

Ref.

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ci: PS/SoS

From: Simon Lancaster

PS/Mr Johnson

GRO

GRO

Sir Michael Scholar
Alastair MacDonald
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MR JOHNSON'S PRELIMINARY MEETING WITH THE PERFORMANCE AND INNOVATION UNIT RE THE POST OFFICE NETWORK

As you know, Mr Johnson met with the PIU Post Office team this morning for a two-way briefing session on the future of the Post Office network. Greg Wilkinson, Jitinder Kholi, Susan McLaren and Charles Tallack attended from PIU.

2. Greg Wilkinson explained the context for the review. The Performance and Innovation Unit had been set up following up Sir Richard Wilson's review of the machinery of central government. This had looked at the need for a "Prime Minister's Department". There seemed to be a clear need for a separate unit which could look at issues which over-rode a number of different government departments. This would take the issue beyond departmental briefs. He referred to the previous issues PIU have looked at (E Commerce etc), and said that PIU's talent seemed to be in tackling old issues but with new staff, new ideas, new ways of working - and with the benefit of a direct line to the Prime Minister. The Post Office seemed an ideal contender for a PIU study in view of the Government's somewhat confused position as part Regulator/part Client/part Owner.

3. Mr Johnson asked about Ministerial involvement, and whether the Unit would be working independently of Lord Falconer, Ian McCartney and Geoff Norris. Mr Wilkinson explained that strictly speaking they will not be reporting to any of the above - they will be reporting directly to the Prime Minister (with Charles Clarke as sponsoring Minister). They are however being circumspect in their work and will therefore be liaising closely with Geoff Norris.

4. Mr Johnson referred to the recent HORIZON Working Group meeting, saying that the HORIZON Working Group will be making a submission to the PIU and that individual members will also want to make separate representations. Mr Wilkinson said that he was keen to talk to people outside of "Whitehall Village" - they have already spent a lot of time with David Sibbick and also seen Jerry Cope and

Stuart Steetman. Mr Johnson suggested that they see the rural charities (plus Help the Aged etc), the Unions (CMA, CWU, POCL and NFSP), major customers (the BBC), POUNC, those that have been interviewed by Select Committees over the years, Martin O'Neill and Ian McCartney. They will also want to see Mr Byers, Mr Darling, Mr Smith and Mo Mowlam.

5. Mr Wilkinson said that the Steering Group will be chaired by Charles Clarke and will comprise officials and some outsiders. The first meeting will be on November 4th and meetings will then be held monthly. The intention is also to get all interested Ministers together some time in December to see how working is progressing.

6. Mr Johnson outlined his views on the network. He said the problems are not easy, they have to be grappled with, and he welcome, PIU's involvement. The key with POCL is that it is

- socially necessary; but
- commercially unviable.

7. In terms of viability, the real difficulty is in cross-subsidisation of the network. In rural areas, subpostmasters can be paid up to eight times as much per transaction more than their urban counterparts. The DTI is on record as saying that there is a prospect of 50% reduction in the next five years. Mr Johnson said the difficulty is the difference between migration to ACT by customer choice and actually forcing that switch. Mr Johnson went through some statistics that he recalled from his CWU days:-

- 40% of new pensioners of 33% of those claiming child benefit are asking for ACT
- Pensions growth is at the rate of 15% a year
- The current split is 95% in cash and only 5% ACT
- Government business accounts for 70% of POCL transactions
- Benefits Agency is 34% of POCL transactions.

8. In terms of the social value, Mr Johnson stressed that this could not be disputed. When the previous Government issued their White Paper, 16,000 responses were received - a quite unprecedented figure but one which demonstrated the value the public placed on the network. Only 60 of these responses were in favour of the Governments proposals. As if to demonstrate the social importance, Mr Johnson said that in rural post offices, if a pensioner does not come in for a couple of weeks, the sub-postmaster will go round and knock on their door to see they are ok.

9. Mr Johnson went on to run through the assurances that we have given so far:-

- to allow the continuation of payment of cash
- that we are committed to maintenance of the network
- we are committed to retaining the existing access criteria

These are important political messages that we have to stick to. The twist however is that we have not yet ascertained exactly how these assurances can be met. It seems particularly difficult to see beyond 2003.

10. The Post Office is looking at losing £400m a year and yet the most that HORIZON can recoup is £100m. Mr Johnson detailed a number of points that should be looked at when considering the future of the network:-

- We should push to secure a deal with the major High Street banks. This is however dependent on the success of HORIZON.
- Public subsidy is needed for the Post Office network.
- The network should be reduced (although no Government is ever going to announce sub-office closures)
- That the Benefits Agency migration policy is altered. This is however also dependent on the success of HORIZON
- That POCL is marketed more effectively.

11. Mr Johnson said that it became apparent to him as he spent longer away from the Post Office that marketing was not as effective as it should be. The Post Office has got better in recent years with moves into things like the lottery and bureaux de changes but that there is still plenty of scope for more work.

12. Mr Johnson spoke of the current difficulties between PO and Benefits Agency and the position that the HORIZON Group were taking, that we wanted someone senior from BA to attend the next HORIZON Working Group meeting.

13. Mr Johnson talked about the way that the Post Office can help with “national emergencies” - that in 1974 they had helped with petrol tokens and, more recently, had helped with the passports saga.

14. Mr Johnson then mentioned reciprocal exclusivity and said he had not yet received any advice on this from officials. Grateful if you could please let the Minister have a short note, David.

15. Mr Kholi mentioned the difficulty of forcing a conversion to ACT. A point which does not yet seem to have been addressed by anyone is the point of whether or not supermarkets or whoever will actually be prepared to give you exactly £17.62 (or

whatever). If someone is simply demanding the precise amount, how can it be given to them. Presumably, it would have to be rounded up or rounded down and not everyone will necessarily be satisfied with this. Mr Johnson added that the average customer gets charged £10 per month by their bank. Susan McLaren said that no matter what the Government did there would always be some customers who banks are not prepared to deal with. What of them? Mr Johnson said that there will always be a need to pay some claimants in cash. We can not go down the route of compulsion, we must give people choices. We should encourage migration but not force it.

16. Mr Wilkinson asked whether there were any political parameter on closures. Mr Johnson said it was difficult to gauge. There have already been 3,000 closures over the last 20 years and there have not been any marches on Parliament yet. We need however to retain our access criteria. No government will say that they will close offices. The recent Elizabeth Bain case was mentioned and Ms McLaren said that, if it is ruled that sub-postmasters are employees, then the PO will be liable for redundancies rather than just stopping contracts. Mr Johnson said they would also of course be subject to the Working Time Regulations and they would need to have four weeks holiday.

17. Mr Kholi said that he was looking at the network as an interface between government and the public and vice versa. He felt that the whole relationship between the two (and including local authorities) should be analysed and considered in the context of the future of the network. Perhaps giving people access to their libraries via the internet was an option? Or allowing them to obtain repeat prescriptions etc? Mr Johnson said that he knew that Frank Dobson was already exploring the latter but that he felt that it was probably impractical to consider having internet sites in rural post offices which are no more than cubby-holes in the countryside.

18. Mr Johnson said that the potential for contraction of the network is clearly greater in urban areas where there are frequently many within a short radius. Notwithstanding this, there are still constantly queues going round the corner on a Monday and Thursday morning with people waiting for their benefits. Mr Johnson mentioned that the opposition are likely to concentrate heavily on the crown network when the Bill gets off the ground in November.

19. Mr Johnson rounded up saying that the team were welcome in whenever they wanted, he is keen to keep fully up to speed on their work. He regards it as the highest priority.

Simon Lancaster
PS/Mr Johnson