Mr Cook: No.

Q29 Keith Hill: . . . when it says that you only looked at the social and economic benefits once you made the decision to close 2,500 post offices?

Mr Cook: It depends what you mean by “we looked”. It was looked at, because it was part of a national consultation, but the steps that we took as Post Office Ltd to examine individual closure decisions, we did take into account at that point.

Q30 Keith Hill: I hope to come on to that. Let me put the question another way and refer to paragraph 2.11, where we learn that your research into the social and economic benefits of the network did not reach a conclusion as to what size of the network would be most appropriate. Why not?

Mr Cook: Did not reach a conclusion? I am sorry. I do not understand.

Q31 Keith Hill: Let me turn to the Comptroller here to get some clarification on this. Am I right in thinking that the contention of the Report is that the decision to reduce the network by 2,500 was made in advance and separately from any analysis of the social and economic benefits of the programme?

Mr Shapcott: What we are talking about here is the analytical work that was going on within the Department itself more than within the Post Office. Clearly, Post Office Ltd were aware that there is a social and economic impact in a qualitative sense but

we are talking here about quantification, using economic research which the Department themselves had available.

Q32 Keith Hill: So should the question be addressed to Mr Fraser?

Mr Fraser: I am happy to try and help with the question. What happened was that a number of scenarios were modelled—they were modelled by the Post Office with external advisers—on different sizes of network looking at the relative cost and service provision of different sizes. The decision was taken on the basis of those different scenarios that the most appropriate one in terms of cost benefit would be to go for the closure of up to 2,500.

Q33 Keith Hill: But cost benefit can be a financial cost benefit as opposed to a social and economic cost benefit.

Mr Fraser: Those were primarily analyses of cost benefit but there was in addition to that existing some earlier work, which is referred to also in the Report, done by Axon and another one done in 2005 by NEF, on the social impacts, broadly speaking, of the rural network and the urban network, and those were taken into account in subsequent decisions about the value of the network and the service provision that the network could provide.

Q34 Keith Hill: Paragraph 2.11 says the Axon study of 2003, which I think was the rural study, identified the annual social and economic benefits of the rural network at some £590 million. The paragraph concludes by saying that the research did not reach a conclusion as to what size of the network would be most appropriate, and you accept that.

Mr Fraser: Yes, because the decision on the size of the network was a decision taken by Ministers on the basis of the models.

Q35 Keith Hill: It was about financial saving and the level of subsidy rather than the wider social and economic benefits.

Mr Fraser: It was about the correct balance to be struck between the provision of social and economic benefits throughout the United Kingdom and the relative cost of different sizes of network to deliver that service.

Q36 Keith Hill: Presumably, you were satisfied that you had enough evidence to achieve 2,500 closures as the appropriate number.

Mr Fraser: Yes, because many different models were looked at in reaching that conclusion.

Q37 Keith Hill: What was the great prize of closing 2,500 post offices?

Mr Fraser: The prize was to find a model which would guarantee a high level of service across the United Kingdom at an affordable cost, and the decision was taken that that balance was represented by a network of some 12,000 post offices which would cost an ongoing annual subsidy of £150 million as part of the broader package to bring the Post Office back to profitability.

Q38 Keith Hill: Paragraph 2.12 tells us that the rural network was estimated to provide benefits worth £450 million per annum. However, it appears that no corresponding analysis was carried out of urban networks. Why not?

Mr Fraser: I am not clear. I would ask Mr Cook to answer that.

Mr Cook: No, I am not.

Ms Shanmugalingam: I think there is less independent research on the impact on the urban network. There had been quite a lot of research we were able to draw on on the rural network. We were able to extrapolate to some degree the research on the rural network, though we were aware that for many people in urban areas, they do have more ready access to alternative services, except for people particularly in deprived urban areas. That is why we took a range of measures to put in particular protections for people in those communities.

Q39 Keith Hill: Do we know what proportion of the subsidy of £1.7 billion goes to rural post offices?

Ms Shanmugalingam: I do not have the number to hand.

Q40 Keith Hill: Perhaps Mr Cook knows.

Mr Cook: It is not as simple as that really. It is a subsidy to make up the shortfall that is generated by the agent's fixed pay in the loss-making branches. The balance changes continually. Because a lot of the decline in income from the Post Office has been as a result of benefits being paid into bank accounts, it has had quite a disproportionate impact in urban deprived areas. So while it is more fashionable to talk about the rural—

Q41 Keith Hill: Let me, speaking as an urban Member of Parliament, indeed representing the fifth most densely populated part of the country, say I think it would be extremely useful if you could let us have a note capturing a specific moment, perhaps at the beginning of the network programme, to tell us about these three things: of the 14,000 post offices which remain, what proportion rural and rural social, what proportion are urban deprived, what proportion of the subsidy goes to rural post offices and to urban deprived post offices. Could you let us have that, or at least try?¹

Mr Cook: No problem. As you say, we can give it at a point in time.

Q42 Mr Mitchell: Where did the initiative for this come from? Did it come from your Department or from the Post Office, begging you to cut it down in size?

Mr Fraser: The original initiative came from the Post Office in the sense that, as you will know, the Post Office was making losses since the year 2000 and was in receipt of a subsidy from the year 2003 but in 2005 took the view, as I understand it, independently, that its current business model was no longer sustainable and therefore there was a need for a strategic review.

Q43 Mr Mitchell: From your point of view, the Government decided to save money.

Mr Fraser: From my point of view, the Government is there to ensure that we maintain the appropriate levels and goods levels of provision of Post Office services in a sustainable and affordable way.

Q44 Mr Mitchell: And save money.

Mr Fraser: We have a responsibility, obviously, as custodians of taxpayers' money, to ensure that we do things in a cost-effective manner but the objective of the exercise was not to save money.

Q45 Mr Mitchell: You were judge and jury in your own case largely in this matter.

Mr Fraser: I do not see how—

Q46 Mr Mitchell: The Post Office put up options for a range of cuts. You decided which were going to be selected and you then pushed it through on that basis.

Mr Fraser: A decision was taken and it was implemented by the Post Office in consultation with consumer representatives, and there was agreement that this was the appropriate course of action. I do not think we are judge and jury either, in the sense that we are being monitored by the NAO and others constantly.

Q47 Mr Mitchell: You put in some research to justify it after it had been done. Let me turn to Mr Cook, because part of the loss-making situation was the diversion of other business, thanks to a regulator who believed in free-market economics and licensing other people to compete with you on a fairly unequal basis—yes?

Mr Cook: The decline in the mails market for the Post Office at that juncture was almost non-existent. The economic situation the Post Office faced was entirely down to the loss of benefits business, road tax and the like, not really the mails market. Certainly there is more competition in the mails market now.

Q48 Mr Mitchell: But competition is undermining the Post Office and pushing its profits.

Mr Cook: There is not much retail competition in place, so people still come to the Post Office. The competition in the mails market is mostly taking place with the way big businesses post large volumes of mail to private individuals, but private individuals going to a post office to post items, to be honest, is more affected by the arrival of the Internet and e-mail than it is to do with competition.

Q49 Mr Mitchell: Let me turn to Mr Fraser, because surely, before you introduce cuts in the Post Office, you have to consider what alternatives there are. We have already been told that the Government is reducing its business through the Post Office, thus affecting Post Office profits. Did you consider alternatives like, for instance, the creation of something called, I think by Gladstone, the Post Office Savings Bank? I notice in New Zealand they

¹ Ev 16

have introduced Kiwi Bank and a Kiwi card, which has helped to save the Post Office. Was that considered in this country?

Mr Fraser: Part of the overall strategic programme that the Post Office introduced is to introduce new streams business through the Post Office. Mr Cook can comment better and in detail, but I think the point is, it was necessary to address the question of the network change in any case because the post office network was declining; it was dwindling, and individual post offices were changing around the country in an uncontrolled and uncoordinated manner. Therefore, I think it was better to take a strategic view of network change and to try to subsidise it to be sustainable.

Q50 Mr Mitchell: So you did not consider alternatives at that stage to be provided by the Post Office?

Mr Fraser: I do not think the *status quo* was an alternative anyway for the network but, in looking at the closure programme at the same time, the Post Office is looking at alternative streams of business. That is part of the strategy as described in the Report.

Q51 Mr Mitchell: I did notice that since the closure programme BERR—it is like a French request for more butter—has been very slow to back and extend the Post Office card, which is an alternative service provided in post offices.

Mr Fraser: The contract for the Post Office card has been renewed and is in place.

Q52 Mr Mitchell: The Government has whinged on for a long time about they are not going to renew it and it is a temporary thing and they are not going to spend the money, has it not?

Mr Fraser: That was not the position of my Department. Anyway, it was a decision, of course, of the Department for Work and Pensions, which is primarily responsible for this, but the important fact is that the contract has been renewed and at the same time we are supporting post offices and looking at the development of alternative business streams.

Q53 Mr Mitchell: Let me turn to Mr Cook. It struck me that the whole thing was predestined. A lass came over from Sheffield to explain to me what was going to happen and I said, “Well, I shall be objecting on the following grounds,” and they said, “Well, it won’t do you much good this time because we have tightened it all up.” Is that correct? I do not mean is the account correct, but have you tightened it up?

Mr Cook: I am not aware of that. To be frank, I think we have made a first-class job in controlling the process around the closure programme. What was unusually different about this closure programme was that in the past a choice was made as to how many would close and those that wanted to go, in sub-postmaster terms, went.

Q54 Mr Mitchell: I do not think you have. I think you have weighted the odds against the protesters. For instance, one of the post offices which closed in

my constituency was a viable business because it was a business combined with a newsagent’s and tobacconist’s. Together the two businesses were viable; the post office might not have been viable in Post Office terms—I do not know—but together, each propped up the other. Now, if you knock the prop of the post office away, the business closes. That does not make economic sense, does it?

Mr Cook: As I said earlier, there were two objectives in the post office closure programme. One was to restore the profitability of Post Office Ltd and the other was to have an eye on the viability of the post office network and the individual sub-post offices.

Q55 Mr Mitchell: Yes, but my point is the viability of post offices as a business combining two functions, and you were looking only at the viability of the post office.

Mr Cook: No. I was looking at the viability of Post Office Ltd but I was also very much motivated by making sure that the remaining network was more sustainable than it had otherwise been, so we did not focus any post office—

Q56 Mr Mitchell: In this particular case the business would have been viable as two businesses but with the post office closed, it was not.

Mr Cook: That would apply in a number of instances, certainly, but one of the factors that we took into account was were we in a situation where the associated retail business was under threat, that made us much less likely to close that post office because that was one of the factors we took into account. Most of them have not closed—

Q57 Mr Mitchell: It did not seem like that to me. In addition, you handicapped any protester, like myself, by insisting that the postmasters could not provide us with any information. I stood in front of a huge queue at the Post Office saying loudly “This must be a very profitable business” and he said to me, “I can’t tell you. We are under a pledge of secrecy. We can’t talk about it.” That is no way to allow people to protest in economic terms.

Mr Cook: I supplied that information personally in writing to many, many MPs during the course of the programme. So it was available. One of the things we did have to be careful of is that we were sharing a postmaster’s own business—

Q58 Mr Mitchell: In refusing postmasters permission to provide information about the viability and economics of their business as a whole, you weakened the ability of protesters to stop closures.

Mr Cook: No, but I was supplying that information to individual MPs on request. We had two concerns—

Q59 Mr Mitchell: Well, I requested it and did not get it.

Mr Cook: Right. Well, that is a real surprise to me because I signed goodness knows how many letters supplying that information. There were two factors to take into account. One, we could only supply

information that the postmaster was comfortable with, because it was actually his business, so we needed to get permission, obviously, from the postmaster. Two, we had a concern that the viability of the neighbouring post offices would be unduly affected by us releasing information about the nearby post office because none of these closures were certain. As you well know, a number of them were turned over, and what we did not want to do was to release their financials and then the post office did not close, and we had exposed that to competitors. Nowadays, the Post Office is under serious competition from organisations like Paypoint and the like—and why not? There is nothing wrong with that but in years gone by the Post Office was not in competition for any of its business; it was like a monopoly supplier; everything that was in a post office you had to have and it was only available in a post office. Nowadays, everything that is in a post office is available elsewhere through a different channel and you do not necessarily have to buy it, so it is a much more competitive market we are operating in.

Q60 Mr Mitchell: I sympathise. That is true, but you are fighting in that market with your hand tied behind your back. If I could just ask a final question, I take it you cannot now guarantee the viability and survival of the Post Office at this level, the scale.

Mr Fraser: Of Post Office Ltd? That is the intention of the programme. If your question means can we guarantee there will be no further post office closures, we cannot guarantee that because that can be a choice for individual sub-postmasters if they wish to close their businesses. That is a fact of life but I think what we have is a commitment to maintain a level of service and a network of around 12,000 outlets, and that is a shared commitment between the Department and the Post Office.

Mr Cook: Any post office that closes through sub-postmaster action, i.e. through retirement or deciding to move on to another business, then we start a search to find a replacement outlet. Very often, these postmasters live in their post office, so when they retire, we lose the premises, not just the postmaster. We literally have to trawl the high street to find somewhere else.

Q61 Mr Mitchell: I appreciate that.

Mr Cook: Typically, we have about 200 locations at any point in time where we are looking for another site. What is really encouraging since the closure programme is our ability to re-site post offices has improved because the demand through the agencies that sell post offices has grown: because the remaining network is more viable than it was prior to the closure programme, it becomes a more attractive proposition to own and run a post office and, of course, that was one of the motives behind the programme in the first place.

Q62 Mr Curry: Mr Cook, in 2003-04 government business accounted for 43% of your turnover, and in 2007-08 it was 26%. What do you expect it to be in the current financial year?

Mr Cook: If I could just give a little bit of history to that, I joined in 2006, and the year I joined, the income from the Department for Work and Pensions dropped £168 million year-on-year, absolutely huge, a massive commercial challenge for any business person. We have chosen to develop other revenue streams and indeed, I was hired, as someone who comes from the financial services industry, to build the banking aspiration, and what became apparent is—

Q63 Mr Curry: You chose a good moment to get out of it!

Mr Cook: Frying pans and fires spring to mind. We had a considerable success in building the other business lines, but I do not think the Post Office will be truly sustainable unless we can redevelop the government services side of the business and, actually, since the card account decision, things, from my perspective, have improved materially. The BIS Select Committee is currently reviewing and about to report on ideas and opportunities for government departments to provide work. There is a Cabinet Committee chaired by Lord Mandelson that is looking at options, and the general mood, I would say, across Whitehall is a willingness to find work that the Post Office could do cost-effectively on behalf of other government departments.

Q64 Mr Curry: You are obviously going to give evidence—well you already have given evidence to the select Committee.

Mr Cook: I have, at length.

Q65 Mr Curry: So without hitting a hesitation, deviation, repetition, what are the three key things government would do to stabilise your business in terms of its contribution?

Mr Cook: If you discard the card account on the basis that is already done. We have just signed a deal with the DVLA for the issue of driving licences. One of the products that we can sell the British Government as the Post Office is our physical contact with 24 million citizens every week. There is no point in fighting the Internet, there is no point in fighting direct credits into bank accounts, all we need to do is find what are our distinct advantages. One of the areas we have alighted on is identity management, so the need to prove to the world who you are is a significant task in this day and age. For driving licences we are supplying equipment into 750 branches to start with to do what are called ICAO compliant photographs and electronic signatures which we then electronically transmit to the DVLA and they produce the driving licence. We signed that contract about six weeks ago. The next thing we are working on is with the Passport Agency. This would be my big ambition, that we could do the same for the Passport Agency. If we do that we can increase the number of branches to more than several thousand to do that and there we will also be collecting electronic fingerprints. Finally, we have something with the UK Borders Agency for the issue of ID cards for immigrants which we are going to start a trial of in 14 branches in October. There is a

whole area of activity around identity management. That will be one area. The second area will be around the local authorities and their use of a cash office in local authority offices and their need to canvas local opinion which could be more effectively performed in post offices, and that is a range of services which we are now selling direct to local authorities which I would include as Government services' related income. Finally, there is a lot of transactional work that I believe could be more cost-effectively undertaken in a range of locations in post offices than could be done face to face, for example, in a Job Centre or an HMRC inquiry office or whatever. They would not be hugely complex tasks but they would be straightforward administrative tasks.

Q66 Mr Curry: But you could not gear up all post offices to do these tasks, could you? There is a minimum size.

Mr Cook: The first thing I talked about, the identity management, is quite capital intensive, it has got lots of expensive kit and you would not do it everywhere and actually you only take out a driving licence or a passport once every ten years, but some of this processing stuff I would see going on in all branches. That is what would make us attractive to that department. We are running a pilot shortly where HMRC are going to put some tax advisers into post offices to run surgeries.

Q67 Mr Curry: My constituency is probably rather different from Keith Hill's as it is possible to be since I have some 700 square miles across the Pennines and Yorkshire Dales. There was a great deal of talk a few years ago just after the programme was being implemented about all sorts of innovative new ways of establishing where you would put post office-type facilities. There was talk of putting it in pubs, well you had better get on with that because the pubs are closing even faster than the post offices.

Mr Cook: We have got a few in the pubs.

Q68 Mr Curry: Or in halls or in schools, it might not be a bad idea to have them in church on a Sunday but you would not get very much of a throughput I suppose doing that. Has this lost some of its momentum and enthusiasm? Can you give us some examples of where we can now find a post office where you would not have thought of looking five years ago?

Mr Cook: We have even got one in a church actually. That is the Outreaches, it is the 500 Outreaches we are talking about. We would seek those types of innovative solutions as our first choice.

Q69 Mr Curry: But some Outreaches are mobile, are they not?

Mr Cook: That is what I was coming on to say. If we could not find a location, because a location is better actually than a mobile, it is not going to breakdown, it is not going to hit traffic problems or whatever, our default position through the programme has been to say if we cannot find a suitable location then we will default in a mobile post office, and we have deployed a number of them as mobiles. If at any stage we can

find a more permanent solution, we will usually deploy the permanent solution and pull the mobile because it is more reliable.

Q70 Mr Curry: What is the demographic profile of a post office user?

Mr Cook: It may surprise you but just about everybody posts a parcel at some time. I talked about the threat the Internet represents in terms of posting letters and mail, but one of the ironies is that it has created a huge growth in online shopping. If the Internet was going to kill emails then eBay has created a completely different market and home shopping. So the packets business in the mails market is growing quite strongly and that creates a significant improvement.

Q71 Mr Curry: But you are not the only business which of course is suffering from technology. Bookshops, people buy their books on Amazon, millions do that would have gone into a bookshop some years ago, so you cannot do a Canute act against technology can you.

Mr Cook: Correct. One of the areas that we have gone into in financial services is car insurance, so we now have just over 550,000 people who have their car insured with the Post Office. At first sight you would think that is because of our linkage with road tax, which to a degree it is, but actually then you discover that two-thirds of that car insurance has actually been sold over the Internet. How has it been sold over the Internet? Well, sometimes the conversation starts in the branch and finishes off on the Internet and sometimes it starts by doing a search on Google and ends up in the branch. My philosophy is we are not competing with the Internet, we have to embrace it. Certainly at first sight you would think the Internet was the enemy of the Post Office because we are about face-to-face, we have to find a way to co-exist.

Q72 Mr Curry: There is quite a lot of talk about inner city areas which are, for example, under-banked because of flight of retailers. Are they under-post officed as well in inner city areas? You have got the criteria?

Mr Cook: No. In fact, the access criteria require a higher level of density in urban deprived areas and actually for historical reasons the workload does as well because on the benefits side of the business we have a greater bias there with those urban deprived areas. That does not mean to say it is only the deprived that come into the post office but there is a greater likelihood in the urban deprived areas so we have a greater density in those branches.

Q73 Mr Curry: We all know the next few years are going to be absolutely grizzly because of the problem of bringing public expenditure under control. The country is going to be knee deep in bloody stumps whoever wins the next election, despite the idiotic debate which takes place here. It is going to be quite tough, is it not, for you to maintain that network and your hope for more Government business against a

background of the sort of pressures on public expenditure we probably have not seen perhaps in either of our lifetimes?

Mr Cook: I am a glass half full kind of guy really, so what I would say is that pressure on Government departments is a selling opportunity for me to the Government departments because what I am offering is the opportunity to centralise the work from a number of different Government departments into the Post Office where I can genuinely win on two counts. One, I can charge those individual departments less than they would have cost them to run it themselves and, two, I can turn to BIS and say, "I am running a more sustainable business and ultimately the network subsidy could be less". It is a double win.

Q74 Mr Curry: So in 2015 for example, taking into account the problem of people who own post offices who quit and you cannot find a replacement, which we talked about in response to Mr Mitchell, allowing for natural wastage you would expect the network to be substantially the same size as it is now, would you?

Mr Cook: Yes, that would be my aspiration.

Q75 Mr Curry: No, I am not asking about aspiration, I am talking about forecast.

Mr Cook: Stronger than that. Forecast, yes, absolutely.

Q76 Mr Curry: There is not going to be another round of cuts.

Mr Cook: The competition is actually, if anything, driving us the other way. PayPoint have 20,000 outlets.

Q77 Mr Curry: The competition is driving you to reopen post offices.

Mr Cook: The competition is not driving us to close, it is driving us to maintain the current presence. For example, I would tender for the right to do bill payment for a utility company. We do a lot of bill payment, a billion pounds a year in cash bill payment. Those utility companies want to hear me say, "We will maintain a network of 11,000 plus 500 Outreaches" which is what we are saying.

Q78 Mr Curry: The post office would be much more attractive to the consumer if everything was not done so manually. You go and get your road tax done and somebody is busy putting things in by hand all the time. It really is a long trip to get your road tax done.

Mr Cook: So many of the cost-saving measures that I talked about that take us to the £300 million target are about the introduction of technology.

Mr Curry: Finally, if you wanted to make yourself hugely popular, the Post Office, if you could change the postcode so that people who live in the far remote country do not give the impression they live in the middle of Bradford people would adore you. The whole of Craven practically has got a Bradford postcode. The last thing anybody wants in Craven is

to be associated with Bradford in any shape or form. All the insurance bills go up, everything goes up because of the association with the urban area.

Chairman: You do not need to answer that, he has got it off his chest!

Q79 Mr Curry: I am trying to be helpful to the campaign of popularising the post office.

Mr Cook: Chairman, I am open to any opportunity to be adored because you do not often get adored in this job but, on the other hand, I do not set the postcodes, they are set by Royal Mail.

Q80 Nigel Griffiths: I am heartened at some of your previous comments, in particular your assurance that the Government is actively examining how to boost the business of the Post Office and the Secretary of State is chairing a committee. It does say in paragraphs 1.7 and 1.9 to 1.11 that not enough is being done to increase business volumes, but clearly you do have a number of pilot projects. How damaging has it been that local government in some councils, indeed many councils, appear to have withdrawn the payment they make for services for the use by local people of the post office such as paying the business rates, the council tax, trade waste charges, things which in Edinburgh, my council, we do pay the Post Office to administer?

Mr Cook: There are not many, if any, that have been withdrawn, but there are loads which could do it if we think we could talk them into it. Getting a co-ordinated response from local authorities to do this would be very helpful. There are about four or five transactions that we could do on behalf of a local authority very effectively and at marginal cost, and there are 450 local authorities, so there are 2,000 odd transactions you could do, and we are probably only doing 600 odd today, 612 when I last checked. There is scope for significant growth. We are doing all of the different types of transactions somewhere, but we are not doing all of them in any one local authority. The key is that most local authorities will have a cash office where people would go and pay bills and the like. One of the opportunities we can offer them is they would not need a cash office if they use the post office and that bill payment facility would then be available in every post office in their local authority area. It is one of my areas of growth. It does feel like we are getting a lot of central support now. I would say that the level of optimism, if you like, that I have has grown even since the Report.

Q81 Nigel Griffiths: That is encouraging, but is the key not surely in paragraph 4.6 and that is in the Department starting to work to set requirements upon the quality of service, the last two lines, that it believes it should be giving rather than letting them be decided at local level in which case you are going to get 600 opting in and thousands opting out?

Mr Cook: That would be more convenient for me. I work with the tools I am given and at the moment the most effective way is to achieve some level of central guidance and then make it sensible, practical and easier for a local authority to use the post office than to carry on performing the task themselves.

Q82 Nigel Griffiths: Do you think, Mr Fraser, it would be helpful to support Mr Cook a bit more on this project?

Mr Fraser: In terms of setting national guidelines for levels of service? I think the position we have taken has been that because the circumstances vary across the country that it is more appropriate to set the service, particularly in terms of hours of opening, according to local conditions.

Q83 Nigel Griffiths: That was a bit of a red herring, I know that is in the same paragraph but I am going for quality of service rather than hours of service.

Mr Fraser: It is not clear to me what is meant by quality of service in this sense. You are talking about the services that are provided.

Nigel Griffiths: I think we have all got an idea of the quality of service that is in the range, partly the ones I have highlighted from local government and other services that are available, and I know they vary from post office to post office, some of course can ensure you can get your car tax disc at that post office rather than either online or from the—

Q84 Chairman: I think the Comptroller wants to make a comment.

Mr Morse: Only just to say it is things like waiting times and so forth.

Mr Cook: Quality of service would not be the product range,

Mr Morse: No, it is not, it is a measurable quality of service, opening times and various other factors.

Q85 Nigel Griffiths: Like what?

Mr Cook: Ultimately opening hours would be one such example.

Q86 Nigel Griffiths: It says “hours of service”, which is opening hours or quality of service.

Mr Morse: That is queuing and all that sort of thing.

Q87 Nigel Griffiths: I notice that some councils, certainly Essex County Council, seems to have invested in its local post offices to enable some which did not appear to be viable to be kept open. Is that the sort of initiative you would welcome?

Mr Cook: Yes, I welcome even more what has been going on in Wales. At the Welsh Assembly where they have established a Post Office Development Fund and we work in collaboration with the Welsh Assembly, the National Federation of Sub-Postmasters and ourselves to target that fund on the best and most worthwhile cases for sub-postmasters. That has enabled us to maintain an even spread of branches that we have established and provides a really concrete way for regional devolved authorities, local authorities, whatever, to provide support. I would prefer not to see all the support channelled into keeping one or two branches open rather than supporting the whole network in that particular county or whatever.

Q88 Nigel Griffiths: The Welsh model has a lot to commend it and I notice that the Rt Hon Member for Banff and Buchan, the First Minister in

Scotland, Alistair Salmond, who did ask for an extra £30 million subsidy there, has not followed the Welsh model. Why do you think that is?

Mr Cook: I do not know. I am not intimately involved in that. Do not get me wrong, I am not saying I am not grateful for Essex’s support for post offices, but I just think the most flexible model is to find ways to invest in the network that we now have in place rather than reviving some. Do not forget, one of the points I was making earlier was that if you reopen post offices that are closed, there are postmasters who own neighbouring businesses, or maybe even bought a neighbouring business on the understanding that post office is going to close, and the viability of that post office becomes less. So I would prefer to channel investment to really lock solid the 12,000 we have got rather than make it 12,005.

Q89 Nigel Griffiths: What is actively being done to showcase the 600 councils that you mentioned?

Mr Cook: We have actually created what we call a B to B, or business to business, sales force because it seems it is not going to be enough to just have central direction, I think I need to literally have someone knock on the town hall door, say, “We are the Post Office, did you realise we do these things for a council down the road and we are not doing them for you, so why can we not do them here?” The example you gave, where I live you get a plastic card to pay your council tax, you go in a post office every month and you pay the money over the counter if you do not want to do direct debit or whatever. Some councils have a place where you have to queue at the council town hall to pay. We will target councils where we believe we have the greatest prospect and obviously start with the larger ones but a sales force is effectively what we are putting into place.

Q90 Nigel Griffiths: How much has the financial crisis and the public’s concern about some of the position of the major banks been a business opportunity for the Post Office?

Mr Cook: It was an amazing business opportunity last October because we had a huge influx of funds on savings. Interestingly, now the savings market has gone much quieter in general because interest rates are much lower and when interest rates are low there is not quite the same motivation to move from bank A to bank B if you are only going to make an extra half a per cent, but we are selling a lot more credit cards which I guess reflects where people are now. There is a lot of talk about should the Post Office be a post bank. We are well on the way, it is what I joined to do. We have 2 million financial services customers now. We are the market leaders in foreign exchange, the third largest travel insurer and we have built an insurance book of 850,000 home and car insurance policies in two and a half years. We are making significant inroads, but we were starting from a standing start, so it is a long journey to travel. Undoubtedly, the brand and the trust in the brand, and, let us be honest, it is actually the trust in the person behind the counter, is probably more valuable now than it has ever been.

Q91 Geraldine Smith: Can I ask Alan Cook first of all if he can explain the relationship between Royal Mail and Post Office Counters, the sort of interdependency?

Mr Cook: You are showing your history with Post Office Counters.

Q92 Geraldine Smith: When I worked for the Post Office it was one organisation, it made profits every year and the cross-subsidy helped sustain the Post Office network.

Mr Cook: The way it stands right now is Post Office Limited is a separate company.

Q93 Geraldine Smith: Sorry, no, I am talking about the more practical side, how a post office counter will be dependent on the services Royal Mail provides.

Mr Cook: Literally in the branch, you mean?

Q94 Geraldine Smith: Yes.

Mr Cook: The biggest driver in the sub-post office network of the viability of a branch is still the mails business. If you were to go to the bigger branches, the Crown Offices, the branches in WH Smith's, they have made much more significant inroads into financial services and the like, but if you are in the village post office the biggest driver for your survival is typically cash withdrawals, routine banking transactions and mails business, so the relationship with Royal Mail Letters and Parcelforce is particularly important. I am not sure I am answering your question really.

Q95 Geraldine Smith: What concerns me is any possible privatisation of Royal Mail and the impact that could have on the Post Office Counters network, particularly to rural constituents. In my own constituency it was actually quite rightly pointed out that those rural post offices depend heavily on the mails business.

Mr Cook: It is not really an issue in the context of what you are talking about because we have a very formal inter-business agreement between Post Office Limited and Royal Mail that runs for another five years actually. That sets out a whole range of standards that Post Office and Royal Mail have to meet and also gives us exclusive rights, for want of a better expression.

Q96 Geraldine Smith: I guess the point you have just made for me is the importance of that relationship and the need for that to continue in the future and anything that could change that, ie the possible privatisation of Royal Mail, could impact on my constituents in the long run because your agreement is only for five years, as you say. Thank you, I will not pursue that much further, you have been helpful to me there. Mr Fraser, do you regard the Post Office as a public service?

Mr Fraser: Yes, it certainly is an important provider of social and economic public services.

Q97 Geraldine Smith: So when you talk about the sustainability of the network you have got to take into account that public service ethos also. My own

view is that some post office closures had to take place, it was a case of use it or lose it, and people were not using those offices, so some had to close, but people felt the consultation that took place was very much a sham because decisions had already been made. Mr Cook mentioned that local consultations took into consideration if it was the last shop in the village, but I have to say not in my constituency they did not because the last shop in the village that was a post office was also closed. Do you accept that there has got to be greater account of the social impact of these offices, particularly in small rural villages?

Mr Fraser: I think it is important that the social impact is taken into account. Of course, the fact is that if we had gone to a purely commercial network that would be a network of some 3,500–4,000 post offices. Clearly in what we are doing we are ensuring that there is a network of providers of social and economic services. On the specific point about the consultation, I would like to come back to the point that the consultation process was, in fact, quite protracted. It was six weeks at the local level but that was part of a much broader level of consultation.

Q98 Geraldine Smith: But it did not make much difference at the end of the day.

Mr Fraser: In fact, after the national consultation, in a period of 11 weeks when my two colleagues' organisations on the left were talking to each other, 261 proposals were changed as a result of the representations that had been made at the national level and after the local consultations 92 proposals were withdrawn.

Q99 Geraldine Smith: Just remind me again how many offices were closed in total?

Mr Fraser: The number of proposals that were withdrawn represents about 3.7% of the total. To say that the consultation was a sham, I could not agree with that statement. There was a perfectly respectable and serious consultation process. 190,000 people responded to the consultation at the local level. There was very serious engagement and they were responded to.

Q100 Geraldine Smith: I can only take into account my own experience in my own constituency where there were four offices down for closure. Possibly two of them could have closed, but for the other two offices there were huge campaigns with huge representation, as I say one of them at Nether Kellet being the last village shop. No account was taken of these representations and all four went ahead in the closure. People in my constituency were left with the view that their views were not taken into consideration at all and I do not think anything you can say today will change that. People often think it is better not to have a consultation, better to just say you are going to do something if you are really not going to listen to the representations that are made.

Mr Fraser: I do not think it is for me to comment on specific decisions taken on individual cases because it is Post Office Limited who actually implemented the programme. I do not know whether others

would wish to comment. I do want to underline the point that there was a serious consultation and the representations that were made were listened to. Of course, it is not always possible in all cases to agree with those representations.

Q101 Geraldine Smith: We will have to agree to differ on that. I think new services are extremely important and I was very pleased to hear what Alan Cook said earlier about the desire to bring forward new services to post office counters. That has not always been the case because I remember a couple of years ago lobbying strongly for one particular government service and even the Post Office were not too keen, they backed out of applying for the contract at the time. I am pleased to hear that situation has changed because acting as a government agency is extremely important, and also the financial services aspect. There is a great deal of room for growth there. One of the things that I always remember from my days working at the post office in rural areas is that there was a post bus service and that service was extremely good because it provided rural transport for people in-between villages. It also delivered mail and sold basic post office services. I think that service has all but gone now. It worked much better when Royal Mail and Post Office Counters were connected. Services like that, that use a bit of lateral thinking and provide rural transport, mail delivery and post office services, there is room for proposals such as that.

Mr Cook: I think I have been on record at BERR or this or other select committees in the past saying that maybe the Post Office had not been sufficiently entrepreneurial. We talk about this being a social provision, which it is, but it does not stop you running it commercially, which is a slightly different point. That means we need to be more entrepreneurial, we need to look for opportunities. It means rather than wait for somebody to say, "Why isn't council tax in Biggleswade paid in post offices?", I employ someone to go and knock on the door of Biggleswade Town Hall and say, "You ought to do it through the Post Office". I can either sit back and wait for it to land in my lap or go out and get it. We very much intend to do the latter. Over the last couple of years in particular I have found it possible to be much more entrepreneurial as well within the Royal Mail Group.

Q102 Geraldine Smith: Can I ask you about a Post Office bank because, of course, there used to be one, the old Girobank. What are your views on the possible reintroduction?

Mr Cook: It is what we are doing. We are right in the middle of it now. I have also gone on record publicly that we will launch a current account next year, for example. That is probably more symbolic than it ought to be but that makes people think it really is a bank if it has got a current account. If you look at what we are selling today in terms of foreign currency, travel insurance, car insurance, home insurance, pet insurance, savings, credit cards, mortgages, we are there and are doing it now. Are we doing it uniformly across every branch? No, because

there are some quite significant FSA-based compliance challenges in being able to sell some of those complicated products over the counter in a small setting. The training overhead is huge.

Q103 Geraldine Smith: Maybe it is also about branding what you actually do and making the public aware of the new services that you do have.

Mr Cook: Correct.

Q104 Geraldine Smith: I think there is a lack of understanding. People do not realise the amount that post offices can do.

Mr Cook: How far we have got? We are relatively cash constrained at the end of the day so most of the activity takes place in the branch. The way I would characterise it is if we have managed to sell 550,000 car insurance policies, we are not at a point today where someone gets up in the morning and says, "I need to buy some car insurance, I am going to go to the post office", that does not happen yet. They do it for foreign currency now and for travel insurance. There is a point where you reach a critical mass.

Q105 Geraldine Smith: I am very pleased with what you are saying about looking for new business. Can I finally ask Ed Mayo—I do not think anyone has asked you a question—I was extremely disappointed, as a number of people were, with Postwatch. I think it was a great failure. The old Post Office Users' Council used to be much more in touch with local people, they usually had local council representatives sitting on the boards or involved. Is your new organisation going to be any better?

Mr Mayo: I think Postwatch did a good job on this consultation within very difficult circumstances.

Q106 Geraldine Smith: I think only they probably thought that.

Mr Mayo: That may be the case. If the new organisation is living up to that track record, all the better. The idea of the new organisation is to build more of a critical mass in terms of bringing the consumer voice in there. We do think that is important.

Q107 Geraldine Smith: What links do you have into local communities via local councils, parish council representatives, anything like that?

Mr Mayo: The local council side is a real opportunity. For example, we have a code of Practice agreed with Post Office Limited in relation to business-as-usual closures². You talked about that a little earlier. We helped to bring in the introduction of local authorities as part of that. The connection with local authorities as well-placed to see and promote local community interest is really important. We have got many of those connections. We support a stakeholder group, the Post Office Advisory Group, which brings together quite a wide range of organisations that are there. The idea of the new organisation is to try and bear down on the issues that matter most to consumers across the

² Note by witness: The Code of Practice covers every business-as-usual change to the PO network

network. You touched on the quality of service earlier, for example, and some of those issues are things that people are concerned about. They have gone through the pain of this closure programme, 8% of the public now having to use a different post office than they did before, but they want to see better services within those post offices as well. By and large the public do love the Post Office. They may not adore Alan yet, that may come, but they do not yet adore the quality of service that they get within the PO network. The closure programme must be seen as part of a wider transformation. The kind of work that we are doing in contact, tracking Outreach services at a local level, for example, in contact with local groups, is there to try and champion the consumer interest and we will do that as best we can. I would be very interested to hear more about the history from you at another point; my knowledge only goes back to Postwatch.

Q108 Mr Williams: First of all, can I be clear because I am not quite sure on the answers I have heard so far, are you planning another closure programme this year or not?

Mr Cook: Definitely not.

Q109 Mr Williams: Definitely not. That is very reassuring news. I think you have reached the stage where you have now a larger network, although it is smaller than it was, than the banks' network of outlets.

Mr Cook: All the banks and all the building societies put together do not add up to the size of the Post Office.

Q110 Mr Williams: Does that possibly become a marketing opportunity for you?

Mr Cook: Yes, it very much is. As a result of this programme it is a uniformly spread network. It has not been based on who wanted to stay in business and who did not, it is spread driven by the business access criteria so we have a uniformly spread network of 12,000 outlets with a brand reputation to kill for, to be frank. It is a huge commercial opportunity notwithstanding that there is a very strong social bias to the business.

Q111 Mr Williams: So what difference has the re-winning of the Post Office Card Account made to you and to your plans?

Mr Cook: Huge.

Q112 Mr Williams: Explain its significance in practical terms.

Mr Cook: There are two by-products. One, there is the "profit" that is made from running the card account itself for Post Office Limited because it is paid by DWP to move the cash around the country and dispense it, and we dispense £26 billion in cash to the penny a year. There is another by-product which is when the customer has gone into the post office to draw their benefit, that post office is very often in a shop and very often they spend part of that benefit in the shop. To go back to my point earlier that it is not one bottom line, it is 12,001 bottom

lines, making the shop of the postmaster more viable as well as the post office itself drives a significant footfall and if the customer is in there drawing their benefits we can say to them, "Do you want to draw any cash? Do you want to top-up your mobile phone?" It is much bigger than just the card account itself.

Q113 Mr Williams: So does it make a post office bank, as Geraldine has just been talking about, a more practical proposition or is it pie in the sky?

Mr Cook: Yes, it does. There are two facets. If we drive relentlessly into financial services the same way as everybody else has in the financial services sector we would be the same as everybody else, but I think we have the opportunity to be different. Part of that is around the financial inclusion agenda. We would seek to participate in a conventional way because well-off people go to post offices as well, but I think we can also participate in a much more targeted fashion, so we are currently working quite closely with the Association of Credit Unions to understand how we can collaborate more closely with them to find offers that are more appropriate. You may well have seen that we do intend, when the Government launches the Savings Gateway scheme, to be a provider in all branches of the scheme.

Q114 Mr Williams: How soon do you hope to see some benefit?

Mr Cook: We are probably not going to get much benefit out of it, to be honest, because there is not really any profit in it but there is an opportunity to be providing the type of service where you have to take a broader view and say if customers are in using the Savings Gateway they will be talking to us about something else.

Q115 Mr Williams: Hopefully it will bring people into the sub-post office, so it will have an indirect benefit.

Mr Cook: Yes. It is making the network sustainable that they are in there paying in their £20 a month, or whatever, and of course it will mature in two years' time and then we will have an opportunity to say, "We have another savings product of ours that you could put that money in". It requires us to take a more long-sighted view but I think there is an opportunity for the Post Office where, dare I say it, the average bank may well not see that as an opportunity to the same scale as we would and it is an opportunity for us to become specialists.

Q116 Mr Williams: On 23 June last year I wrote to yourself and the DVLA on the same day about biometric photo-ID management which we have already had questions on from David. You both replied on the same day and both were reasonably optimistic. The DVLA said, "We have discussed this with the Post Office. We are very much involved with the PO in this as an opportunity and we would potentially be looking at live running in about 24 months". Is that still a practical timescale? What do you hope might materialise within 24 months? You were equally optimistic about it as an opportunity.

Mr Cook: I was.

Q117 Mr Williams: How do you see it now?

Mr Cook: Obviously with projects that are dependent on large amounts of technology development you always cross your fingers, but I would anticipate that we would start to roll out a service in the spring of next year. If we were only doing driving licences the intention would be that we would do it in 750 post offices.

Q118 Mr Williams: I wrote to DVLA and in your letter you indicated that you were in similar discussions with the Identity and Passport Service.

Mr Cook: Correct.

Q119 Mr Williams: What about that side of it, or is that encompassed in what you have already said?

Mr Cook: If we go where I would like to go with the Identity and Passport Service then we will increase the number of branches materially from 750—number to be agreed. One of the helpful by-products of that is if we put that equipment into more post offices because of passports you would still be able to use it for driving licences, so we would just make it more viable. It is a pretty expensive infrastructure set-up cost.

Q120 Mr Williams: Would the cost be yours or would it be shared between you, the Passport Service and the DVLA?

Mr Cook: We will buy the kit and we will charge out to those departments a price which covers the cost of the kit, the training, the extra staff and so on. Some of these transactions, I think, will be fairly lengthy so we are assuming that we would need more staff in the branches.

Q121 Mr Williams: So you are looking at this optimistically?

Mr Cook: Yes, it is a big growth opportunity.

Q122 Mr Williams: That is encouraging. One final question: the continuing unplanned closures, how far are they knocking your plans sideways?

Mr Cook: They are not really. By “unplanned closures” we mean when somebody just decides to either hand back the keys or retire or whatever. They have returned to pre-network change levels. We have agreed a code of practice for how we respond to this.

Q123 Mr Williams: I have one in my own constituency that has closed down, although it was not scheduled to.

Mr Cook: My most common MP letter of the moment is, “My local branch has closed, what are you doing about it?” and they are surprised but reassured to discover that what we are doing about it is desperately looking for somewhere else to reopen the branch.

Q124 Mr Williams: What is your role in that? As it is a mixed local shop and sub-post office, how much role do you have to play in getting it reopened?

Mr Cook: Huge. We have a team around the entire country and literally it would be as simple and as crude as you work your way down the high street and go into every outlet that is retailing anything and see if they are interested in taking on the post office. Quite a lot will be the postmaster is retiring and he is selling the shop and the post office, so if he wants to get out quick we have a fairly significant reserve of sub-postmasters we can call on to go in and run a post office in the gap, so we would take on the post office and temporarily become the owner effectively and run it for the community until we found another purchaser. The problem ones are where the premises close.

Q125 Mr Williams: Can I ask you in a personal role, as a member of this Committee, could you look up the latest situation on the Parkway sub-post office in my constituency which has closed unexpectedly and you indicated you were trying to find someone to take it over? Can you update the Committee³ and send it to me, if necessary on a confidential basis.

Mr Cook: Yes. As I say, I do get that request quite a lot but with a network of 12,000 I cannot remember the status of all of them.

Mr Williams: I would not have expected you to for a moment. Thank you.

Q126 Mr Mitchell: I was going to ask a question of Mr Mayo because I hate to see you sitting there like the body of Sir John Moore at Corunna, although Geraldine Smith has already asked you a question. I share Geraldine’s comments on Postwatch. I see from the report that it did object both pre and post consultation but it is almost ambiguously worded because its objection was in addition to input from local authorities or in addition to other post office challenges and other consultation comments that produced a change. Do we know how many closures Postwatch objected to and in what proportion was it successful?

Mr Mayo: Postwatch’s role was to monitor each and every closure at all stages through this within the context of the framework that there were going to be 2,500 closures. That was the difficulty. It was difficult for an independent consumer organisation to play that role.

Q127 Mr Mitchell: Does that mean it had to accept if it objected to one closure another would be sacrificed?

Mr Mayo: That is exactly right, which is a kind of Hobson’s Choice. The role in terms of doing that was each and every closure we looked at, we attended meetings to track those. There were three stages talked about earlier by Simon Fraser. The first was before the public consultation and there Postwatch had a particular role in looking at some of the proposals that were coming through. There we raised objections to around 260 and—⁴

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⁴ Note by witness: Postwatch submitted feedback on each proposal, and lodged objections to 261 proposals which POL subsequently changed, and a further number of cases which POL did not withdraw at the pre-consultation phase.

Q128 Mr Mitchell: It says 261.

Mr Mayo: 261 is the number I have got in front of me and in the Report. That is a significant number, about 10% of the proposals. By and large these were proposals that had not got it right and if they had gone out to public consultation probably would have had a damaging effect on those post offices. For example, in Lincoln a closure was described as “along level terrain” to the alternative branch whereas actually it was going up Steep Hill and anybody who knows Lincoln and Steep Hill knows it is not called “level terrain” for a reason.

Q129 Mr Mitchell: I see you looked at maps, but in many cases I got the impression that the assumption with pensioners was that they could fly rather than taking account of the bus routes.

Mr Mayo: Those issues around that in terms of transport, in terms of the birds’ routes from one to the other, that was exactly the kind of detail that was important within this. In that early phase, Postwatch’s role was very effective because it helped to improve the quality of the proposals that were coming through. The later stage was after the public consultation. We are on record as having said that six weeks in our view was too short a time. There was a tremendous public outcry about this programme and you noted the numbers of responses through from the public were 190,000 to Post Office Limited and 14,000 to ourselves as well. What we were doing was looking at a summary of the responses that had been made in that consultation period and checking to see whether they were actually responding to the consultations in the right way as were described, and we did audits of the particular consultation summaries as well.

Q130 Mr Mitchell: Can we take it that the 261 pre-consultation and the 92 selected for closure were all based on objections by Postwatch?

Mr Mayo: The 261 were pre-consultation phase, yes, all objections from Postwatch. We had a role as well after in escalating complaints around this and by and large that did not lead to the abandonment of closures but it did lead to a commitment to improvements in receiving branches, for example, in terms of access for people with disabilities.

Q131 Chairman: We are coming to the end now. I am going to ask this in the light of what Mr Mayo has said about Steep Hill in Lincoln. Many people thought that the reason why the Lincoln post office was saved was because Gillian Merron, the local MP, had clout as a Minister for the East Midlands. I must put it to you, Mr Cook, so it is not said to me, “You are useless, you are just Chair of the Public Accounts Committee, you could not save your post offices”, I take it you can give us an absolute reassurance that this outcome was not just based on who shouted loudest and what their influence was or anything like that, was it, it was all entirely objective?

Mr Cook: The most common reason for a closure being overturned was fresh information about local transport links, particularly where the local authority had not responded in the pre-consultation

phase and we had made assumptions about bus services that were not there basically. That was not the only reason but that was the primary reason. I can provide you with that reassurance.

Q132 Chairman: I think Geraldine Smith made a very important point and I want to give you a chance to come back, Mr Cook. I think this was what really angered local people. They felt that whatever they said, whatever arguments they made, this was done and dusted. I am not arguing with the policies that these had to be closed and if they saved their post office then another one would just close up the road anyway, but I think that was what really angered people, they felt that whatever they said, however many petitions they had, we had the Bishop of Lincoln turning up for the Langworth post office and everybody turned out, the entire community, all the arguments were given, the business case was made out, nothing was going to change. As this is a public hearing, this is your chance to reassure people that when you come back, as I am sure you will in the future, there will be a genuine consultation and people will feel that they can make a real difference with the arguments.

Mr Cook: Where the facts were established to be other than we had assumed at the outset then there were changes. I will not repeat the numbers. One of the ironies was the more effort we put in upfront to try and get the proposals factually correct and appropriate and balanced, the less opportunity there was for making changes because we had most of the data there. Where we got it wrong we changed it. Part of the consultation process was to establish that we were operating off the right facts. In that six week period we were not consulting on whether or not to close 2,500 post offices, we were consulting on whether we had got the facts right about that post office and where we got them wrong we changed them. Much of the campaigning was not about was it correct to close this particular post office, much of the campaigning was about the principle of closing post offices at all. It is a subtle distinction. It created a lot of energy, a lot of heat and light, a lot of disturbance, and filled everyone’s lives for a long time.

Q133 Chairman: That is why I am giving you the opportunity to say that.

Mr Cook: The senior people in the Post Office work there because they are proud of working there. This is a social business. This is not a fun thing to do. It was clear, though, the business was not sustainable in any form without an ever-increasing subsidy payment. Even if the business had been subsidised, how you would keep sub-postmasters’ businesses viable in their own right was beyond me without this move.

Q134 Chairman: Thank you for that. I am going to give each of you a last chance to wrap up this hearing. Mr Mayo, you have had very few questions but you are our representative, the representative of the user here, so we want you to convince us you have got fire in your belly, that you are monitoring

what is going on, particularly with Outreach as you mentioned, and the social impacts mentioned in Appendix 2 of the C&AG's Report, what is happening in communities, and you are really going to be fighting our corner, are you? This is your chance to sum up the hearing.

Mr Mayo: Consumers will not want to have gone through the pain of this kind of closure programme only for it to happen again. The roots of this closure programme go back years in the loss of government services, the poor quality of Post Office Limited in being able to respond to some of those tenders and sometimes the poor quality of the service that people received. Your point about 'use it or lose it' fits into that category. Sustaining the network requires action now. Part of that is around the Government looking as proactively as possible at procurement through the Post Office so that the barriers to that are removed. Part of that is down to Post Office Limited in terms of improving the quality of service that is there. Alan and I have regular contact on this, it is something that we do a lot of research about. We found significant numbers of people, for example, facing very long queuing times, well over a third facing queuing times of over five minutes, around a fifth over ten minutes, in Crown Post Offices. We are both pressing the consumer's cause on that but also welcoming some of the innovations that are coming through from Post Office Limited to modernise Crown Offices, and with the pilots of Post Office Essentials. On the Outreach side, I think we have a particular role. We have a statutory duty as a postal consumer watchdog to be tracking Post Office Limited and what comes out of this closure programme and we will absolutely live up to that. The Outreach side at the scale that we have got it is

a particular area for us to be tracking and we have done an initial piece of work and shared that with MPs who have Outreaches in their constituencies and we found some welcome signs there, but also some need for action in terms of consistency and reliability. We will follow that up with future research around satisfaction on Outreaches as well as other areas, like some of the innovation side. I have also been inputting on behalf of Consumer Focus into the Business Select Committee inquiry into new ways of supporting post offices and the fact that we are a generic consumer body, not just looking at postal services, and that gives us the ability to bring forward solutions that work for consumers in relation to post offices.

Q135 Chairman: I think it is only fair to give the last answer to Mr Fraser. You are now the Permanent Secretary of one of the most powerful departments in Whitehall, headed by no less than the First Secretary of State, ten junior ministers, so can you convince us that in the Whitehall turf wars that go on about providing the business of the post office you will protect our post offices which we love so much?

Mr Fraser: We certainly will pursue that. I thought what Alan Cook said about the opportunities that the Post Office now sees was extremely interesting and important. We will promote the use of Post Office's services across Government. We will also continue to work with the Post Office and, indeed, the consumer representatives to make sure that there the Network Change programme actually does create and maintain a stable and viable network, and then make sure that we use that network to best effect.

Chairman: Thank you. That concludes our hearing.

Supplementary memorandum from Post Office Limited

Question 41 (Keith Hill): *for information on the numbers of Post Office outlets in the network and the proportion of the Network Subsidy Payment derived in each of the geographical segments (as defined by the Government Access Criteria) by the loss making outlets therein.*

The information requested is provided below.

As at March 31st 2009, the proportions of outlets within the network were as follows:

Urban Outlets	34%
Urban Deprived Outlets	11%
Rural Outlets	55%

The Network Subsidy Payment is currently set by Government at up to £150m per annum related to the total loss arising in Post Office Ltd from Agency (non Crown) outlets that do not make a profit for Post Office Ltd. As at 31 March 2009, the proportional split of outlets that do not make a profit for Post Office Ltd is as follows:

Urban Outlets	20%
Urban Deprived Outlets	6%
Rural Outlets	74%

I trust that this information is helpful in respect of the request made at the Committee of Public Accounts Hearing on 29 June.

Question 125 (Mr Williams): *on the latest situation on the Parkway sub-post office in Swansea*

At the recent Committee of Public Accounts hearing held on 29 June, you asked if I could let you know the latest position with regard to service provision at Parkway Post Office in Swansea which is in your constituency.

As you will be aware now, following a temporary closure, we arranged for the branch to be opened in March 2009 using an “interim subpostmaster” and it continues to be operated on this basis.

Post Office Ltd is currently in discussions with a potential permanent operator who is looking to run the Post Office from the same location. These discussions are now proceeding towards a formal interview but at this point I cannot confirm the precise details of when this will be completed.

As soon as we are in a position to advise further, I will ensure that the local team responsible for resolving this issue contact you directly in order to keep you fully informed. In the meantime we intend to keep operating with the interim subpostmaster—so the branch will continue to remain open for business.

9 July 2009
