

POST OFFICE NETWORK – ISSUES**KEY POINTS & BACKGROUND INFO**

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KEY POINTS: 17 MAY POST OFFICE ANNOUNCEMENT

- £1.7bn investment to 2011 (subject to EC state aid approval) on top of some £2bn investment since 1999.
- Will enable the Post Office to modernise and reconfigure the network to place it on a more stable footing by 2011.
- The exact breakdown of our investment is impossible to predict until Post Office Ltd has completed detailed work to determine the shape of the network to meet the framework set by Government.
- We have had to strike a balance between the social value of a national post office network and costs to the taxpayer.
- Introduced access criteria to preserve a national network, and ensure that rural communities and customers in deprived urban areas will continue to have reasonable access to Post Office services:
 - Nationally, 99% of population will be within 3 miles of their nearest outlet and 90% will be within 1 mile;
 - Deprived urban areas: 99% to be within 1 mile;
 - Rural areas: 95% of the total rural population within 3 miles;
 - 95% of people in each postcode district within 6 miles.
- Post Office Ltd are required to take into account local geography such as lakes, islands, valleys and mountains, motorways when drawing up their area local plans.
- Post Office Ltd will also have to consider other factors including the availability of public transport, alternative access to key post office services, local demographics and the impact on local communities.
- Compensated closure of a maximum of 2,500 post offices.
- Now for Post Office Ltd to strategically plan the network change within the framework set by Government.
- Post Office is developing local area implementation plans (around 50) based on groups of parliamentary constituencies.
- Postwatch, local authorities and subpostmasters will have an input to the development of local area plans.
- Local people will have an opportunity to give their views with a 6-week period of local area consultation.
- Impact of natural attrition will be constrained by the requirement to meet the Government's access criteria.

17 MAY ANNOUNCEMENT - BACKGROUND

1. Government's public consultation on the network ran for 12 weeks from 14 December 2006 until 8 March 2007 and attracted over 2,500 responses.
2. The Department worked closely with Post Office Ltd in developing our proposals to take account of the company's investment case to us. It was necessary to set tight parameters on what we consulted on in view of the need to strike a balance between the social value of a sustainable national post office network and the costs to the taxpayer.
3. During the consultation period and before it, Ministers and officials had extensive contacts with key interested parties, including Postwatch and its Counters Advisory Group (with its wide range of customer representative bodies), Postcomm, the Commission for Rural Communities (and at specifically convened focus group meetings in rural locations) and the National Federation of Sub-Postmasters (at Executive Council and Branch meetings).
4. Copies of the consultation document were made available to Members of Parliament and sent directly to some 70 key stakeholder representative groups. The document was sent to the National Federation of Sub-Postmasters – but not to individual sub-postmasters – a decision which later attracted some limited criticism which was robustly defended.
5. Responses were often critical of the need for closures – but there was general acceptance of the need for action and key strands of our proposed strategy.
6. Ministers initially intended to issue a response to consultation before the end of March (within 3 weeks of the closing date for public responses). However it soon became clear that the volume of responses would preclude a HMG response before Purdah for local elections.
7. Some detailed changes to the application of the access criteria were announced, in light of comments in the 2,500 consultation responses:
 - the minimum access criteria will now apply to all 2,800 postcode districts (38 postcode districts exempt under initial proposals);
 - criteria protecting deprived urban areas will apply to the 15% most deprived urban areas rather than 10%;
 - Post Office Ltd will now be required to give consideration to specific socio-economic and environmental factors when drawing up Local Area Plans. These are the availability of public transport and alternative access to key services, local demographics and the impact on local economies.
 - Application of the access criteria will be monitored by Postwatch and, subsequently, the National Consumer Council;

KEY FACTS: NEED FOR CHANGE

- Post Office lost £2m a week in 2005, rising to £4m a week in 2006.
- On average fewer than 16 people a week use the 800 smallest rural post offices at a cost of £17 per visit to the taxpayer.
- 1,600 branches served fewer than 20 customers a day - losing £8 for every transaction.
- In urban areas there are more than 1,000 branches with at least 6 other branches within a mile.
- Stamps may be synonymous with the Post Office but today they can be bought in 50,000 other retail outlets.
- Some 4 million fewer people are using the post office each week than two years ago.
- 5.3 million DVLA customers have renewed their car tax either online or by phone.
- There are currently 14,200 post offices – 8 times the number of Tesco stores.
- Widespread recognition that the current size of the network unsustainable, including by the National Federation of SubPostmasters.
- Without continuing public support, a purely commercial post office network would have fewer than 4,000 branches.

Key Quote:

Colin Baker – (then the) General Secretary of the National Federation of SubPostmasters, 17 May 2007:

"[Government's] announcement must be seen as an opportunity to take the first vital steps towards building a post office network that has a future, one that is viable and sustainable. It is time to look forward, not back."

Background

POL loses money in all parts of the network as a result of the huge costs associated with maintaining such a large network e.g. fixed payments to all sub-postmasters, cash distribution costs, IT and HQ support. The Crown Offices alone are forecast to lose some £70m in 2006/07 – Crown Offices, mainly based in the High Street have large rents and employees costs that are around 50% higher than those in comparable retail positions. The network change programme aims to tackle both under use (in small rural branches) and over provision (in urban areas).

As well as 2,500 compensated closures, Government will support the introduction of some 500 innovative 'Outreach' locations operated in partnership with other local services such as in pubs, village halls, churches or in mobile post offices. Pilots throughout the UK are ongoing and centre on a 'Core and Outreach' approach. Some 20 Core offices are providing services to a total of over 60 Outreach locations. The 'Core and Outreach' principle gives more local autonomy to larger, more successful agents and reduces the burden of centrally-driven services on the network.

Stand-alone bricks and mortar branches with a full-time sub-postmaster are expensive. Outreach services do not in themselves solve the economic problems of the network but offer a more cost effective means of maintaining widespread service provision.

Status of Closure Programme

Timetable:

- First Local Area Plan to local implementation team 2 July.
- First Local Area Plan to local consultation early-mid September.
- First closures announced early-mid November.
- First actual closures January 2008.
- Programme complete by Dec 2008.

Background:

The programme entails a maximum of 2,500 compensated closures which will be done through around 50 Local Area Plans on a rolling basis over the next 18 months. POL has 9 teams working at any one time. Timetable of Area Plans (i.e. when each area will be subject to network change) will be made public in early July with a letter to every MP (including DAs) and every local authority.

Phase 1 of the closure programme started on Monday 2 July. The first Local Area Plan produced by POL's central Network Planning Team is now handed over to the local implementation team and will be the subject of verification and discussion with Postwatch and the relevant local authority. At this stage no aspect of the proposals are in the public domain.

Following a 2 week verification of the Plan, POL's local team then start the process of engaging with sub-postmasters likely to be affected by their proposals. This 6-week process is confidential but there is the possibility that disgruntled sub-postmasters could make public that their branch is to close. The Plan then goes back to the central team to be turned into a local consultation plan to be made public. Local MPs are given 1 week advance notice of public consultation. The first public consultation will start in early-mid September 2007 and will run for 6 weeks. Following this, POL has a 3-week period of reflection on responses to consultation and will then announce closures; the first of these announcements is expected to be made by mid-November. There is then a minimum 4-week notice period before any closure takes place. In the first instance, with first closures due mid-December, POL will extend the notice period to account for Christmas so no closures will happen before January 2008. Closures will then continue regularly through 2008 with the programme due to be complete by the end of the year.

LOCAL CONSULTATION PROCESS

- We believe in a national network accessible to all. The Government's strategy delivers that within a framework of a necessary closure programme of no more than 2,500 compensated exits over an 18-month period from summer '07.
- At this point – no proposals have been made for individual post offices. Post Office Ltd is working with Postwatch to develop local area implementation plans within the framework set by Government which will then be subject to local consultations.
- Post Office Ltd will shortly issue a timetable to show when they expect to be in a position to produce and consult on proposals for changes in each area. No areas will be subject to more than one round of closures.
- Post Office Ltd's local decisions will not be a purely commercial judgment but will need to reflect the Government's aim of supporting a national network.
- Following the outcome of local consultation on Post Office Ltd's proposals – closures will be compulsory – and not based on subpostmasters personal preferences.
- Members of Parliament will receive one-week advance notice of local area proposals covering their constituencies once they have been drawn up.

FUNDING OF THE POST OFFICE NETWORK

Key Points

- Government has provided funding of some £2 billion from 1999 to 2005.
- Government has decided, subject to EC state aid clearance, to provide additional funding of up to £1.7 billion to 2011 to support the necessary changes to the network to put it on a more stable footing and to provide continuing support for the social network.
- Continued annual subsidy of up to £150 million until at least 2011 and expectation of a continued subsidy beyond this.
- Without this investment, up to 10,000 offices could close. Funding package will reduce losses and increase the network's competitiveness while ensuring that the social needs of rural and disadvantaged communities continue to be met.
- Government considers that the overriding priority is to maintain a national network with national coverage as set out in the access criteria. From April 2008, the Social Network Payment will therefore also be available to support non-commercial offices in urban as well as in rural areas.

Background

Despite considerable investment by the UK Government since 1999 in the post office network, it remains heavily loss making. In 2005/06, POL made losses of £111m and are expected to post losses for 2006/07 of around £175m. New, more cost effective ways of delivering Government services, such as the move to direct payment of benefits, from the outdated and costly order book system, and the massive uptake in direct debit, e-mail and internet sales have had a dramatic effect on POL's finances and the anticipated uplift from the introduction of new, mainly financial, products has so far failed to bridge the gap. Indeed, it is increasingly evident that new products alone will never be able to fully replace the contribution lost from customers moving to cheaper and more convenient ways of doing business.

Alongside this there has been a significant move away from using the post office to access traditional services such as television licences, bill payment and motor vehicle licensing as these services move online or to other providers. Customers, partially as a result of Government policy but more so as people adapt to new technologies, have found new ways of accessing these services. More and more customers are choosing to go online or pick up the telephone to order things that in the past would have needed them to visit a post office to access.

As a result of the above factors, the proportion of POL's revenue accounted for by Government business has fallen dramatically from some 46% in 1998/99 to 36% in 2005/06. It is expected to decrease further to 25% in 2008/09 and to be less than 10% in 2010/11 (in the event that POL was an

unsuccessful bidder for the successor to the Post Office card account ("POCA")).

Government support to date

Since 1999, Government has made an investment in the Post Office network of some £2 billion to help it adapt to the changing needs of customers and to the marketplace in which it operates. This included:

- £500 million investment in the Horizon project to bring modern computer systems into every post office in the country for the first time - enabling Post Office Ltd to launch a range of new products and to open its counters to potentially over 20 million bank customers.
- Annual subsidy of £150 million since 2003 to support the rural network.
- £210m to compensate exiting sub-postmasters during the urban reinvention programme.
- £25 million to enable Post Office Ltd to pilot innovative new ways of delivering services in rural communities by testing the concept of 'Outreach' post offices.
- £726m to cover historic debts.

Current Investment

Government has now agreed to invest up to £1.7 billion to 2011 in response to the company's request for funding. This covers the period from 2006 therefore, the £1.7bn figure includes previously announced support as well as funding for the change programme and the continuation of the annual subsidy to maintain loss-making branches:

- Annual Network Subsidy to 2011 £750m (of which £300m for 06/07 and 07/08, only for rural branches, previously announced and state aid approved).
- Funding of debt: £145m in 2005/06 (paid in 2006/07)
 £231m in 2006/07
 Both of these payments were state aid cleared in 2003 alongside the working capital loan facility and the rural subsidy.
- Additionally, the EC cleared an extension of debt funding of £313m for 2007/08. This included around £100m for compensation to sub-postmasters.
- The final element of funding is a further £152m for 2008/09 to complete the change programme.

The total funding requiring EC state aid clearance is around £600m.

FUNDING MECHANISMS / STATE AID

Key Points

- The Funding package announced on 17 May is subject to EC state aid clearance.
- Formal notification of our case is with the Commission following informal discussion. We do not expect an easy ride from the Commission.
- The mechanism to fund the annual Network Support Payment (previously known as the Social Network Payment) has been approved by Parliament.
- The mechanism to fund network change (including debt payment) is still to be taken through Parliament. Funding will be made via Section 8 of the Industrial Development Act and a SI and resolution is being considered by the JCSI (Joint Committee on Statutory Instruments) on 4 July.
- The POL Funding Agreement contractually obliges HMG to make £313m payment to POL by 31 July. Parliamentary approval must, therefore, be received before summer recess.

Background

Both streams of funding need Parliamentary and EC state aid clearance. We have already secured parliamentary approval for the ongoing annual subsidy payment and are in the process of seeking approval for payments to be made available for network change through section 8 of the Industrial Development Act. A resolution of the House of Commons only is required but we have also sought to use this opportunity to increase the IDA aggregate assistance available as the post office funding requires more than is currently available.

We have been in informal discussions with the European Commission in an attempt to ensure the smoothest possible passage for our state aid case. The Commission has been paying particular attention to POL's accounting methodologies – to ensure that there is no potential over-compensation – and we expect them to be rigorous in their scrutiny of our case. Postal issues are quite sensitive in Europe currently. However, we have a good working relationship with the case handlers and will continue to provide them all they need in support of our case.

CROWN POST OFFICES – KEY POINTS

- 458 of 14,200 post office outlets in the UK are Crown Post Offices, making annual losses of £70m.
- Some 20% of Post Office Ltd's business is done through Crown post offices but they are trading low value products in high cost locations and clearly losses of this scale are unsustainable.
- To reduce the losses, Post Office Ltd announced on 19 April 2007 it will be franchising 70 offices in a deal with WH Smith.
- For 15 Crown offices the future is undecided. The Post Office is expected to pursue local franchise deals and announce decisions within the next year for these 15 offices.
- There will be a 6 week consultation on service provision for each franchised office. [*Consultation does not include the principle of franchising Crown branches – this remains an operational issue for Post Office Ltd*].
- The decision to transfer the operation of a Crown branch to a franchisee is a commercial decision for Post Office Ltd.
- Post Office Ltd will retain a network of 373 Crown offices. There are no strategic plans for further franchising or closures of Crown offices once the future of the 15 is decided.

BACKGROUND

1. Government supports Post Office Ltd's policy for reducing the unsustainable losses of the Crown post office network. That policy includes maintaining a core network of Crown post offices whilst continuing to drive efficiencies and franchising of branches where suitable opportunities arise. Almost 14,000 offices are already run by private business – either individuals or franchise chains – including some 900 or so of the 1,400 large, town-centre 'main' post offices. The network has always relied on private business for the majority of its outlets.
2. The Post Office is pursuing link-ups with well established, respected retailers that share their commitment to excellent customer service. Staff at converted branches are trained by Post Office Ltd in exactly the same way as directly managed staff. Franchisees are bound by stringent contractual requirements to ensure that service standards remain at the same high level after transferring from direct management of Post Office Ltd.
3. The Post Office announced on 19 April 2007 that it would be franchising 70 Crown post offices in a deal with WH Smith. The deal follows trials of 6 pilot WH Smith franchises in 2006. Results of POL's customer surveys

from the six pilot franchises are overwhelmingly positive. The majority of customers welcome the pleasant environment, excellent levels of customer service, convenient locations and extended opening hours.

4. The CWU oppose conversions of directly managed Crown post offices to franchises as they see it as reducing staff benefits and pay and as 'privatisation'. The CWU campaigns strongly against each conversion – equating franchising to 'closure'. They have called for customers to boycott WH Smith stores in protest to the deal with POL.
5. Post Office Ltd intends to avoid compulsory redundancies and staff affected will have the choice of another role within Royal Mail or a voluntary redundancy package. They will also be able to apply for roles with the franchisee.
6. We understand that the CWU have reservations about the application of TUPE in relation to the Post Office staff currently employed at the branches that are part of the WH Smith deal. TUPE applies automatically as a matter of law unless individual employees choose to be redeployed within the Royal Mail or decide to accept an offer of voluntary redundancy. It is likely that many people will take one of these options and impossible to say how many will seek employment with WH Smith. It will be for the CWU to decide if it is in the best interest of its members to pursue those concerns [which they might choose to do through the legal system], and an operational issue for the Post Office to consider how to respond and resolve the issue.
7. The deal between Post Office Ltd and WH Smith is a purely operational and commercial issue for the parties that does not impact on the Government's recent consultation on the network. Government's consultation document made clear that Post Office Ltd would work with staff and Unions to explore a range of options such as franchising to bring the network of directly managed Crown post offices back to profit.

ROLE OF LOCAL AUTHORITIES

KEY POINTS

- The Government's response to the national consultation recognised that it is the people "on the ground" who best understand the value of a post office to its local community and that local government is well placed to understand local concerns and needs.
- The Consultation response set out Govt's intention to investigate what role both local authorities in England and Wales and the Devolved Administrations might play in influencing how postal services are best delivered in the future.
- A paper exploring initial options was circulated to MISC33 Committee members for comment on 26 June.
- Local Authorities are also being approached by POL for information on future development plans to enable POL and Postwatch to draw up accurate Local Area Plans detailing post office closures prior to local consultations.
- Local Authorities will also be invited by POL to submit views about the local area plans during the local consultation.
- Some local authorities are likely to make offers of funding to POL to retain post offices targeted for closure. It is highly unlikely that such offers will be commercially acceptable to POL and, even if they were, POL would be seeking to close alternative post offices to ensure that the necessary restructuring takes place. However, rejection of such offers will be presentationally difficult.

Background

Possible future role post-2011

1. The May announcement on the future of the Post Office network included the continuation of the current annual subsidy of £150m per year through to 2010/11. During this period, it will continue as a direct payment from central Government to Post Office Ltd to cover the costs associated with operating the national network. The Government proposals also included a commitment to investigate what role both local authorities in England and the Devolved Administrations might play in influencing how the post office services are best delivered after March 2011.

2. Initial discussions with DCLG and the Local Government Association (LGA) have resulted in a number of options with varying degrees of devolution to local authorities and the regions both in terms of the administration and

flexibility of funding streams. All options involve a trade-off between greater local engagement and the policy objective to maintain genuine national coverage.

3. One emerging option worth exploring further is to maintain a centrally funded national network meeting broad access requirements while devolving some funding to local authorities and the devolved administrations who would have flexibility around how it was spent on improving local services. This could be by continued expenditure on post offices to top up the coverage provided by the national network, increased use of outreach service delivery or utilising non-post office solutions such as improving public transport links to better access existing services.

4. The attached paper (Annex A) was sent to MISC33 Cabinet Committee members on 26 June seeking responses by 10 July. It sets out the potential options and the work needed to develop these ideas. As noted in the paper this is likely to be complex area and involve a number of issues including the impact on Post Office Ltd's day to day management of the network, the appetite of individual local authorities to accept devolved responsibility, the mechanics of changing the funding arrangements, the possible need for legislation and the extent to which any future expenditure in Scotland, Wales and N Ireland is devolved or reserved.

Possible offers of local authority funding to mitigate closure programme

5. It seems likely that POL will receive some offers of funding from local authorities to "save" post offices that would otherwise close as part of network transformation. It is highly unlikely that POL will want to accept any such offers. They will want to close the full 2,500 branches allowed under the transformation programme in order to maximise the commerciality of the remaining network. It is also unlikely that the scale and duration of local authority offers would be sufficient to reverse POL's commercial judgment about a particular branch. The offer would have to include a commitment to long term funding (at least 2011), cover the wider impact on network costs such as cash distribution, and IT (Horizon) maintenance etc., ensure that there was no adverse impact on other post offices and obtain state aid clearance as it would still be a state subsidy. Even if the offer were acceptable to POL they would want to shift the closure to another branch rather than abate the total number of closures. However, refusing offers of financial help to "save" post offices will be presentationally difficult.

6. Advice was recently submitted to previous DTI Ministers (copy of submission at Annex B). Ministers took the view that Government should make no formal announcement on such offers and that POL should indicate to the Local Government Authority what would be required to make such offers commercially acceptable in the hope that the obstacles faced would minimise such offers.

[END]

ANNEX A

CABINET

**MINISTERIAL COMMITTEE ON THE FUTURE OF THE POST OFFICE
NETWORK**

**A FUTURE ROLE FOR LOCAL AUTHORITIES AND THE DEVOLVED
ADMINISTRATIONS IN MANAGING THE POST OFFICE NETWORK**

Memorandum by the Secretary of State for Trade and Industry

Summary

The Government's proposals for the Post Office network include the continuation of the social network payment at up to its current level until 2010/11. During this period, it will continue as a direct payment from central Government to Post Office Ltd to cover the costs associated with operating a large, national network. This paper examines the options for the ongoing administration of the subsidy beyond 2011 and, in particular, what role local authorities in England and the Devolved Administrations might play, which are ideally placed to identify the needs of local communities.

There are a number of options post-2011, with varying degrees of devolution to local authorities both in terms of the administration and flexibility of funding streams. All options involve a trade-off between greater local engagement and the policy objective to maintain genuine national coverage.

The involvement of local authorities in the forthcoming restructuring programme will provide an opportunity to explore ways in which councils can work with Post Office Ltd to help mitigate potential gaps in service and the potential role that local authorities could play in future funding decisions.

The Committee are invited to consider and comment on the options.

Background

1. The Government has set out proposals to safeguard the future of a national Post Office network. A £1.7bn funding package will modernise and restructure the network over the next few years, with 2,500 compensated closures, the introduction of outreach services and the transformation of the Crown network. The funding package includes the continuation of the Social Network Payment at up to its current level of £150m per year until 2010/11. During this period, the Social Network Payment will continue to be administered by central Government as a payment to Post Office Ltd to cover the costs associated with operating a national network beyond that which could be commercially provided.

2. This package of support will help Post Office Ltd increase the size of its commercially viable network and stabilise the losses generated by the remaining offices. Inevitably, some non-commercial offices that play valuable social roles will remain; these will need continued public funding. The Government's proposals recognise this need for an ongoing subsidy beyond 2011.

3. The consultation document also recognises that it is the people "on the ground" who best understand the value of a Post Office to its local community and that local government is also well placed to understand local concerns and needs. It set out Government's intention to investigate what role both local authorities in England and the Devolved Administrations might play in influencing how postal services are best delivered in the future.

4. This paper sets out potential options for greater devolution of Post Office policy after 2011 and the work that would be needed to develop these ideas. It follows discussions between officials at DTI and Communities and Local Government and an initial exploratory meeting with the Local Government Association.

The Current Role of Local Authorities

5. There are around 500 different local authorities across the UK made up of single tier authorities (unitary, metropolitan and London boroughs) and, in parts of England, two-tier authorities (County Councils and District Councils). Funding is provided through a combination of central Government grants (c.75%) and local Council Tax (c.25%). Below this tier of government there are also town or parish councils.

6. Although the Social Network Payment is currently administered by central Government, local authorities are playing an increasingly valuable role in shaping Post Office policy. Councils are well placed to identify the needs of local communities and can work with local people and businesses to meet these needs. They also control a number of capital assets and public services into which Post Office services can be integrated. There are several examples where local authority intervention has helped to maintain access to Post Office services. For example, Kent County Council have facilitated the transfer of an under threat office into the local supermarket and Reading Council have opened a sub-post office at the civic offices with the staff employed by the Council.

7. Under the Government's proposals, Post Office Ltd's local area plans for restructuring the network will be broadly based on groupings of constituencies and will be subject to a public consultation following initial input from sub-postmasters, Postwatch and local authorities. This partnership approach will allow Post Office Ltd to explore further ways that councils can help mitigate potential gaps in service or explore alternative means of service delivery.

Options after 2011

8. In the longer-term, there may be value in a more formal arrangement. There are a variety of options for greater devolution along a spectrum from the continuation of a centrally administered national network through to the complete devolution of funding around a general output framework. The table below illustrates four options along this spectrum:

Centrally funded national network	A continuation of the status quo, with an ongoing subsidy provided by central government to Post Office Ltd to cover the expenses associated with a larger than commercial network. Operational decisions about the structure of the network would rest with POL within the constraints of the access criteria set out by central Government and the mails regulator.
Centrally funded national network with greater consultative input from local authorities	The subsidy would continue to be administered by central Government. However, operational decisions – although ultimately for POL – would be taken after discussions with the relevant local authority best placed to assess the local impact of closures. In essence, this would be a development of the partnership approach that will be a feature of POL's local implementation planning during the forthcoming restructuring programme.
Devolution of Post Office funding to local authorities	The ongoing subsidy would be devolved to local authorities, which would then negotiate the structure of their local network with Post Office Ltd. Although funding would be ring-fenced for expenditure on Post Office services, Local Authorities would be able to direct the long-term balance between 'bricks and mortar' offices and outreach solutions.
Complete devolution of funding to local authorities	Under this model, the ongoing subsidy would also be devolved to Local Authorities. However, rather than ring-fencing the funding for use exclusively on Post Offices, it would be accompanied by a broad output framework based upon the provision of, and access to, a defined set of services. In the long-term, the local authorities would be free to decide whether or not to continue delivering these services through "bricks and mortar" Post Offices or explore alternative solutions.

9. The Government's general ambition is to provide greater flexibility for local funding decisions around agreed output frameworks. The 'New Burdens Doctrine' also states that the Government Department with lead responsibility for the policy giving rise to the new burden (in this case currently the DTI) is responsible for securing the resources needed to fund the net cost to local

authorities. This means that before final decisions are taken on this policy, the lead Department must ensure that the necessary funds are available.

10. It is not yet clear whether local government itself has a preferred option on funding. For example, wholesale devolution of funding might equally imply a wholesale transfer of risk. Initial soundings with the LGA suggest that local government might be averse to such a transfer unless there were greater clarity about the sustainability of funding and the sharing of risk between central and local government. On the other hand the approach most consistent with the recently published Local Government White Paper would be to devolve the funding without any restrictions imposed upon its use. Devolving the ongoing subsidy to local authorities in this manner would be consistent with an approach predicated on the assumption that local government is best placed to understand local concerns and needs. They would be able to weigh expenditure on Post Offices against that on other key services, such as local transport, ensuring better value for money. It is likely that this approach would also result in a more regular appraisal of the level of coverage that is needed to meet local needs.

11. Government's preferred vehicles for transferring funding to local government are clear. Revenue Support Grants is the favoured option followed by the single pot for Local Area Agreements (LAAs) and finally - and only exceptionally - ring-fenced money for LAAs. In this case, it may be necessary to consider a ring-fence in the short term to allow funding to bed in.

12. There are, however, difficulties associated with greater devolution. There is an obvious tension between maintaining a national network with consistent coverage and the greater application of local choice. Although a commercial core would remain (managed and funded by POL), central Government would risk losing control of the strategic vision for the network. With devolution of funding based upon an outputs framework, there is a danger that different policies from different authorities would jeopardise strategic planning for a 'national' network with contrasting levels of coverage emerging in different areas. Ring-fencing the money would guarantee an overall level of national network but would reduce the impact of tensioning continued expenditure on Post Offices against other key local services. It may also be a less attractive offer for Local Authorities.

13. A possible solution would be to explore a two-tier approach. A centrally funded national network would remain, meeting broad access requirements. Beyond this, funding could be devolved to Local Authorities who would have flexibility around how it was spent on improving local services although we would need to explore the legal and technical position further. This could be continued expenditure on "bricks and mortar" Post Offices "topping-up" the coverage that would be provided nationally, the greater use of outreach or utilising non-Post Office solutions, such as improving public transport.

Next Steps

14. This is a complex policy issue. If the Committee want to explore the options for greater devolution, further discussions will need to take place at official level around the practicalities, obstacles and benefits of the various options. Key issues will be: the impact upon Post Office Ltd day to day management of the network, the attractiveness of scenarios to Local Authorities, the mechanics of any change to funding arrangements (how to incorporate into funding formulas and/or Local Area Agreements and Local Strategic Partnerships), the possible need for legislation and the extent to which postal policy and social policy should be regarded as reserved or devolved matters in respect of implementing any changes in Scotland, Wales and Northern Ireland.

15. A key input into these discussions will be the lessons learnt from Local Authority involvement in POL's local implementation planning. This will provide an 18 month opportunity to assess how Local Authorities can effectively engage in Post Office policy and analyse how it may be improved when the current funding arrangement ends in 2011. To allow sufficient time for implementation in the appropriate funding round, an agreed way forward is needed by 2009.

[END]

ANNEX B

To:

Jim Fitzpatrick
Secretary of State

From:

Nigel Smith
ShERMPS
Bay 663

GRO
1 Vic St

cc PS/Brian Bender
Martin Bryant
Stephen Lovegrove
Liz Baker
Matthew Hilton
Aileen Boughen
Martin Sheehan
POL Network Team
Pete Barnao
SPADs

20 June 2007

POST OFFICES – HANDLING OF LOCAL AUTHORITIES DURING LOCAL CONSULTATIONS

There are indications that Post Office Ltd (POL) will receive some offers of funding from local authorities (LAs) to “save” post offices that would otherwise close as part of network transformation. It is highly unlikely that POL will want to accept any such offers. They will want to close the full 2,500 branches allowed under the transformation programme in order to maximise the commerciality of the remaining network. It is unlikely that the scale and duration of LA offers would be sufficient to reverse POL’s commercial judgment about a particular branch and, even if it was, POL would want to shift the closure to another branch rather than abate the total number of closures. However, refusing offers of financial help to “save” post offices will be presentationally difficult particularly in the light of the Government’s stated intention to explore the future role LAs might play in decisions influencing the shape of the network and delivery of services beyond 2011.

We recommend that

- Government does not seek to intervene in POL’s operational and commercial judgments about such offers;
- that DTI officials meet Local Government Association (LGA) and DCLG officials to find out more about the extent and nature of any such local authority interest;
- that we facilitate early contact between POL and LGA enabling POL to explain why providing extra funding to retain a larger network would limit POL’s ability to reduce their costs and improve competitiveness and also to give an early public indication of the ways in which they would welcome help and support from LAs;
- that we deploy the lines attached in responding to media/Parliamentary criticism that might arise.

On timing, we are due to meet with the SoS on 26 June to discuss the **MISC33 local authority paper** so that may be an opportune moment to discuss this if he wishes. Any meeting with the LGA or correspondence with them should happen **by the first week of July**.

Background

1. Following the SoS announcement on the future of the post office network on 17 May POL will shortly be rolling out the first of the c.50 area plan consultations showing which offices are likely to close. As part of this process they will be writing to LAs in advance of consultation seeking relevant information on regeneration and development plans. They will also follow this up with detailed discussions shortly before the draft Area Plans are circulated for the formal 6 week consultation.

Role of the local authorities

2. We anticipate that LAs will be keen to engage with POL during the local consultations and be seen to be doing all they can to protect post offices in their areas. Although POL can expect some pressure from LAs to change existing policy (e.g. extend length of consultation, change area plan boundaries etc.) we envisage 5 potential roles for LA involvement:

- **filling gaps in service** – either by funding offices that would otherwise close or offering to host services in Council premises. However, LAs would almost certainly view this as a way of reducing the overall number of closures;
- **influencing local area plans** – by persuading POL to change their plans at the margins to make more consistent with local redevelopment plans or population movement;
- **improving accessibility** – by investing in local infrastructure and transport links to make transformed network more accessible;
- **improving long term sustainability** – by providing more services through post offices;
- **ad hoc intervention** – to prevent unplanned closures by, for example, hosting offices in Council premises or supporting outreach solutions.

The Problem

3. It is important that local authorities are aware of the roles that most assist network transformation so they can focus their resources on those areas.

4. The main issue is around the first of the roles above and whether it is desirable to receive offers of funding to retain post offices that would otherwise close under transformation.

5. POL have indicated that, during the network transformation, they might receive offers of additional subsidy from LAs to retain post offices that would otherwise close. We are already aware of one Council which has applied for a £150k per year grant over 3 years to subsidise rural services including post

office. However, unless such offers are commercially viable, POL would have to reject it. For it to be commercially viable LAs would need to:

- include a commitment to long term funding (at least 2011),
- cover the wider impact on network costs (cash distribution, Horizon maintenance etc.)
- ensure that there was no adverse impact on other post offices and,
- obtain state aid clearance as it would still be a state subsidy.

6. This would make it very difficult to put together a commercially viable offer. But, if they were to do so, LAs would be likely to see this as reducing the overall number of closures. POL would want to resist this as closures are required to put the network onto a stable footing for the future enabling them to invest in new products and compete for contracts. It could also result in local imbalances if some “better off” authorities were able to fund offices compared to neighbouring authorities with less financial flexibility. There is also a tension in urban areas where a bid to retain an urban office that would otherwise close would not make commercial sense as the sustainability of nearby offices might be reliant on the transfer of custom.

7. However, for POL to refuse such offers of funding is presentationally very difficult and could be construed as part of Government’s aim to precipitate a decline in post offices at any costs.

Options

8. If we accept the fact that any such offer would have to be commercially viable then we have two options:

- we publicly state that POL will be responsive to commercially viable offers for funding or hosting an office while making it clear what this would entail (e.g. state aid clearance, funding ongoing losses and the wider impact on the network over x years). In addition, if we were unable to argue that such investment would not reduce the number of overall closures – and presentationally this would be very difficult – POL would have to accurately forecast the marginal cost of keeping open the additional office so that it had no impact on the long term sustainability of the network. POL would have to buy-in to this approach and initial impressions suggest that would be difficult. They might even view it as HMG trying to retreat on the closure numbers and thus the investment plan.
- alternatively, we could promote the remaining roles in discussion with the LGA and LAs and rule out consideration of any offers of financial assistance from the outset by stressing again that the long term sustainability of the network is reliant on the network transformation and closure programme that has been announced and that these are deep-rooted problems which cannot be resolved by simply putting in additional money to protect loss making or under-used offices in the short term.

Argument

9. There is a strong likelihood that no offers will meet the commercially acceptable criteria outlined above and, even if they did, there are additional problems. Extra funding from LAs could be deemed double funding by the EU and be in breach of the state aid clearances we are seeking. Also, the retention of some offices could *never* be commercially viable because the sustainability of nearby offices would be reliant on the transfer of its custom (e.g. in urban areas). The presentational difficulty of rejecting such offers coupled with the problems associated with any acceptances suggests we should limit the number of such offers received by making it clear from the outset that such offers are unhelpful in the context of network transformation. If we do not, we risk having to refuse offers and defend our policy of network transformation in the face of potentially loud criticism.

10. In terms of relaying the message Government will want to be as removed as possible from what are essentially commercial decisions for POL. While DTI officials could meet with LGA and DCLG to assess the extent and nature of any local authority interest in supporting transformation we feel that POL are best placed to meet with the LGA to explain how LAs can help and why direct offers of funding are unwelcome.

Conclusion

11. We conclude that the best way to deal with this is for POL to decline any offers of funding to retain post offices that need to close as part of restructuring. In order to minimise criticism officials will discuss with LGA the extent of such offers and POL will meet with them to explain why they are unhelpful to the transformation programme and then adopt this position in their detailed discussions with local authorities. It should be noted that the LGA covers Councils in England and Wales only so, as part of their engagement UK-wide, POL will also need to deliver the same message in similar terms to the equivalent of the LAs in Scotland and N Ireland. We suggest that the attached lines are used in the event that questions are put to DTI.

NIGEL SMITH

LINES TO TAKE

Why is POL turning down local authority support that would save a post office?

Government has already agreed to invest £1.7bn of public money to support POL's investment plan and enable them to make the changes necessary to put the network on a sustainable footing for the future.

It has been widely recognised that the network needs to change if it is to become competitive and survive. Reducing the size of the network is an important part of that process and spending more public money on retaining little used or loss making offices will not help deliver the sustainable network we want.

What can local authorities do to help?

Local authorities can help in a number of ways such as ensuring that POL's area plans take account of local redevelopment plans, improving transport links to post offices that will make up the new network, delivering more local services through the post office and helping to mitigate unplanned closures by offering to deliver the services through Council offices.

How is your refusal of funding consistent with encouraging greater local authority involvement?

The immediate task is to get the network onto a sustainable footing. In addition, Government is working with the relevant organisations and administrations with a view to deciding, in the longer term, the extent that funding and decision making on the provision of local services can be devolved to local level.

HMG & OTHER SERVICES AT POST OFFICES

- The Post Office is one of a number of ways to deliver Government services and still has an important role to play.
- Government cannot ignore that people increasingly want to access services in different ways - using direct debits, ATMs, and the phone and Internet.
- Post Office Ltd should be given every opportunity to pursue Government business, but not at the expense of customer choice or EU law.
- Government Departments must live within their financial constraints and it is only right that they ensure value for money in their delivery of services.
- We want the network to stand on its own two feet and become the providers of choice – not of obligation.
- Any mail operator or online business seeking to use the post office network can approach Post Office Ltd if they choose and if no commercial agreement can be reached the interested party can take it up with the Regulator, Postcomm, to consider.
- Availability of bank accounts at Post Offices are commercial decisions for the individual banks and Post Office Ltd. It would not be appropriate for Government to intervene.

DVLA – Car tax?

DVLA is not forcing customers away from post offices and continues to promote the Post Office as an option to renew car tax discs.

BBC?

The BBC cited huge savings as the key factor in its decision to award the TV Licence contract to PayPoint. No reference was made to lack of guarantees on the future size of the post office network.

Credit Unions?

There have been some discussions between the Post Office and the Credit Union body at a national level on whether there could be greater scope to work together and there will continue to be regular dialogue between the two.

Longer opening hours?

Subpostmasters are free to open for longer than their contracted hours – however, if they choose to stay open beyond their contracted hours they will be remunerated based upon the value and volume of the products and services they sell rather than through increased or additional fixed payments.

Sub-postmaster contract restrictions?

Subpostmasters are free to develop their associated retail businesses and to enter into contracts with anyone they choose as long as the products provided are not in direct competition with key Post Office products.

Opening up the network to other mail providers?

Any mail operators and online businesses serious about using the post office network should approach Post Office Ltd. If a commercial agreement cannot be reached they can take it up with the Regulator, Postcomm, to consider.

PayPoint?

There is nothing to stop sub-postmasters having a PayPoint terminal as long it is not used for key services offered by the Post Office. BBC licensing work has never been covered by the restrictions

'One-stop-shop'?

Previous pilot work in 2002 around 'one-stop-shops' for Government services (Your Guide) concluded that a publicly funded national scheme would not represent value for money.

Lottery tickets?

There are no restrictions on sub-postmasters asking to have a lottery terminal in their store. But decisions on placing terminals rest with the lottery operator Camelot who determine the geographical spread of their outlets.

Current accounts / LINK?

Access to bank accounts at post offices are commercial decisions for the individual banks and Post Office Ltd.

BACKGROUND

1. It is often suggested that Government does not take a 'joined-up' approach to delivering services through the network with Departments increasingly looking to offer choice in how services are provided and find more cost-effective ways of working. In particular the decision to make Direct Payment of pensions and benefits into bank accounts has been criticised, as has recent decisions by the BBC to award its TV licence contract to PayPoint and the decision by DVLA to increasingly market its on-line car tax renewal service.
2. Post Office Ltd has worked hard to develop its financial services offering to replace the 40% of network income lost as a result of DWP's move to Direct Payment in 2003. The Government has supported Post Office Ltd's efforts to move away from declining markets and in 1999 with £500 million for the Horizon project to bring computer systems into every post office throughout the UK. The majority of new products result from a joint venture with Bank of Ireland announced in December 2003 which has seen some notable successes:
 - Post Office Ltd is the largest provider of foreign currency in the UK,
 - the third largest provider of travel insurance,
 - also the UK's 5th largest fixed-line telephone service provider and,

- opened 175,000 Instant Saver Accounts in the product's first year.
3. The Post Office continues to develop more new services, in particular it will:
 - roll out of up to 4,000 free-to-use ATMs across the network.
 - develop new market and business opportunities for the network among Internet companies and other mail operators.
 - introduce 4,000 automated 'PayStation' terminals helping Sub-postmasters provide a range of services outside of traditional post office hours, including mobile phone top-ups and meter key recharging.
 4. There are frequent calls for the Post Office to work with mail providers other than Royal Mail. The Government agrees with competition and is clear that other mail providers are free to approach Post Office Ltd. If a commercial agreement cannot be reached they can take it up with the Regulator, Postcomm, to consider. Realistically, however, we think it unlikely that any commercial deals between Post Office Ltd and other mail providers would create significant volumes of new business and revenues for sub-postmasters because it is likely to be a substitute for Royal Mail business.

POST OFFICE CARD ACCOUNT

KEY POINTS

- The Post Office Card Account (POCa) is used by some 4m benefit and pension recipients to access benefit and pension money over the Post Office Counter. In addition a further 24 accounts can be accessed over the counter including basic bank accounts and some current accounts.
- DWP announced the start of the tendering process for a successor to the POCa on 17 May 2007 and expect to be able to announce the successful bidder in early 2008.
- The intention is to award a single contract covering card provision, over the counter and ATM payment and a help service. The Post Office is in a strong position to bid.
- 8.5m out of a total 10.8m pensioners have their pensions paid into a bank account. 2.2 million are paid into a POCA and 150,000 paid by cheque.
- 90% of customers making new State Pension claims choose Direct Payment into a bank account. 8% choose a POCa and 2% receive cheque payments.
- Payment of benefits into a bank account was first introduced by the previous administration in the early 1980s.

Background

1. There are currently c.4m POCa users who are able to withdraw benefit in cash over the Post Office counter. Post Office Ltd's (POL) current contract with DWP runs to March 2010 and currently costs DWP c.£180m pa of which c.£120m directly supports the PO network. Similar contracts exist with the Northern Ireland Social Security Agency, the MoD for payment of war pensions and HM Revenue and Customs for payment of tax credits. Total revenue to POL from all the paying Depts is currently c.£200m.

2. The functions of a POCa are limited – it attracts no interest, it cannot be used at ATMs - its sole function is to allow pensioners and benefit recipients to withdraw their money in cash at post offices over the counter. However, POCa are valued by many users – particularly the elderly and vulnerable – who find the post office the most convenient method of accessing their money.

3. DWP are keen to reduce their costs during the current contract period by migrating POCa users to other cheaper methods of benefit payment e.g. basic bank accounts. It costs DWP roughly 1p per transaction into a bank account compared to 80p per transaction into a POCa. DWP intend to write to existing POCa users in early 2008 inviting them to switch to bank accounts as their preferred method of payment while making it clear that the POCa is still

available for those that wish to use it. Broad agreement has been reached on the form of the letters that DWP will send although we have reserved the right to review the precise wording nearer the time of issue. Government, and particularly DWP, have been criticised in the past for trying to “force” people off POca onto bank accounts and when DWP begin issuing their “migration” letters we can expect further criticism. This can however be mitigated if the DWP letters are “non-coercive” i.e. they make it clear that the choice of a POca remains for those that want it.

4. The rate of decline of POca numbers has a direct impact on POL’s business. Their business plan assumes some decline e.g. migration tactics, natural attrition, from the current 4m down to 3m by 2010. However, the Heads of Terms that underpin the investment case and agreed with POL, include arrangements whereby if migration is greater than that estimated in the business plan and revenue to POL is subsequently less then DTI is required to make up the difference. DTI has no financial cover for this financial risk. In the event that migration is less than estimated and revenue to POL is greater then DTI will receive the difference from POL.

5. There is also a good deal of public disquiet about the ending of POca and what might replace it when the existing contract expires in 2010. DWP have begun a tender process for the replacement product. It will include a number of new features including ATM access. POL are currently preparing their bid and should be in a strong position to compete. DWP’s intention is to announce the successful bidder in early 2008. The transfer of existing POca users to the new product will take place shortly before the end of the current contract in March 2010.

National Federation of Subpostmasters (NFSP) and Subpostmasters

As a trade union/trade association representing around 12,000 subpostmasters, negotiating their remuneration and contractual terms and conditions with Post Office Ltd (POL) on behalf of all subpostmasters, the NFSP has a clear agenda to protect subpostmasters' collective £billions investment in their businesses.

In recent years, the NFSP General Secretary and key NFSP officials have maintained close and regular contact with Ministers over issues ranging from the Post Office card account to the future of the network. In general they have been supportive of change and reduction in the size of the network but have been concerned about the limited potential to date for new business in financial products and services to replace the much reduced income subpostmasters are now receiving from traditional (government) business.

After 16 years as General Secretary, Colin Baker retired in May at the end of the annual conference and was succeeded (following an election) by George Thomson, former Edinburgh subpostmaster (and knows the previous SoS).

Alistair Darling attended and spoke at the last NFSP annual conference in May. He agreed to follow up a number of points raised in a Q&A session following his short speech. The submission and text of his letter are attached.

An additional point raised by George Thomson with the previous SoS was to re-establish the link (broken in 1969) between National Savings and Investments (NS&I) and the Post Office. He has suggested that this could be a means of reducing the Network Subsidy Payment (NSP) for the non-commercial network. At the previous SoS's request, Alan Cook, Managing Director of POL (and previously Chief Executive of NS&I) is working up a paper. This is due shortly. In considering the possibility of 'reuniting' NS&I and POL, there would need to be examination of the scope (and practicalities) for changing NS&I's Executive Agency status and of ways of bringing NS&I's profits within the business (currently the profit/benefit of their operations goes to the NLF). NS&I does not currently identify a 'profit' as such in a conventional sense, but suggestions are that were it to do so (eg if it operated on a Trading Account basis), annual profits would be greater than the annual level of NSP committed support the social network to 2011.

The NFSP and subpostmasters generally are supportive of the forthcoming closure programme and its compulsory nature. The likelihood is that more than 2,500 subpostmasters would be willing to retire on a compulsory basis as the age profile of subpostmasters collectively is high. But the strategic nature of the programme means that many of them will **not** be selected for compulsory closure. Compensation terms negotiated between Post Office Ltd and NFSP are based on 28 months remuneration for the post office part of the business as in the Urban Reinvention programme in 2002-5.

ShE RMPS
July 2007

To:
Secretary of State

From:
Mike Whitehead
Sh E RMPS
662 V/S

GRO

20 June 2007

ci
Jim Fitzpatrick
Brian Bender
Stephen Lovegrove
Liz Baker
Donald McNeill
Nigel Smith
Robert Shane
Iain Banfield
Will Gibson
Aileen Boughen
Martin Sheehan
Spads

FOLLOW UP TO NFSP CONFERENCE Q&A SESSION

In the Q&A session following your speech to the NFSP annual conference, you agreed to follow up five of the points raised and respond through the General Secretary. The points were:

- **contractual constraints which limit spms' options to grow their businesses (e.g. offering competing banking and financial service products).**
- **exemption from business rates for post office premises which become vacant as a result of compulsory closure.**
- **scope for post offices to accept and process payments of fines.**
- **balanced promotion by DVLA of payment of motor vehicle tax at post offices as well as online and by telephone.**
- **scope for providing Government funding to support investment to improve sub post offices.**

A suggested letter to George Thomson (recently elected NFSP General Secretary) is attached. It has nothing very positive to offer and has been drafted on the basis that it will be published in the NFSP's monthly journal.

Background

Contract constraints on range of products and services that subpostmasters can offer

Post Office Ltd (POL) maintains that contractual restrictions on the products and services subpostmasters can offer are essential to the survival of the network and that these cover only the key products and services that generate income for the network. Without them, POL would be unable to negotiate new contracts/business on behalf of all branches. If potential suppliers were able to cherry pick branches in which to sell their products, a number of subpostmasters would benefit from such arrangements but the

majority, particularly smaller branches, would be excluded from such opportunities.

Traditionally the NFSP has recognised and accepted the rationale for POL's approach. There have been periodic joint reviews of the restricted products and services contract terms, the most recent being 2 years ago when some modest relaxations were agreed.

Currently POL's contracts enable all branches to offer simple over the counter banking services for holders of around 25 basic bank accounts and for customers with current accounts at certain High Street banks.

Other financial products and services (foreign exchange, credit cards, insurance and savings products) though badged with the 'Post Office' brand are provided by financial and banking sector partners such as Bank of Ireland. To open up the network to range of competing products would undermine the scope for such network-wide service offerings.

Though not encouraged by POL, sub post offices can have Paypoint terminals on the associated retail side of the business but must not use them for services which compete with those offered at the post office counter (e.g. bill payment).

Exemption from business rates for post office premises which become vacant as a result of compulsory closure

Current business rate relief provisions for vacant commercial property (shops and offices) are that for the first 3 months of vacancy the premises are exempt from (business) rates and after 3 months rates are payable at a rebated 50% of the charge.

In the last Budget, changes to the rate relief provisions in England (and potentially Wales) were announced (following the Barker and Lyon reviews) to incentivise the bringing back into use of vacant commercial premises. From April 2008, vacant commercial premises will remain exempt from rates for the first 3 months, thereafter the full rates will be payable (current 50% rebate to be abolished). The only exemption will be for properties occupation of which is prohibited (i.e. condemned or subject to compulsory purchase order). There are no plans to change the existing rebate relief in Scotland and Northern Ireland. Although current draft legislation applies to England and Wales, there is scope for the Welsh Assembly to decide against introducing the change in Wales.

Vacant commercial properties with a Rateable Value (RV) below a certain level (e.g. less than £2,200 in England; £1,700 in Scotland; £1,500 in Wales) are currently totally exempt from business rates and the Government does not propose changes to this provision under the revised arrangements from April 2008. RV is determined by location of the premises and DCLG has advised that because of the wide disparities there is no 'rule of thumb' basis for equating RV with floor area. But all indications are that commercial properties

below the exempt RV level are small as rural rate relief for the only shop/post office in a community of up to 3,000 inhabitants applies up to RV of £11,500 in Scotland, £7,000 in England and £6,000 in Wales.

After April 2008, former post office premises which are vacant as a result of compulsory (or non-compulsory) closure will, after the first 3 months in England (and possibly Wales) be liable for business rates in full as will all other vacant commercial premises but in Scotland and Northern Ireland the current 50% rebate will continue to apply.

Scope for post offices to accept and process payments of fines

Initial legal advice is that a change in legislation would be necessary to enable payment of County Court fines at post offices and that either a change in legislation or making of an order would be necessary to enable payment of Magistrates Courts fines at post offices.

For fines payable to local authorities under local byelaws (e.g. parking fines), there does not appear to be a legal obstacle to arrangements for such fines to be paid at a post office. Local authorities have the power to contract out the discharge of their functions including, it appears, the collection of fines. However it would be each individual local authority to decide whether or not to contract out this function to POL.

We anticipate that as part of POL's engagement with local authorities in the context of developing their area plans for reshaping the network the question of whether there are new or additional local authority that could be provided through post offices.

Balanced promotion by DVLA of payment of motor vehicle tax at post offices as well as online and by telephone

All postal reminders for motor vehicle tax renewal include a reference on the form to the option of renewal at a post office. Currently postal reminders also include a leaflet explaining the online and telephone renewal options and emphasising the flexibility and convenience.

There is currently no media advertising of Electronic Vehicle Licensing but consideration is being given to a further media campaign in late summer/early autumn. DVLA do not include reference to the continuing post office option in such campaigns as they believe that the message needs to be kept simple to have the necessary impact and avoid confusing its audience.

Scope for providing funding to improve post offices.

Under the Urban Reinvention programme, up to £30m was made available, on a match funded basis (£26m drawn down), to improve sub post offices to which customers migrated following a programme closure in the area.

No provision for funding improvements for rural post offices is included in the recently agreed network funding package of up to £1.7bn. In your initial response, you warned against underestimating the difficulties but proposed that Government, POL and NFSP should jointly consider whether, if a robust business case could be made, some funding could be made available. POL has indicated that it will make very limited funding available for improvements to sub post offices but this will be tightly targeted on branches where there are major capacity or disabled access problems which need to be addressed.

Mike Whitehead

DRAFT LETTER TO GEORGE THOMSON AT NFSP

George Thomson
General Secretary
National Federation of Subpostmasters



I was very pleased to have the opportunity to address the Federation's Annual Conference in Hinckley last month and I undertook to follow up and respond to you on a number of points that were raised during the Question and Answer session.

A concern was raised about the constraints on subpostmasters under their contracts with Post Office Ltd which limit options for introducing products and services to increase business and strengthen viability.

I recognise the tension between subpostmasters' preferences for entrepreneurial freedom and Post Office Ltd's (POL) view that the contractual restrictions on the products and services subpostmasters can offer cover only the key products and services that generate income for the network and are essential if POL is to be able to negotiate contracts on behalf of all branches in the network. I understand that the Federation has traditionally recognised and accepted the rationale for POL's policy in this area and that the most recent review of the contract terms relating to restricted products and services two years ago resulted in some relaxations to these terms. But given the pace of change in so many areas and market sectors, it would, I am sure, be desirable to keep these issues under regular review to ensure that any contractual restrictions remain relevant to prevailing economic and market conditions.

As regards banking services and financial products, POL's current contracts enable all branches to offer simple over the counter banking services for many basic bank account holders and for customers with current accounts at certain High Street banks. Other financial products and services such as foreign exchange, credit cards, insurance and savings products, though badged with the 'Post Office' brand, are provided by POL's financial and banking sector partners. To open up the network to range of competing products would undermine the scope for such network-wide service offerings.

Another concern was whether, against the background of Budget changes in the business rate relief arrangements for vacant commercial premises, former sub post office premises which remained vacant following compulsory closure would be eligible for any business rate relief.

The short answer is that the position will vary between different parts of the country. From April 2008, vacant commercial premises in England will remain exempt from rates for the first 3 months, thereafter the full rates will be

payable (current 50% rebate to be abolished). There are no plans to change the existing 50% rebate relief arrangements in Scotland and Northern Ireland. Pending consideration by the new Welsh Assembly, it is not yet clear whether the changes planned for England will also be introduced in Wales.

I also undertook to clarify whether changes in legislation would be required to enable post offices to accept and process payments of fines.

I understand that either a change in legislation or some other legislative process would be necessary to enable payment of County Court and Magistrates Courts fines at post offices. For fines payable to local authorities under local byelaws (for example parking fines), there does not appear to be a legal obstacle to arrangements for such fines to be paid at a post office but it be for each individual local authority to decide whether or not it wished to contract out this function to post offices.

I was also asked if there could be a more balanced promotion by DVLA of the payment of motor vehicle tax at post offices as well as online and by telephone.

DVLA stresses that all postal reminders for motor vehicle tax renewal include a reference on the form to the continuing option of renewal at a post office. Currently postal reminders also include a leaflet explaining the online and telephone renewal options. DVLA is considering a further media campaign to advertise the electronic vehicle licensing option later in the year

Finally I was asked about the scope for providing funding to improve sub post offices particularly in rural areas where uncertainties about the future of the network have been adversely affecting levels of investment.

POL has indicated that it will make limited funding available for improvements to sub post offices. But this will necessarily be targeted on offices where there are major capacity or disabled access problems which need to be addressed as the reshaping of the network progresses. I hope also that as this programme proceeds it will create a climate in which subpostmasters have the confidence to undertake additional investment in their businesses.

I recognise that my responses will not be as positive as you and your members would wish. We have to recognise that there are no easy answers to many of the problems the network faces or to the concerns shared by many subpostmasters. But this does not mean we should not continue to explore potential new ways of addressing them and it is important that the Federation, Post Office Ltd and Government continue to maintain a close dialogue in doing so.

Alistair Darling

TRADE AND INDUSTRY COMMITTEE AND POST OFFICE NETWORK

The Trade and Industry Committee published its report 'Stamp of Approval? Restructuring of the Post Office Network' on 6 March 2007 to inform the Government's national consultation on future strategy for the network. The report drew on oral evidence from Alistair Darling and contained 31 conclusions/recommendations.

The Government's response to TIC was submitted on 17 May 2007 in parallel with the Government's response to the public consultation and Alistair Darling's statement to the House of Commons.

On 9 June, TIC published comments on the Government response to its report. These comments expressed general satisfaction with most aspects of the Government response but the Committee sought more substantive answers on some areas, in particular the length of the local consultation process, the timing of merging Postwatch into the new National consumer Council, help to sub-postmasters to develop their businesses, the process for dealing with uncompensated closures and the lack of greater functionality for the successor to the Post Office card account.

A formal response is due by 8 August. A submission and draft will be submitted in due course.

Select Committee on Trade and Industry Eighth Report

1. On 6 March 2007, we published a short Report commenting on the Government's proposals for reducing and reshaping the post office network so that post offices would be better able to meet the challenges of falling levels of use and declining incomes from their traditional business. We recognised that the current situation of increasing financial losses and haphazard closures of branches was undermining the entire network, and we reluctantly accepted that a thorough review of the network with a limited number of planned closures was sensible, provided that the social as well as the commercial aspects of post offices were fully taken into account.

2. On 17 May, the Government responded to our Report at the same time as the Secretary of State for Trade and Industry made a Statement to the House of Commons on the result of the public consultation on its proposals. The Government's response is appended to this Report. We are satisfied with some key aspects of the Government's reply but were dissatisfied with others. So we decided to make this brief Report commenting on it.

3. We emphasise that overall we accept the justification for the proposed major, systematic overhaul of the post office network. For the sake of the remaining sub offices, and given both the changing nature of the market in which they operate and the substantial volumes of government business that have been lost to the network, we simply wish that this necessary action had been undertaken earlier.

4. We also welcome the Government's willingness to widen the issues that need to be taken into account when the futures of individual post offices are considered. The Government has—rightly, in our opinion—decided that fairly simple distance-based access criteria are by themselves insufficient and has agreed that Post Office Ltd will have to demonstrate that it has taken into account not only geographical obstacles to access but also factors such as the availability of public transport, alternative access to key post office services, local demographics and the impact on local economies.

5. We are pleased that the Government has responded to our recommendation and other representations about the need to take into account those urban areas which, though deprived, fall just outside the definition of the 10% most deprived and therefore failed to qualify for the extra protection which the Government proposed. The Government has decided to extend this protection to the 15% most deprived areas.

6. However, a number of our recommendations have not been fully addressed by the Government or have been rejected. We are particularly concerned about three issues: the public consultation process, and the associated question of the future of Postwatch, the consumer body for postal services; how sub postmasters will be helped to adapt their businesses to improve their commercial competitiveness; and how the Post Office will ensure the

continuance of adequate geographical coverage when—as they surely will—sub-post offices close in future.

7. The experience of the Post Office's Urban Reinvention programme led us to suggest that six weeks was insufficient for public consultation on local area plans for the post office network. We suggested a standard twelve week period, as set out in the Cabinet Office guidelines for public consultations. The Government has made welcome efforts to ensure the greater involvement of Postwatch and the local authorities in drawing up the local area plans this time. Nevertheless, the Government has resisted the extension of the period of formal public consultation. Their justification is that six weeks is enough when the earlier discussions with local authorities and Postwatch are taken into account, and that any extension would increase the period of uncertainty for sub postmasters and customers. We welcome provisions to ensure that Post Office Ltd consults Postwatch and the relevant local authorities before issuing local area plans for public consultation.

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

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

10. We seek a commercially viable network, not one permanently dependent on subsidy. We also note that the Network Subsidy Scheme will not be increased but will now be shared between the urban and rural network. Our major concerns, which centre on the need to improve the business prospects

of the remaining sub postmasters by encouraging and enabling them to provide more varied and higher value services, have thus become more urgent. The Government's response sidesteps this issue by placing responsibility on Post Office Ltd, the very body that has consistently failed to show sufficient imagination or entrepreneurial flair in developing services so far, or properly to understand the realities of managing a network of often very small businesses. When coupled with the restrictions on individual postmasters that prevent them from innovating, it is difficult to see how the profitability of the network can be significantly improved in future. Under its new management, Post Office Ltd seems to be awakening from its lethargy, but we think that the Government, as sole shareholder and representative of the taxpayer, has a responsibility to ensure that Royal Mail Group as a whole gives proper attention to increasing the competitiveness of the network rather than just managing its decline.

11. In this context, the future of the Post Office Card Account is vital. We note that the Department for Work and Pensions has already put a notice in the Official Journal of the European Union seeking tenders for a 'POCA Mark 2'. It is clearly too late to influence the specifications for POCA Mark 2, but we are disappointed that the Government thinks it both undesirable and too difficult to extend the functions of this account to simple matters like making cash deposits. Without such changes, all too often even the correction of mistakes by cashiers is impossible. We accept that this would increase its similarity to basic bank accounts, and we believe that many people who are suspicious of banks might be attracted to the dependable Post Office brand instead if the functions were similar—thus undermining the laudable hard work the Government has done in inducing banks to offer basic accounts in the first place. However, we are still of the view that it is absurd that holders of POCA accounts cannot deposit cash into their accounts; and we do not understand why Financial Services Authority rules should "require a greater degree of scrutiny and ID checking" of customers in this case.

12. Frustratingly, it is still totally unclear what will happen when uncompensated closures occur, now or in the future, that leave geographic gaps in the leaner but still comprehensive network that the restructuring programme is intended to produce. In its response, the Government baldly asserts: "Unplanned closures will be counterbalanced by replacements if the access criteria would be no longer met. Access criteria will replace the 'no avoidable closure' policy and ensure that a national network of post offices is maintained", without explaining how this will be effected. It is of no use simply to hope that replacement sub postmasters will spontaneously appear in all cases. Both Post Office Ltd and the Government must soon announce how they will cajole or induce providers to fill such gaps, and what will happen if such inducements fail. For example, would they be prepared to open a new Crown Office if an area were left with inadequate provision which failed the Government's access criteria? Unless they give proper consideration to the maintenance of the network after restructuring, it is sadly likely that the issue of closures will return to the agenda—sooner rather than later.

13. We do not wish to appear negative about the efforts to restructure the post office network. Overall, in the face of the loss of so much business, the programme is necessary. We welcome the fact that the Government has learned lessons from previous problems. However, we think the issues we have outlined above are too important to be ignored. We expect the Government to give us more substantive answers on these matters than it has done so far.

POSTWATCH / NATIONAL CONSUMER COUNCIL – KEY POINTS

- Agreed that Postwatch [and its successor body – the National Consumer Council] will be given responsibility to monitor Post Office Ltd's compliance with coverage levels.
- In recognition of the importance to consumers of the issue of post office accessibility, the new National Consumer Council will have a specific function to investigate any matter relating to the number and location of public post offices, under Clause 16 of the Bill. This replicates the provisions in the Postal Services Act 2000 that apply to Postwatch
- We envisage that the new arrangements will be in place within a year of the Bill receiving Royal Assent. Postwatch are fully engaged in early planning for implementation of the new arrangements.
- Great care is being taken to ensure that the consumer interest continues to be effectively represented during the transition period.
- Additional staff and other resources are being allocated to Postwatch to assist them with the programme, and these resources will be carried forward into the new arrangements for the duration of that work.
- The budget will be ring-fenced for this specific purpose to ensure that the local consultation process will not be adversely impacted by the merger.

POSTWATCH/ NATIONAL CONSUMER COUNCIL – BACKGROUND

1. Postwatch (and then the NCC) will monitor implementation of the closure programme to ensure Post Office Ltd continues to comply with the access criteria.
2. The Government is seeking to introduce the Consumers, Estate Agents and Redress Bill which will see the alignment of existing consumer representative bodies. Concerns have been raised at the timing of the Bill which could result in the disbanding of Postwatch during the network closure programme and the subsequent subsuming of Postwatch's role within the new National Consumer Council (NCC). In recognition of the importance of post office issues, the NCC will have a specific function to investigate any matter relating to the number and location of public post offices, under Clause 16 of the Bill. This replicates the provisions in the Postal Services Act 2000 that apply to Postwatch
3. Post Office Ltd and Postwatch have agreed a process to review any contentious cases – though it will remain the responsibility of Post Office Ltd to make final decisions. A similar process was adopted in the latter stages of the urban reinvention programme and worked well.

COMMERCIALY CONFIDENTIAL - Government Contracts with POL

Contract	Client	2006/7 Income (£m)	Expiry Date
Post Office Card Account (POCa)	DWP, NI SSA, HMRC and MoD	220.1 ¹	Mar-10
Motor vehicle licensing and driving licence application checking service	DVLA	40.4	Mar-07 ²
Payment by cash cheque	Alliance and Leicester	25.1	12 months notice
Passport Check and Send service	Identity and Passport Service	16.7	Dec-07
Provision of benefits to asylum seekers	National Asylum Seeker Service ³	1.7	Dec-11
Rod/Game licenses	Environment Agency/DEFRA	1.5	Mar-08

¹ POCA income excludes interest

² Discussions between DVLA and POL to extend the contract until March 2012 are at an advanced stage.

³ POL is a sub-contractor to Sodexo, who were awarded the main contract with the National Asylum Seeker Service.

EHI C Check and Send service and appl i cat i on for mdi stri but i on	DH	0.5	Sep-07
Al ternati ve di stri but i on cont i ngency	DWP	0.3	Mar-08