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Post Office Counters Ltd

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12.56 pm

Dr. Vincent Cable
(Twickenham)

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I am grateful for this opportunity to initiate an Adjournment debate. The debate's grand title on the Order Paper, "Competition policy and Post Office Counters", stems from one case, but it is a case that has stirred up a great deal of emotion in my constituency. Approximately 4,000 people signed a petition in a very short time, and many local businesses were outraged by the behaviour of Post Office Counters Ltd.

The case raises wider issues of policy, which I want to put to the Minister. In particular, it arouses concern among many of the 17,000 or so postmasters and postmistresses who run the small businesses that operate the Post Office network. In most cases, their relationship with the network is perfectly good and, with enlightened management, the Post Office network can be very creative. However, in many cases, of which my constituency case is one, the postmaster or postmistress is in a commercially vulnerable position, and is wholly dependent on the monopoly operation of Post Office Counters Ltd. In this case, Post Office Counters Ltd. has been highly authoritarian and there have been unacceptable forms of management. I want to focus on that relationship and make some suggestions.

I shall make three proposals before I turn to Dr. Oraki's case, which highlights the issues. The first relates to the nature of dismissals. Post Office Counters Ltd. can dismiss those who have a contractual relationship with it. That may happen for a variety of reasons, including impropriety or the failure to maintain proper standards of service.

What is strange is that those who have a contractual relationship with the Post Office—the sub-postmasters and postmistresses—do not have a right of appeal in the normal sense. Many of them have tried, as my constituent has, to go through an appeal process using an industrial tribunal, but that has not been accepted as valid in law. There is no proper appeal system in cases where management exercise their powers capriciously and improperly. My recommendation, to which I shall return later in my remarks, is that the Minister should approach Post Office Counters Ltd. to set up a more equitable and balanced relationship.

My second proposal relates to the security of investments of this large number of small business people. Many of them are going into business for the first time and all their life savings are put at risk. Those savings can effectively be cancelled out at the stroke of a pen as the result of a decision by a Post Office network manager to relocate a post office. That is not normal commercial risk; it is highly unacceptable and it is subject to the abuses that any monopoly situation will create. Will the Minister investigate how he can steer Post Office Counters Ltd. into fairer relationships?

The third point relates to the consumer watchdog, the Post Office Users National Council. In this regard, I sought for the first time as a Member of Parliament to make use of that organisation's services. To put it brutally, I found it completely and utterly useless, totally unresponsive to consumer feeling in my area and, as far as I could see, largely a mouthpiece for the Post Office management. That is a very unsatisfactory relationship for an organisation that is publicly funded, and it should be questioned. I should like the

Minister to consider policy in those three basic areas. I shall briefly go over the case that brought all that to light and led me to the conclusions that I have pursued.

Like many people, Dr. Oraki wanted to enter business through owning a post office. Five years ago, she bought a post office in Whitton in my constituency, for which she paid roughly £100,000 plus a franchise fee to the Post Office. Since then, she has run a fairly successful commercial operation. She had some teething difficulties in the first year and there were a few complaints, but as far as I can establish, there were only roughly 15 complaints over the entire period. Since the Post Office does not publish complaints by individual post office, it is difficult to judge the seriousness of that number of complaints, but, as far as I can gather, it is extremely low among post offices of comparable size.

Last year, however, one incident produced a major crisis in the otherwise relatively uncontroversial local post office. A customer entered the post office and asked to send a parcel to Chile. Dr. Oraki's employee at the counter did not know where Chile was. The customer was outraged and wrote a very strong letter of complaint to Post Office Counters Ltd. Acting on that complaint, the Post Office management descended on the local post office, which led to a set of circumstances in which the contract was terminated and Dr. Oraki lost her post office.

Dr. Oraki believed that the circumstances of the termination were bizarre and totally unreasonable, and contested her dismissal at an industrial tribunal. Because she was doing so, she did not take advantage of the Post Office's suggestion that she put the post office on the market. In time, the industrial tribunal reached a negative result, but in a very bizarre twist, which caused me and many others to question what was going on in the Post Office, she was offered a job with more responsibility in a bigger post office. That raised great doubts about why on earth her contract had been terminated in the first place.

In addition, the Post Office proceeded to issue a contract to another post office further down the road. That was the point at which I and others members of the community became aware of it, because under the statutory public consultation process, we were duly notified. I was told without any explanation of the context that a new, bigger, better-equipped office was due to open in the area. That turned out to be largely a fabrication, but was none the less the context in which I was first drawn into the case.

I will not bore the Minister with any more details because he clearly cannot intervene directly—the law is clear. Post Office Counters Ltd. has commercial independence in this respect and it would be improper to push the Minister directly to interfere beyond where his powers lie. I shall, however, summarise the case.

A small entrepreneur invested her life savings in a post office, which at the latest estimate is worth £150,000, and subsequently lost almost all of it because the building had very little resale value without the post office in it. She lost a major investment as a result of what appears to be a capricious decision by Post Office Counters management. The Post Office gained another post office down the road, another franchise fee and the opportunity to deal with another employee under a more favourable contract. Frankly, if that happened in business, we would call it sharp practice. As it concerns a public utility, it raises questions about public policy. I shall proceed from the personal case to describe the public policy issues stemming from it, which I ask the Minister to consider in detail.

The first such issue relates to the circumstances in which a sub-postmistress or sub-postmaster can be dismissed or have their office terminated. The background is a unique, complex and difficult legal structure. The 17,000 or 18,000 people who work as sub-postmasters and sub-postmistresses provide employment for services; they are officeholders with emoluments. They fall into a distinct semi-employment, semi-contractual legal category—a hybrid.

When such a hybrid relationship works well, it apparently works very well. The federation that represents postmasters and postmistresses is not suggesting for a moment that the fundamental basis for the relationship should change. When it works well, it gives sub-postmasters commercial freedom and some of the elements of employment, but when it works badly, with unenlightened or authoritarian management, it works extremely badly. A postmaster can be pitched out of his post office with no legal protection and no independent source of appeal.

I ask the Minister to approach Post Office Counters Ltd. in order to require it to introduce a genuinely balanced relationship with its sub-postmasters and sub-postmistresses, establishing for them a quasi-judicial appeal process of the kind that they would enjoy if they were employees. That would rectify the many cases of often severe injustice.

The second matter—it is related—on which I ask the Minister to intervene is the question of loss of investment. As has happened in this case, a small business person may put her life savings at risk and lose it all. Even if there had been no controversy and Dr. Oraki had simply decided to retire and the Post Office had decided to move the service up the road, she would have lost all her investment. It is wrong that a monopoly—the Post Office network is of course one such monopoly—should have the power to negate an entrepreneur's investment. That is even more pertinent given that anybody who wishes to acquire a post office must pay the Post Office a substantial franchise fee. Will the Minister intervene in order that a system in which some security of tenure is provided, so

that small businesses are not put at such risk, which is not normal commercial risk but depends on the good practice of a monopoly utility?

The third policy point relates to the functioning of post office consumer groups, which are statutorily provided. I approached the POUNC to help to support this case. It was certainly very courteous and approachable, but it became very clear that it was acting on advice from management. It appeared unable to respond to local feeling—it seemed to regard the very large petition as wholly irrelevant—and simply responded to me by quoting back information from the Post Office that was simply wrong.

I am afraid that that episode led me to lose confidence completely in the impartiality of the supposed consumer watchdog. I hope that, in the Minister's negotiations and discussions with the Post Office, which are of course taking place in a wider context, such deficiencies will be understood.

I fully support the principle that the Government have sought to develop. I am entirely with the Minister on the broader policy of the Post Office having greater commercial freedom. But, if it is given such freedom, the monopoly that it enjoys through its network must not be deployed to the disadvantage of the very many small businesses that make up that network. I also believe—as the Government obviously do—in the importance of maintaining, for social as well as economic reasons, the Post Office Counters network system. It is a very valuable institution. However, in the final analysis it is a people business, and the people are the sub-postmasters and sub-postmistresses. They must be employed on a fair and equitable basis; otherwise, that business loses much of its value to the community.

In that spirit, I ask the Minister to probe the matter further. I realise that there are limits to his statutory powers of intervention in a specific case, but I ask him to pursue the matter as far as possible, to rectify both a particular injustice and some fundamental systemic weakness in the way that the Post Office network system is managed.

1.10 pm

The Parliamentary Under-Secretary of State for Trade and Industry

(Dr. Kim Howells)

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I congratulate the hon. Member for Twickenham (Dr. Cable) on securing the opportunity to debate a range of issues relating to post offices and to the Post Office Counters business of the Post Office today. The points that he raised largely arise from the circumstances of a constituent, who formerly operated a sub-post office. The hon. Gentleman eloquently described the dilemma in which that person found herself. As he knows, many hon. Members have experienced similar problems with post offices in their constituency, so I am glad that the matter has been raised.

The hon. Gentleman knows that I am unable to discuss the specifics of the case. It centres in part on a particular set of circumstances in respect of which legal action is still in prospect. In wider terms, however, the issues that he has raised relate to aspects of the contractual terms and arrangements that apply between Post Office Counters Ltd. and about 18,000 individual sub-postmasters and sub-postmistresses throughout the country. Indeed, I understand that the Post Office is the biggest single retail chain that exists anywhere: it is an enormously important retail chain, and matters affecting it deserve our concern.

In responding to the range of issues and arguments that have been raised today about those terms and arrangements, it is important to understand the broader context in which they are set.

Since the Post Office was established as a public corporation in 1969, it has been the policy of successive Governments that decisions relating to the day-to-day running of the postal businesses, such as the contractual terms and the arrangements between sub-postmasters and Post Office Counters Ltd., are the operational responsibility of the Post Office Board and management. The Government's role in Post Office matters is confined to broad issues of general policy and to overall financial control. With a network of some 18,000 sub-post offices, it would be inappropriate and impractical for Government or Ministers to become involved in decisions or disputes relating to individual offices.

However, I have noted the concerns of the hon. Member for Twickenham about the consultation procedures that operate in respect of proposed closure or relocation of individual post offices. A great many of us in this place have experience of such closure or relocation, as the Crown post offices were closed over a period and new offices were opened. The current arrangements operate in accordance with a code of practice that is agreed between Post Office Counters Ltd. and the Post Office Users National Council, the statutory body representing consumers' interests in postal services. I noted what the hon. Gentleman said about the POUNC. He will

be pleased to hear—I say this in guarded terms at the moment—that I am carefully considering the effectiveness, strengths and weaknesses of the POUNC. The matter needs to be looked at—and, believe me, it is being looked at.

The consultation process is designed to inform—and to seek comments from—local residents and users of a proposed change in the status or location of a particular post office. During a one-month consultation period, views and comments are sought from the local Member of Parliament, the local authority, the local post office advisory committee and customers. In general, the consultation process works pretty well, though I am aware that the hon. Member for Twickenham feels that, in the case that is of concern to him, the consultation process should have specified the reason for the proposed relocation. As a Minister who is very much in favour of transparency, I believe that that issue should be very carefully examined.

It is fair to say, however, that in many cases there are sensitivities about the reason for the decision, and a delicate judgment may need to be made about disclosure and its potential impact on the reputation or standing of an outgoing sub-postmaster. Therefore—understandably—Post Office Counters Ltd. tends to err on the side of caution in such matters.

All sub-postmasters and franchisees are appointed under contract for the provision of services as agents. They are not employees of the Post Office or of Post Office Counters Ltd. and, as agents, their contractual terms and conditions differ significantly from those of an employee.

A sub-postmaster's contract is a commercial arrangement between the individual sub-postmaster and Post Office Counters Ltd. As a standard condition of the contract, both parties can give three months' notice of termination and neither party is required to give reasons for doing so. Similarly, there is no right of appeal on either side against a three-month notice to terminate the contract. I know that the absence of appeal processes in such circumstances is a matter of concern to the hon. Member for Twickenham and other hon. Members. Although I appreciate the background to that concern, such a right of appeal would tend to distort the commercial even-handedness of the contract unless sub-postmasters were also to be subject to appeals against their decision to resign. Contracts are terminated far more frequently by sub-postmasters than they are by Post Office Counters Ltd. Against that background, I understand that the National Federation of Sub-postmasters fully supports the principle underpinning the present arrangements under which Post Office Counters Ltd. does, in appropriate circumstances, offer an interview with regional managers at the most senior levels.

On occasions, there will be disputes about the background to, and the circumstances of, a decision by Post Office Counters Ltd. to terminate a contract. That is probably inevitable, given the size of the network of sub-post offices and the number of sub-postmasters and sub-postmistresses. For the most part, however, the present arrangements appear to operate satisfactorily from the perspective of sub-postmasters and Post Office Counters Ltd.

What is indisputable is that the nationwide network of post offices which these arrangements underpin has served the United Kingdom well over the years. The post offices have enabled the Post Office to maintain the most extensive retail network in Europe. The Government fully recognise the importance of the post office network and both we and Post Office Counters Ltd. are committed to the maintenance of a nationwide network of post offices. We are also fully aware of the importance of post offices to their local communities, particularly, but not exclusively, in rural areas. More than 98 per cent. of the network, including all sub-post offices, is privately owned and operated, representing a valuable partnership between the public and private sectors.

It is obviously important that the contractual arrangements that govern the partnerships between Post Office Counters Ltd. and individual sub-postmasters are commercially and administratively viable. If they are not, the network will not survive. Although the network has been slowly shrinking for many years, the recent post office closures reflect the difficulties in finding suitable applicants to take on offices which, even in conjunction with an associated retail business, are not judged to be commercially viable by prospective purchasers. As far as either the Government or Post Office Counters Ltd. are aware, it is wider socio-economic and demographic factors, rather than the contractual arrangements at present applicable to sub-postmasters, that have largely been responsible for this trend.

Decisions relating to the operational arrangements for the postal business, including the contractual terms and arrangements relating to sub-postmasters, are and must remain the responsibility of the Post Office board and management. I am sure—I hope very much that this will be the position—that the chairman and chief executive will take note and reflect on the issues and concerns that the hon. Gentleman has raised so eloquently.

We have a little time to explore some of the specific issues to which the hon. Gentleman drew attention. As I said earlier, I am particularly concerned about the effectiveness of the Post Office Users National Council. The hon. Gentleman has done us all a valuable service by giving us a detailed account of the reaction that he had from the POUNC. The present Government, the previous Government and earlier Governments have put considerable sums into the POUNC. One wonders what benchmarks were used to test whether the funding was being used effectively. It is very much up to government now to understand whether precious taxpayers'

money is being used properly. Against the background of the hon. Gentleman's experience, he identified some clear limits to what the POUNC is capable of doing.

I give him an undertaking that we shall carefully examine the POUNC, including its structure and the way in which it works. We shall examine whether it is open enough in its relationship with the public and whether it reacts quickly enough and with any degree of effectiveness to the problems that are brought before it.

The hon. Gentleman talked about whether the POUNC is too close to Post Office management. That is an important issue. The POUNC must be seen to be the consumers' champion.

The hon. Gentleman talked about Post Office Counters Ltd. being able to guarantee some job or contractual security to franchisees, to sub-postmasters and sub-postmistresses. I tried to indicate when I responded to the hon. Gentleman earlier that security is something that must be thrashed out between the various representative organisations and the Post Office itself. We are about to witness a sea change in the way in which the management of the Post Office works and the way in which it operates in a new commercial context. It is a good time to re-examine these issues and it is important that the Post Office does so.

I cannot give the hon. Gentleman any guarantee about security of tenure. There are few commercial organisations, and certainly retail outlets, that can offer such security, no matter which sector they are operating in. It is a difficult area. The hon. Gentleman told the House that currently there is not an appeal system. I feel that that is something that must be negotiated between the franchisees and the Post Office, and Post Office Counters Ltd. itself. It is to be hoped that sub-postmasters and sub-postmistresses will be employed, as the hon. Gentleman said, on an equitable basis. There is every reason why they should be. They are a valuable asset to any community of which they are part.

I hope very much that management will listen to the hon. Gentleman and that we shall see some results as a consequence of this short debate.

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