

The Rt Hon Stephen Byers MP
Secretary of State for Trade and Industry



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Dear Simon

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It is probably now inevitable that the number of post office closures in this financial year will reach a record high. This note sets out the causes and what action we are taking to address the problem.

The main reason behind the recent increase in closures is the decision, announced by DSS in May 1999, to move to payment of benefits by ACT from April 2003 before we had in place a clear strategy to deal with the impact on the post office network. This has led to uncertainty, disruption and an erosion of confidence in the future of the network among both incumbent subpostmasters and prospective purchasers of sub post offices who have been influenced by a stream of negative media coverage and the National Federation of Subpostmasters' campaign last Spring focusing on threats to the future of the network.

434 post offices (92 urban and 342 rural) have closed in the nine months April to December 2000. This exceeds the full year total of 383 closures in 1999-2000. Whilst closures in urban locations are up dramatically on previous years, the rate of closures of rural post offices is lower so far than in 1999-2000. Under the previous administration, post office closures typically ran at an average of 200 a year, but there were peak years, for example in 1984-85 when 395 offices closed and 1991-92, the current record year, when 478 offices closed.

Net closures in the October-December quarter were 135, of which 20 were urban and 115 were rural offices. The rate of closures has fallen slightly this quarter from 50 per month to 48. Rural closures account for 79% of the total and are, of course, the most sensitive in social and political terms.

Following on from the PIU report and acceptance of all of its recommendations, we have placed a formal requirement on the Post Office to maintain the rural

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network and to prevent any avoidable closures of rural offices. It is still too early for this to have had a substantial impact but we shall be looking closely at the figures for the final quarter of the year.

Horizon automation is now installed in some 16,000 offices (over 90% of the network) with the programme on schedule for completion by Easter. Although the transition increases the immediate pressures on individual subpostmasters, modernisation is essential for the longer-term future. Taking forward the PIU report recommendation on Universal Banking services, we now have an outline agreement with the banks that will allow benefit recipients to collect their benefits in cash across the Post Office counter and we hope to sign a memorandum of understanding towards the end of the month. A further major recommendation of the PIU report was that postmasters should be able to act as Government General Practitioners. The pilot contract has been signed and a pre pilot trial will begin in March.

Ringfenced funding was allocated in the Spending Review 2000 for a number of other measures to provide transitional support for vulnerable parts of the network, including investment for restructuring the urban network leading to fewer but more viable and attractive post offices in areas where there is currently over provision. In addition, the Postal Services Commission has recently commissioned a research study, to be completed in the Summer, to inform their reports on the post office network and their advice on the best way to channel assistance to post offices. We are also working closely with the Post Office on ways of strengthening the management of the network and work is in hand to appoint a new Non-Executive Director to champion the interests and development of the network.

From recent research conducted by the Post Office into the reasons for subpostmasters' resignations it is clear that most close their offices because of personal circumstances and less than 10% cite financial viability as the reason. Analysis of the reasons given for resignation over the last 6 months have been:

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| Retirement/Ill health | 43% |
| Other | 19% |
| Change of career/business | 18% |
| Financial viability of the outlet | 9% |
| Horizon computerisation | 6% |



Given the age profile of subpostmasters (two thirds aged over 50 and one third over 60) the proportion of resignations attributable to retirement and ill health is not surprising.

Post Office analysis of their data also shows that the recent increase in post office closures does not in fact reflect a change in the historic level of resignations but rather a much greater hesitancy in new candidates coming forward to take over small retail businesses. This mirrors a wider trend in this retail sector and sub post offices are not currently seen as an attractive business proposition.

In order to try to encourage possible candidates to buy into the post office network the Post Office has mounted a programme of roadshows designed to restore confidence by explaining the modernisation plans as outlined in the PIU report. In addition it has been agreed with the NFSP that from 1 April 2001, the traditional requirement for an introductory payment by a new subpostmaster, amounting to 25% of the first year's remuneration, will be discontinued for all offices. Until now, only offices with remuneration of less than £14,000 a year have been exempt and therefore the change is unlikely to have a significant impact on the closure rate for small offices, but it should have a beneficial effect on larger offices and those in urban areas.

My Department will continue to work closely with the Post Office and to encourage them to maximise the real value of their extensive network and to develop new initiatives to improve and strengthen the attractiveness of sub post offices as a business investment for prospective applicants.

Yours

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Private Secretary