

**RESTRICTED – MANAGEMENT**

**To:**  
SECRETARY OF STATE

**From:**  
Brian Bender

3 October 2008

**INTRODUCTION TO THE DEPARTMENT FOR BUSINESS, ENTERPRISE  
AND REGULATORY REFORM: OVERVIEW & STRATEGIC DIRECTION**

This note provides an overview of the Department and its strategic direction. It should be read in conjunction with the accompanying Immediate Priorities brief.

**1. The Department's purpose and objectives**

The Department for Business, Enterprise and Regulatory Reform (BERR) was originally created in June 2007, bringing together functions from the former DTI and the Better Regulation Executive, with the remit to act as the voice for business in Government and help ensure business success in an increasingly competitive world. In its new configuration, it has an important role in understanding the impact of the present economic downturn on businesses, and to help ensure Government makes the right decisions so that the UK is best placed to see us through this period.

We lead across Whitehall on the Public Service Agreement (PSA) target on productivity. Our framework for assessing productivity performance recognises five main drivers: competition, enterprise, investment, innovation and skills. BERR leads policy on the first two and works with other Government departments to influence all five (an Economics and Productivity core brief is available in your pack). We also lead on 2 other PSAs: on conditions for business success (where the target is supported by a series of specific indicators on the market framework), and on Regional Economic Performance. And we are key delivery partners on two other PSAs: on skills (DIUS) and maximising employment (DWP).

BERR's strategic objectives (DSOs) for the CSR period (2008/2011) are now as follows:

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## 2. The Department's resources

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**BRIAN BENDER**

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**INTRODUCTION TO THE DEPARTMENT: IMMEDIATE PRIORITIES  
(INCLUDING KEY DECISIONS FOR THE AUTUMN)**

This 'hot topics' brief covers Departmental issues requiring immediate attention either because action is required imminently or you may need to respond to stories that are currently active. It should be read in conjunction with the Overview brief.

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## **Postal Issues**

### **Independent Review of the Postal Market**

**Flag HT8**

The Review, expected to report in October, is assessing the effect of liberalisation, exploring trends in future market developments and considering how to maintain universal service obligations. It will make several recommendations with policy implications and BERR will need to decide whether to respond directly or consult on policy options.

### **Post Office Card Account Successor (POCA)**

**Flag HT9**

A decision by DWP SoS on a successor to the POCA through which 4 million people receive pension or benefit payments is expected imminently. We expect significant ministerial discussions on handling prior to any



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announcement. The risks to BERR if Post Office Ltd. fails to win the contract are a significant chance of post office closures – against a backdrop of the ongoing closure programme of <2,500 offices by end 2008; and a possible obligation to compensate POL for a revenue shortfall. In that case ministers will need to consider whether to accept the rate and speed of potential closures.

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<b><u>PRIORITY ISSUE</u></b>	<b><u>LEAD OFFICIAL</u></b>
<b>INDEPENDENT REVIEW OF POSTAL MARKET – HT8</b>	<b>SUE BIDE – HEAD OF POSTAL POLICY, BR2 ROB FAULL – ROYAL MAIL TEAM, SHE</b>
<p><b><u>Context</u></b></p> <p>The Independent Review of the Postal Market was announced by John Hutton in December 2007. The Review Panel is led by Richard Hooper (former Deputy Chairman of OFCOM), Dame Deirdre Hutton (Chairman, Food Standards Agency) and Ian Smith (ex-CEO Taylor Woodrow).</p> <p>The Review's terms of reference are to assess the impacts of liberalisation, explore trends in future market developments and consider how to maintain the universal service obligations in the light of the trends and developments identified. It is due to report this year (likely October).</p> <p>The Panel has received evidence from all major players and has established a good dialogue with Royal Mail, the CWU, Postcomm, Postwatch, corporate customers and alternative carriers. The Panel published an initial response to evidence (not a formal report to Ministers) in May. This stated that the "status quo is untenable".</p> <p>The Review Panel is now working on solutions to the issues it has identified. It is expected to report to the SoS later in the "autumn" (likely October)</p>	
<p><b><u>Key Facts: Supporting Policy/Issue</u></b></p> <ul style="list-style-type: none"> <li>• Review is independent</li> <li>• HMG is committed to provision of universal postal service</li> <li>• digital media is having huge impact on the way people communicate resulting in lower mail volumes</li> <li>• there is consensus that change is needed to address market developments and to ensure universal service</li> <li>• Not appropriate to comment on likely recommendations</li> <li>• Look forward to receiving Review Panel's recommendations</li> </ul>	<p><b><u>Key Facts: Opposing Policy/Issue</u></b></p> <ul style="list-style-type: none"> <li>• while there is consensus for change, there are differing views on what needs to be done</li> <li>• unions may react strongly to recommendations if they disagree</li> </ul>
<p><b><u>Next Steps</u></b></p> <ul style="list-style-type: none"> <li>• Further iteration between Ministers/officials and the Review Panel/Team</li> <li>• Publication of Review's Report later in year (October)</li> <li>• HMG response to recommendations (need to decide whether to proceed straight to a policy statement or a public consultation)</li> </ul>	

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<p><b><u>PRIORITY ISSUE</u></b></p> <p><b>POST OFFICE CARD ACCOUNT (POCA) – HT9</b></p>	<p><b><u>LEAD OFFICIAL</u></b></p> <p><b>JO SHANMUGALINGAM</b></p>
<p><b><u>Context</u></b></p> <p>DWP is procuring for a successor to the Post Office Card Account (POCA), through which 4 million people currently receive their pension or benefit payments. Post Office Ltd (POL) is competing against two other bidders for the new contract.</p> <p>If POL fails to win the new contract, there is a risk of significant Post Office closures, due to the POCA customers using an alternative network to access their benefits. The National Federation of Sub-Postmasters estimates that 3,000 branches could close. This would come against the backdrop of the ongoing programme to close up to 2,500 post offices by the end of 2008.</p> <p>Additionally, there is a financial risk to BERR as POL's shareholder arising from the Department's obligation to compensate POL for any shortfall in forecast POCA revenue to the end of the current contract in March 2010. DWP may seek to migrate customers to the POCA successor account from April 2009, which could leave BERR obliged to pay POL up to £100m for lost POCA revenue in 2009/10.</p>	
<p><b><u>Key Facts</u></b></p> <ul style="list-style-type: none"> <li>• DWP has legal advice that it cannot take into account value for money for Government as a whole in awarding the contract – so the impact on POL (and therefore BERR) of losing the contract will not be assessed.</li> <li>• POL losing POCA would have three main impacts: <ul style="list-style-type: none"> <li>- POLs' P&amp;L - loss of c£75m net annual contribution;</li> <li>- Going concern status jeopardised - at worst leading to the need for a £200m capital injection;</li> <li>- Reduced viability of individual Post Offices - precise impact dependant on choices of individual consumers and sub-postmasters' responses.</li> </ul> </li> <li>• To stem the closures, BERR would need to provide additional subsidy to POL. We already provide £150m a year to support the non-commercial network, as part of an overall £1.7bn package from 2007-11.</li> <li>• There would be significant challenges in making a value for money case for such additional funding within Government, obtaining the funds and securing State Aid clearance: it is possible we may not be able to provide additional subsidy.</li> </ul>	

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**Next Steps**

- The decision will be taken by the DWP SoS. However, as this is a procurement process we understand that in effect there will be no scope to disagree with the official advice.
- DWP decision is expected in mid September. We would then expect significant ministerial discussions on handling before a potential announcement in early October;
- If POL lose, Ministers will need to consider whether they could accept the rate and speed of potential closures. We will advise on the value for money and state aid scope for any new Government intervention.

<b>Priority Issue</b> <b>Business Support Simplification Programme (BSSP) – HT10</b>	<b>Lead Official</b> <ul style="list-style-type: none"> <li>• Mark Gibson (DG)/Janice Munday (HMU/Senior Reporting Officer)</li> </ul>
<b>Context</b> <ul style="list-style-type: none"> <li>• Planned announcement - via SoS speech (scheduled for 23 Oct 08) on:             <ul style="list-style-type: none"> <li>○ BSSP compliant products going live from Oct 08 with last product being available to business in March 2009;</li> <li>○ a single brand for all publicly funded business support;</li> <li>○ delivery of PM commitment in 2006 Budget to reduce non-tax business publicly funded support schemes from @ 3000 to no more than 100 by 2010 and make Business Link (BL) main channel for business to access that support.</li> </ul> </li> <li>• BSSP is a cross-government initiative making publicly-funded business support easier for businesses to access, more effective and better value for money. It contributes to a number of BERR PSAs, including three cross government led by BERR (PSA 1, 6 &amp; 7).</li> </ul>	
<b>Key Facts: Supporting Policy/Issue</b> <ul style="list-style-type: none"> <li>• Govt spends around £2.5billion.</li> <li>• Business wants support easier to understand and access. BSSP will deliver this</li> <li>• BSSP process has allowed all proposed publicly funded business support schemes to go live to be rigorously assessed on ground of economic viability and policy aims and objectives.</li> <li>• Business responded positively to brand in market testing</li> </ul>	<b>Key Facts: Opposing Policy/Issue</b> <ul style="list-style-type: none"> <li>• Opposition parties agree provision of business support very complex</li> <li>• However, have questioned Govt's evidence base</li> <li>• Programme taken too long to deliver</li> </ul>
<b>Next Steps</b> <ul style="list-style-type: none"> <li>• Building new capabilities into Business Link for them to deliver the BSSP portfolio</li> <li>• Preparing BSSP launch material – SoS speech, publications</li> </ul>	

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**MEDIA NOTE**

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**Key contacts**

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**Key Specialist Correspondents:**

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**LIVE ISSUES AND TOP LINES**

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**ISSUE - Post Office**

The Government has a rolling programme to close 2,500 post offices by the end of the year. Public consultations in local communities have been ongoing all year and most are now complete. There has been significant, vocal, sustained opposition to the programme in every region, which has been accompanied by substantial negative press coverage.

**Line to take:**

- *As a society, we don't use the Post Office as much as we used to. The Post Office network is losing half a million pounds a day and has lost 4 million customers a week in recent years, as people switch to direct payment of pensions and benefits and more transactions are carried out online.*
- *This decline in use means that life is getting more difficult for the Post Office but Government is giving the Post Office network a great deal of financial support. It receives a subsidy of £150m a year to keep open thousands of unprofitable branches which might otherwise be threatened with closure.*
- *In fact over the next few years the Government is putting in a package of support for the Post Office network worth up to £1.7 billion. Without this large level of government support even more Post Offices would have to close.*
- *We will still have a Post Office network that has a good presence in both urban and rural areas and that is important. Even after the closures are over the Post Office network will still be three times larger than the top five supermarket chains put together and larger than all the banks put together.*

**ISSUE - Royal Mail Review**

In November, John Hutton appointed Richard Hooper to lead a comprehensive review of developments in the postal services market since its liberalisation two years ago. Note the review is due to report in the "autumn".

**Lines to take:** John Hutton said of the Review's initial findings, released in May, "*The initial findings from the Review Team paint a stark picture of the huge changes in the postal market. New technologies are transforming the way we communicate and this will only intensify in the coming decade. The findings are a wake up call to anyone who believes it can be business as usual. It can't. I have therefore asked the Review Team to urgently bring forward ideas, including changes to the system of regulation, to meet our ambition for a Royal Mail that provides a timely and efficient postal service for domestic and business consumers.*"

*It is the right time to conduct a Review. It is seven years since the Postal Services Act was passed giving Royal Mail greater commercial freedom and establishing regulation in the sector. The review is independent of Government. Ministers will receive the Panel's recommendations later in the year, having received their initial examination of the evidence.*

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DEVELOPING THE GREEN ECONOMY AND IMPLEMENTING THE  
MANUFACTURING STRATEGY:

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**THE CHANGING FACE OF THE UK POSTAL SERVICE:**

The postal service will continue to be a contentious issue, with the future of the Post Office high on the agenda, particularly with the publication of the Hooper Review.

October

**POCA.** Decision to be announced by DWP on whether Post Office will lose the post office card contract, in favour of direct debit.



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Oct/Nov                    **Hooper Review.** Publication of the Hooper Review into the future of the postal service.

End of December        **Post office closure programme ends.**

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