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Pat McFadden

cc: PS/SoS
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Simon Fraser
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From:
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GRO

22 September 2009

GOVERNMENT RESPONSE TO BEC REPORT 'POST OFFICES – SECURING THEIR FUTURE'

Issue

1. Final text of Government response to BEC report on securing the future of post offices published on 7 July.

Recommendation

2. That you note and approve the attached final Government response (Annex A) which incorporates all the changes you requested. We have also deleted the reference to the Children's Savings Account in the response to point 26 as the product has not been formally launched. The text also incorporates some minor changes from the BIS Service Transformation team which in essence broaden the previous references to Directgov to the wider Government service providers.

3. A short covering letter from you to the BEC Chairman, Peter Luff, is at (Annex B).

Timing

4. As soon as possible to enable the response to be forwarded to the Committee on Wednesday 23 September.

5. We understand that the Committee has its first meeting since the start of the recess on 24 September and the Clerk has advised that a response before then would be well received.

6. Standard guidelines allow 8 weeks for Government responses to Select Committee reports. However as the report was published just before the start of the summer recess, a more relaxed timetable is allowable. In this context, submission of the response this week is an acceptable 11 weeks.

Background

7. It is for the Committee to determine when the Government response is published together with any further comment it chooses to make. It is possible that they may consider that the response is less positive and proactive than they would have hoped.

8. We consider it unlikely that there will be any immediate public comment from the Committee on receipt of the response but would propose the following defensive lines for initial use in such an eventuality:

- The Government fully recognises the high social value of post offices and is committed to maintaining a national network of around 11,500 offices;
- This is the first government to subsidise the network in recognition of this;
- We are providing a subsidy of £150m a year to support the non-commercial segment of the network and have put in place criteria to maintain a national network and ensure reasonable access to post office services for all;
- In the past year, the government has awarded Post Office card account and Driving License renewal contracts;
- We are continuing to work with Post Office Ltd to try to identify new areas of business in the face of technological changes such as increased use of online services.

9. Further lines in response to any specific public comments from the Committee will be prepared as required. This approach and the lines above have been agreed with Comms.

Mike Whitehead

MEMORANDUM

ANNEX A

Government reply to Business and Enterprise Committee's report 'Post offices – securing their future' Eighth Report of Session 2008-09 published on 7 July 2009.

Introduction

The Government welcomes the Committee's report on its inquiry to identify new services to help secure the long-term viability of the post office network in response to an invitation by the Secretary of State for Business, Enterprise and Regulatory Reform. It is helpful to have the analysis, conclusions and recommendations which the Committee has drawn from its inquiry and the evidence submitted to it.

Responses to Conclusions and Recommendations

We have set out below our responses to the Committee's conclusions and recommendations under the headings adopted by the Report. We have listed these in the order in which they appear in the Report with our response set out below each of them.

Conclusions and recommendations

What is the post office for?

1. The importance of post offices to poor, elderly or otherwise disadvantaged people is frequently mentioned, but what comes through very clearly is the sense that the post office is important because it provides services to the total community, not just to disadvantaged people. It is an instrument of social cohesion or, to put it differently, it preserves the fabric of our society. (Paragraph 14)

The Government shares the Committee's view of the important role of post offices as an instrument of social cohesion.

Is the network still necessary?

2. In setting the access criteria, and in asking us to undertake this inquiry, the Government has accepted that while the truly national retail and government network that post offices provide may be an accident of history, it offers a complex of services which cannot be replicated by other institutions, even though most individual services are available elsewhere. One of the most important features of that network is that post offices are found throughout the country. And although there is some variation in the services on offer, there is an irreducible core that people have come to expect will be provided across the country: access to post, access to cash, and, at the least, access to government information. Also, the public expects that, where appropriate, that core will support associated private sector services. (Paragraph 30)

3. By chance rather than design, the Government has ended up supporting local economies and providing information and services to its citizens through

the post office network, in which a publicly-owned company works with a variety of private enterprises. It is unlikely that anyone would have invented this system; nonetheless, it exists and it is effective. It is possible that the network can be sustained in a way which generates revenue rather than consumes it. However, any decisions on the company's operations or the services it offers must recognize that the nationwide post office network needs to be sustained, and sustaining it will meet the wider objectives of any government. (Paragraph 32)

The Government remains fully committed to maintaining a national network of post offices with reasonable access for all to a range of services of general economic importance. The network forms an important part of the national social infrastructure. Its social and economic role is underpinned by Government-set access criteria and annual network subsidy payments which support the non-commercial segment of the network.

The network and its services

4. Post Office Ltd's current profitability depends on the Network Subsidy Payment, which runs until 2011. Further payments would depend on clearance under European Union State Aid rules. We believe that such payment, if necessary, would be justified, but clearly, it would be better if the network could be self sustaining. (Paragraph 41)

Discussions with Post Office Ltd on its business plan and associated funding package beyond 2011 have begun. The Government recognises that there will be a continuing need for network subsidy payments beyond 2011 and that state aid clearance will be required.

Subpostmasters and other providers

5. We recognise that subpostmasters are self-employed; nevertheless, when the state provides services directly, it pays its workers at least the minimum wage. Post Office Ltd, a state-owned company, should ensure it treats its subpostmasters and Outreach operators no less fairly. (Paragraph 55)

As the Committee recognises, subpostmasters are self-employed and by the nature of this status are not covered by National Minimum Wage regulations, though any staff that they employ are. The large majority of subpostmasters run an associated retail business alongside their post office which should contribute to their total income from the combined business. Post Office Ltd has sought as far as possible to protect subpostmasters' remuneration in an increasingly competitive market in which it has to bid competitively on price to win or retain contracts. Since 2003-04, Post Office Ltd has achieved a reduction in operating costs of around 40% in real terms while the agents pay bill has remained broadly static over the same period notwithstanding the significant reduction in the number of branches. The average remuneration Post Office Ltd now pays to subpostmasters is £43,000 per annum. However it is also recognised that subpostmasters are under pressure from rising costs and therefore how important it is for Post Office Ltd to secure new

business, as growth in subpostmasters' income will come from increased work flowing through their branches.

6. Post Office Ltd has done a great deal to improve its financial situation. It is to be congratulated for facing up to difficulties, and introducing new services. Centrally provided services, such as insurance or financial services, are welcome in so far as they increase the financial viability of the network as a whole. However, we need to be absolutely clear that the health of Post Office Ltd matters primarily not because it can provide a profit to the Government, its shareholder, but because it sustains the post office network. We believe that it is time for Post Office Ltd to pay more attention to the viability of its commercial retail partners, who are essential to providing that network. This does not simply mean negotiating more with the NFSP, important though that may be. It means recognising the legitimate interests of all its retail partners. (Paragraph 61)

Post Office Ltd has adapted its internal structures to reflect the make up of the network. Whilst there is a close relationship with the National Federation of Subpostmasters, the company has relationship structures in place to liaise with the 'multiple retail' companies who operate significant numbers of Post Offices. The company also has relationships with trade bodies such as the Association of Convenience Stores. Post Office Ltd has reiterated to us that it recognises that in making decisions which help sustain the integrity and sustainability of the network as a whole, it must be aware of the differing interests of those who constitute the network. This is reflected in the different contracts and relationships with different parties – all designed with the ultimate goal of an integrated network and good service to customers.

7. Post Office Ltd must consider the impact of its decisions on its sub-post offices and other network providers as it seeks to secure the sustainability of the network. There is no doubt that the company has a very difficult balancing act to perform in ensuring that the company as a whole is as profitable and efficient as possible, while acknowledging the needs of its partners to make a profit. We are not convinced that balance is currently correct; there is a danger that a drive for efficiency could result in a rise in unplanned, voluntary closures because the needs of subpostmasters and other providers are not adequately met. (Paragraph 62)

Further to the response given at 6 above, Post Office Ltd fully recognises the need for a balanced relationship with its partners and seeks to handle the issue sensitively. Recent examples include the way in which Post Office Ltd has sought to make efficiencies in its central costs and keep the overall pay bill to agents as stable as feasible. Post Office Ltd is also piloting and introducing revised approaches (Essentials, Paystation) to help integrate the provision of post office service provision more fully into the wider store functions. For example, the Essentials model currently being piloted enables the subpostmaster to use his/her resources of space and staff more efficiently across the overall business (Post Office and associated retail). However, whilst doing what it can with regard to agents within the network, it must be recognised that POL has to respond to competitive market rates and the demand for value from customers if it is to have any business at all.

Technology and infrastructure

8. It is clear that Post Office Ltd has, in the past, not been as innovative in information technology as it should have been. The Committee welcomes the Horizon technology upgrade, but views it as only a critical first step. Post Office Ltd should continue to seek technological innovations that make it more competitive at bidding for contracts, and simplify and speed up transactions in post offices. (Paragraph 65)

Post Office Ltd has recently made significant progress in its use of technology. The Paystation terminal functionality, now rolled out across the network, is the equal of the technology used in other commercial bill payment networks. The Application, Enrolment and Identification technology that has been developed to meet the needs of the DVLA 10 year photocard renewal contract is world leading and its placement in branches has the potential to open up further fields of business. The Horizon upgrade which will be rolled out across all branches over the coming year improves the functionality of the equipment on every Post Office counter and adds a web enablement capability that will allow further Business opportunities (especially in areas of information provided by government). The upgraded Horizon on line also produces better and quicker operator processes (e.g. fewer screens) reduces the number of paper receipts printed and embeds operating instructions into 'context sensitive' online help.

Post Office Ltd has utilised technology to improve the range of services provided to customers. Paystation enables some services to be offered outside of normal hours and Post and Go machines provide self service for some mails products. Technology to support Identity Services will enter its pilot phase in the autumn. Working with its partners, Post Office Ltd continues to explore a range of other innovative options. Implementing these across an extensive network inevitably involves considerable expense and they therefore have to compete with other initiatives for limited investment funds.

9. Post office branches are housed in a wide variety of locations and buildings — a legacy of the evolution of the network. This has inevitably meant that not all post office branches are ideally sited or arranged. There is, however, no excuse for poor access either in relocated or new branches. The Committee expects Post Office Ltd's new Code of Practice to ensure that any future branch developments provide full access, particularly for those with mobility concerns. Post Office Ltd must actively improve all branches, not just Crown post offices, as necessary, to take into account technological change and new services. In some cases, it will be reasonable to expect Post Office Ltd's retail partners to bear part of the costs, but this depends on a proper share in the associated revenue. (Paragraph 67)

Post Office Ltd is fully aware of its disabled access obligations and when re-locating and refurbishing branches takes accessibility requirements into account. It also has a specific fund to which subpostmasters can make application if they are doing work on their

premises that will enhance accessibility. In its report on the Network of Post Offices published in November 2008 Postcomm reported 'over the past five years Post Office Ltd has also provided £13m in funding to assist subpostmasters to enhance their facilities, to improve accessibility and the provision of services for disabled people'. This continues to be an important area for the company.

Postal services

10. The largest single source of Post Office Ltd income is Royal Mail Group. As we have noted, there is little clarity about how this is calculated, and we welcome the Government's proposals to introduce more transparency into this. Given the wider social role of post offices, we believe that it is appropriate to allow any mail operator who wishes to negotiate with Post Office Ltd to use the network. Post Office Ltd should do everything it can to secure contracts with Royal Mail's competitors. However, such contracts should be properly priced; any such arrangements should "pay their way" for Post Office Ltd and its partners. (Paragraph 74)

We agree that Post Office Ltd should explore all options to maximise use of the network. Access through the post office network to postal services provided by other operators is covered by Section 9 of the Royal Mail Licence issued by Postcomm. On 21 April 2009 POL announced that it had agreed a contract with the private mail company DX Group to enable DX's customers to collect from Post Office branches items that could not be delivered. As well as a fixed contract charge, the Post Office will receive a fee from DX for every item delivered to one of Post Office Ltd's branches. The service was initially launched in 92 Greater London branches prior to its national roll-out.
Central government services

11. Government departments should always consider what is the most effective way to reach those who prefer to deal with matters face-to-face. It is legitimate to encourage people to use cheaper communications channels, but not to deny them choice. (Paragraph 82)

12. We accept that not all government services can be provided across the network, but as a minimum, wherever a service can be provided by post then the associated material should be available at post offices. For example, passport application forms should be universally available. The Government must think of post offices not just as a collection of private businesses, but as a public service. (Paragraph 83)

We recognise the continuing importance of face to face interaction for a significant number of people. A key strength of the Post Office Network is that it is a convenient and trusted place for face to face transactions. Developments such as Horizon Online and the Application, Enrolment and Identification equipment being utilised to support the new contract to renew photo driving licences further enhance these capabilities. Government Departments are looking at how these capabilities can enhance their portfolio of ways in which citizens can interact with Government. This is as potentially as important at Devolved

Administration and Local Government levels as it is for Central Government.

The Government is seeking to maximise the use of the Post Office consistent with value for money for taxpayers. Discussions are underway between Post Office Ltd and Government service providers to see if the Post Office can act as a complementary channel for those citizens who do not have, or do not choose to use, internet access.

13. The responses from government departments to the Committee's inquiry were, as a whole, inadequate. Most departments failed to suggest any way in which they might use the post office network. It is easy to think of government facilities which might usefully be available through the network, simply because of its near universal reach: payment of fines, and proof of such payment; provision of simplified consultation documents; leaflets about departmental services and initiatives; application forms for energy saving schemes; and provision of popular government forms. (Paragraph 84)

The Government has stated that it is keen for the Post Office to develop its Government Services offering and has an established mechanism for aiding this through a cross-Whitehall committee, chaired by Lord Mandelson, to identify potential new services. Many of the potential services suggested in this recommendation are being pursued by the Post Office or are currently already provided in some form. However, there is a clear benefit to the Post Office and to its customers for it to expand these services where possible, and Government is working towards this end.

14. The Committee is profoundly disappointed by the narrow focus on departmental concerns and the lack of attention to citizens' needs displayed in many of the answers to our questions about departments' use of the post office network. Government is in the business of providing services, and the post office network represents an unparalleled facility to deliver those services to local communities. It is bizarre that government policy recognises the value of the network, but that individual departments do not see that they have a role in making sure that everybody, not just the web enabled, has access to their services, and that taking this seriously by using the post office network more could contribute to wider policy aims. (Paragraph 85)

Government recognises the value of the Post Office network and is committed to its future. It also recognises the importance of offering a choice of channels for its services, and for making provision for those who are unable to access online services. The Government has created a mechanism for enabling greater use of the Post Office in the provision of services, through a cross-Departmental committee to identify new business opportunities for the Post Office. However, amongst the considerations that Departments must take into account in determining which is the best method for delivering services to that Department's customers are customer choice and value for money to the taxpayer.

15. We recognise that providing services through the post office network may be more expensive than providing those services online. However, we

consider the public's expectation that there should be a choice of ways to access government services and information is legitimate. The question should not be "is it cheaper to provide this service entirely on-line or remotely?" but "given that there needs to be a choice of delivery methods, what is the most effective way to reach those who prefer to deal with matters face to face?". (Paragraph 90)

The Government agrees in principle with this recommendation. It is right that people should be offered a choice of channels for accessing Government services. In many cases, this will be the Post Office. Government has shown its commitment to using the Post Office for providing face-to-face services through its decision to award the Post Office a new contract for the provision of the Post Office card account, as well as the recent deal with the DVLA to allow the capture of biometric data (photographs and signatures) for the ten year renewal of driving licences at 750 Post Offices around the country.

16. Many or even most identity services may well be too sophisticated to provide across the network. However, even limited use of the post office network will allow these services to be offered across a wider geographical area than would otherwise be possible. There is potential to use the post office network to offer such services at a range of locations across the UK, which will both benefit those who need new driving licences or identity documents and provide income for Post Office Ltd. (Paragraph 95)

The Government fully agrees that one of the major new opportunities for the Post Office is the possibility of using post offices as centres for the capture of biometric data for passports, driving licences, and potentially ID cards/identity documents. The Post Office has already agreed a deal in March with the DVLA to provide a "one-stop" biometric data capture facility at 750 branches around the country. In May, the Government announced that it was working with the Post Office to allow biometric data recording for ID cards/identity documents and biometric passports in Post Office branches. This is clearly a large area of opportunity for the Post Office and we are committed to helping them develop it.

17. The biggest barrier to the expansion of government services offered through the network is the attitude and lack of imagination of most government departments. History has given government an unparalleled and highly valued portal in the post office network. Departments must try harder to provide their services through post offices. At the very least, individuals must be able to get important government forms in all post offices. It surely cannot be beyond the Government's technological ability to provide a means to supply such material electronically so that the most up-to-date version of the form in question can simply be printed. Some of the proposals which have been made to us are impractical at first glance, but contain good ideas. Departments should not simply dismiss the provision of services through the network; they should assess whether offering services through post offices would make life easier for their customers, and if so, whether it is at all practicable. (Paragraph 108)

18. In asking us to undertake the task force role, BERR showed its commitment to a coordinated effort to provide more services through post offices. The new Department for Business, Innovation and Skills should continue this work. There should be a government-wide leader to coordinate and implement as soon as possible a programme of expanded government services in post offices. There should be a new presumption that, in addition to any other delivery methods, all government departments should seek to deliver their services through the post office network in the interest of social inclusion. They should also be obliged to promote these delivery methods on an equal footing with other methods. The example of the Pensions Agency, constantly seeking to obscure the availability of its services through post offices, stands as a warning as to what will happen if this policy is not enforced properly. (Paragraph 109)

The Government is keen for the Post Office to build on its Government services work. We are using a cross-Whitehall committee, chaired by Lord Mandelson, to co-ordinate the identification of new services for post offices. This committee acts as a cross-Whitehall “champion” for the Post Office. We recognise the potential for utilisation of the Post Office to improve access to Government information and services, particularly as the technological capabilities of the network develop.

Government supports consumer choice in the most appropriate channel for accessing services. But the need to adhere to EU procurement rules means that there cannot be a presumption that these services will automatically be provided through the Post Office network. In some cases, there may also be value for money implications of automatically awarding a contract to the Post Office. Clearly, one of the benefits of the network change programme will be that the Post Office is more competitive and therefore better placed to compete for contracts.

With respect to the specific example of the Pension Service and the payments of pensions and benefits through the Post Office – Government is clear that it provides customers with all the information they need in order to choose the account which best meets their needs and circumstances. Around 4 million people have their benefit, pension, or tax credit paid into a POCA and more than 10,000 people a month on average are opening a new POCA. Many more will access their bank account at a Post Office. Over the last year, the Government has sent half a million leaflets to customers whose benefits are paid by cheque listing all the accounts (including POCA) which can be used at Post Office branches.

Local government services

19. Local authorities use post office services even less, and less consistently, than central government. Many are quick to say they support post offices, but then are slow to offer their services through them — the support that really matters. They should try harder to provide their services through post offices — those who have piloted such services have been enthusiastic about the results. The Local Government Association should lead efforts to expand the availability of local government services through the post office network. (Paragraph 118)

20. It is not appropriate for the Government to dictate to local authorities the extent to which they provide services through the post office network. However, we believe more could be done to raise awareness of the potential of the network. Post Office Ltd should take the lead in developing services that can be easily accessed by local authorities. It should then work with the Local Government Association to ensure that every local authority is provided with information about the services post offices can offer. (Paragraph 120)

Post Office Ltd already has a portfolio of services that Local Government can utilise (for example Council tax and rent payments, issuing of passes etc). It has also recently successfully trialled new service offers – such as ‘post office payout’ (a simple mechanism to make targeted cash payments), ‘validate’ (where Post Offices check/verify documentation and provide a convenient place where citizens can update information) and a ‘consultation service’ (which helps Councils to conduct local consultations in a way that gains higher levels of community involvement). The challenge is to persuade local councils to utilise these services to a greater degree than has historically been the case.

Since the publication of the Select Committee Report, the Local Government Association has held a workshop involving a number of Councils and Post Office Ltd which discussed plans for of holding a Conference to which all councils will be invited in order to ensure that local councils are aware of the value to them and their residents of the services that could be done through the post office.

21. Relying on local authorities’ funding to maintain the network would result in poorer local authorities providing fewer or poorer services. This would undoubtedly undermine the uniformity of service, which we have heard is a desirable — some might say necessary — characteristic of a sustainable post office network. (Paragraph 122)

The Government agrees with the Committee. The purpose of establishing access criteria was to ensure reasonable access to Post Offices throughout the country. The most effective way to ensure this and the provision of essential services across the network is through centrally-managed funding, rather than by leaving each local authority responsible for the provision of the network and the services in their local area. Local authority funding can, of course, play a helpful supplementary role as long as the integrity of the local network in an area is not undermined, but we agree with the Committee that the most sustainable form of support will be for local authorities to put business through the post office network.

22. Post offices are community assets, and we welcome the approaches to support them that we have seen. Essex, Devon and Wales are showing commendable initiative. Undoubtedly there will be many other examples throughout the United Kingdom. In providing services through the post office network, Essex is giving an example of a local authority using post offices as a resource. We were particularly impressed by the effort that the Welsh Assembly Government and Devon County Council have made to improve the

underlying businesses associated with sub-post offices. Helping businesses in this way not only supports the network, but safeguards other facilities for the local community. (Paragraph 125)

The Government agrees that post offices represent an important asset to many communities and welcomes the range of community, local authority and devolved administration initiatives which are safeguarding provision of services. The Government helped to facilitate discussions between local authorities and Post Office Ltd to develop these models of post office provision.

Whilst ensuring a national network of post offices with reasonable access for all, the Government is keen to explore ways of making the network as responsive as possible to local needs. We support the framework for dialogue with local authorities and community groups that has been established and published on the Local Government Association website.

Financial services

23. It is clear that there is huge demand for wider availability of banking services through post offices, and this Committee strongly endorses the widely held view that banking is essential to the network. (Paragraph 143)

24. The Committee strongly supports greater provision of banking services through the network. However, it is not obvious how a new post office bank would be funded and secured, whether it would entail ending existing arrangements with the Bank of Ireland, and if so, what would be the financial consequences of terminating these arrangements. At this stage, the priority should be to extend financial services as quickly as possible. The existing agreement with the Bank of Ireland may be the best way to do that. Alternatively, it may be appropriate to seek a new arrangement with a UK bank. If neither of these courses works, a post office bank may be appropriate. (Paragraph 147)

The Government agrees with the Committee that financial services will play an increasingly important role in the future of the Post Office. The Post Office already provides a wide range of financial services – including savings products, insurance, credit cards, and foreign exchange. It has recently launched a mortgage product and from next year will offer a current account. But the Government shares the Committee’s view that the Post Office should work towards a greater provision of banking services through the network, and that this should be the priority.

25. The Government should review urgently the effectiveness of Post Office Ltd’s strategy for expanding banking services, but it is the outcome that matters (more access to banking through post offices) and not the means. Post Office Ltd must prove that its current model, involving the gradual expansion of financial services, is, as it contends, the best way to improve banking services. It must do so by providing more banking services through

the network and substantially broadening access arrangements with high street banks. The Government should use its influence to ensure that the banks in which the public is a shareholder provide services through post offices. We appreciate that the Government wishes to leave the banks to run themselves, but there is currently a unique opportunity for the public to gain a specific and valuable benefit from its shareholding. (Paragraph 148)

26. The Committee whole-heartedly supports the rapid expansion of fee-free cash machines throughout the post office network, and urges the Government to consider providing more innovative tools to enable financially excluded individuals to take advantage of direct debit bill payment discounts. The Government should also use the post office network to promote savings programmes for children and to deliver the Savings Account Gateway programme. (Paragraph 153)

The Government welcomes these proposals from the Committee. In all of these instances, the Government is taking action – demonstrating its commitment to providing financial services through the Post Office. Post Office Ltd has confirmed that it is also doing what it can to help ensure that it can be part of the solution in these areas (for example it is currently talking to Credit Unions about how to make these services available through post offices).

It is generally accepted that there is a gap in the market for those who want to budget for utility bills on a weekly basis. The Government is monitoring with interest a number of proposals for a weekly budgeting scheme and hopes that a realistic and affordable proposal emerges which provides access to discounted tariffs on a similar basis to direct debit payments.

Community services

27. Our witnesses suggested a wide range of community services which could be offered through post offices. The extent to which each is practicable depends on local circumstances. There may be scope for a rural post office to double as a tourist information office. There may be circumstances where it would be possible for a post office to be combined with business premises. There may be circumstances in which a prescription collection service could be offered on a commercial basis. We do not believe such things can be mandated; they depend on the drive of the individual who runs a particular post office, and indeed, on the community surrounding the post office. However, they demonstrate the potential strength and flexibility of a system where services are provided through a partnership between the central company (Post Office Ltd) and other partners. There is a role for Post Office Ltd in making these arrangements easier; for example, by helping with technology, arranging template agreements and articulating best practice. (Paragraph 171)

Post Offices already play a key role in many communities. We agree that an important part of the social value of the post office network lies in the community services offered by post offices. Through the associated business located with the Post Office, subpostmasters often offer additional localised services. The existence and sustaining of the

Post Office network makes this possible and Post Office Ltd takes an appropriately sensitive approach to these issues. However Post Office Ltd and subpostmasters cannot be expected to undertake work for free. Appropriate commercial arrangements which do not undermine the sustainability of the network as a whole are best responses. This allows service provision to be professional and sustainable.

Conclusion

28. Postcomm has been asked to carry out a review of the social benefits of the network. The value the public sets on post offices convinces us that there should be no further closure programmes, but it is inevitable that there will be some change in the network as Post Office Ltd's arrangements with individual retail partner's change. The more those changes can be guided by knowledge about where post office facilities are most valuable, the better; the possibility of increasing the size of the network should not be excluded. (Paragraph 174)

The Government recognises the high social value of the network (which has been confirmed by recent research commissioned by Postcomm). Recent closures were necessary to put the network on a more sustainable footing but the Government has made clear that it will not support a further closure programme. The Government shares the Committee's view that some further change in the network is inevitable as a result of individual subpostmaster's resignations, terminations of leases etc. There will however be a continuing requirement for Post Office Ltd to comply with the access criteria.

29. There is a huge demand for the universal provision of services throughout the network. However, there are substantial barriers to providing all services everywhere: variation in post office premises; the need for specialist training for some services; and the complex array of service providers in the post office network. Customers may have to accept that uniform service provision may not be possible if services expand. At the same time, the more services that are offered through the network, the more attractive and useful the network becomes. Post Office Ltd should by default provide a service in a branch unless there is a compelling reason against it. (Paragraph 178)

The Government accepts Post Office Ltd's argument that it needs to retain flexibility about what services it can provide at what branches as customer demand and cost of provision need to be aligned to have a reasonably efficient operation offering good value for customers and taxpayers. The key is to ensure that the network as a whole ensures good geographic accessibility to all services, and that the 'services of general and economic interest' in particular have the widest possible availability.

30. It is possible that if the right actions are taken, the post office network will come to be both an important social resource, and a profitable organisation. However, it is also possible that the Network Subsidy Payment, or some successor arrangement, will be needed for the foreseeable future. (Paragraph 179)

The Government recognises the ongoing need for network subsidy payments beyond 2011.

31. The Government should support the post office network, but it has a right to expect that the network will be as efficient as possible. Under current regulatory arrangements, while Postcomm reports and advises on the post office network, it has no direct responsibility for it. Broadly speaking, this will continue if regulatory responsibility passes to Ofcom. Whatever happens to the Postal Services Bill, the Government is, and will remain, Post Office Ltd's only shareholder. It cannot duck responsibility for the efficiency of the network. In a situation where there is no competition and there are sound reasons for making government services available through post offices, the Government may have to be more involved than a shareholder might traditionally be. (Paragraph 182)

The Government shares the Committee's view that, in return for support from public funds, Post Office Ltd should take all the steps necessary to make the network as efficient as possible, whilst having regard to its social role. The Government accepts the Committee's view that, as shareholder, it will need to monitor closely the competitive environment in which Post Office Ltd is operating and the terms on which contracts for government services are being tendered. That is why management of the Government's shareholding in Post Office Ltd was passed to the Shareholder Executive in 2004.

32. Post Office Ltd must ensure that all post offices offer good customer service. This may require more financial support. It may require setting service standards, and monitoring to make sure they are achieved. Otherwise, post offices will attract only those who have no alternative but to use them and the network's role in promoting social inclusion will be diminished. (Paragraph 185)

Post Office Ltd is fully aware of the need to provide good levels of customer service for it to succeed in commercial and social marketplaces. Although it currently achieves over 90% satisfaction levels in customer surveys, it is seeking to invest further in customer service and environment. The current Crown Office refurbishment programme will see virtually all Crown Post Offices receive redecoration or refurbishment by March 2010.

33. The expansion of the range of services offered through the Post Office is likely to lead to a need for more training of subpostmasters, and possibly a need for Post Office Ltd to provide some training directly to staff in sub-post offices or franchises. (Paragraph 186)

Post Office Ltd closely assesses and monitors the training and support it provides to subpostmasters and will continue to do so. These measures range from the induction programme for new subpostmasters to the training needs associated with the introduction of new products and services and any associated compliance requirements. Recent support initiatives include the Support Charter introduced last year in conjunction with the National Federation of Subpostmasters and, more recently, a dedicated magazine covering topical issues.

ANNEX B

Peter Luff MP
Chairman
Business, Enterprise and Regulatory Reform Committee
House of Commons
7 Millbank
London
SW1P 3JA

Thank you for the Committee's report 'Post Offices – securing their future'
Eighth Report of Session 2008-09 published on 7 July 2009.

The report comprehensively sets out the findings of the Committee's inquiry which it undertook in response to the Government's invitation to take on the role of a task force of MPs to work with Government to identify new services to help secure the long-term viability of the post office network. It provides a very helpful focus and steer on the important issues to be addressed.

I attach the Government response.

Pat McFadden