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Postal Services Bill

Bill 54 of 1999-2000

The *Postal Services Bill* [Bill 54] was presented on 27 January 2000 and is scheduled to have its Second Reading on Tuesday 15 February 2000.

This wide-ranging Bill will enact a number of reforms that were set out in the White Paper, *Post Office Reform: a world class service for the 21st century*, published on 8 July 1999. The Bill has a number of purposes, including: the establishment of the Postal Services Commission and the Consumer Council for Postal Services; the licensing of certain postal services; providing a legal basis for a universal postal service; the vesting of the property, rights and liabilities of the Post Office in a company nominated by the Secretary of State; and for the subsequent dissolution of the Post Office.

The Treasury has prepared Explanatory Notes for the Bill [Bill 54-EN] that describe the purpose of individual clauses. These are available from the Vote Office and the Parliamentary website.

Mick Hillyard

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Summary of main points

The *Postal Services Bill* is a wide-ranging Bill. Its main provisions are outlined below.

- Conversion of the Post Office from a statutory corporation to a public limited company formed and registered under the Companies Act 1985, with ownership remaining with the Crown.

- Introduction of a new system of licensing and regulation for postal services operators/providers operating in the reserved area of the market (currently set at a pound sterling) that defines the monopoly privilege for the Post Office.[1]

- Creation of a Postal Services Commission (the Commission) with new duties and powers to protect the interests of users of postal services. In particular, the Bill enshrines in primary legislation for the first time the universal service obligation and makes it the duty of the Commission to ensure the delivery of this universal service at a uniform tariff.

- Promotion of competition by the Commission, subject to its universal service obligation. The Commission is required to further the interests of users, wherever appropriate by the promotion of greater competition in postal markets. The Commission will be able to promote competition by recommending changes to the scope of the reserved area and by permitting licensed competition within the reserved area. The Commission will also have responsibility for setting quality standards and regulating prices.

- Greater consumer protection through replacing the Post Office Users' National Council (POUNC) with the Consumer Council for Postal Services (the Council) and thereby bringing consumer representation in the postal services market into line with the provision for other utilities. The Council to set up committees for each of Wales, Scotland, and Northern Ireland and allows for committees to be set up for England and areas within England, Wales, Scotland, and Northern Ireland.

The main pieces of legislation currently governing the Post Office are the *Post Office Acts 1953 and 1969* and the *British Telecommunications Act 1981*. The *Postal Services Bill* seeks to consolidate the postal services provisions in these Acts, by repealing or redrafting relevant sections. Article 22 of the *EU Postal Services Directive (97/67/EC)* requires the designation of one or more national regulatory authorities that are legally separate from and operationally independent of the postal operators and set out the function and duties of the Postal Services Commission

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1 The Post Office estimates that the total value of the market in the reserved area is currently in the region of £5 billion. [Source: Explanatory Note –Bill 54-EN].

The provisions of the Bill apply equally throughout the UK, with only minor variations between England, Wales and Scotland in some respects, such as acquisition of land and enforcing prohibitions.

The Bill provides for the Secretary of State to a number of secondary powers. The secondary powers and the clauses giving effect to these powers are:

- adding further exceptions to the general prohibitions against delivering letters within the Post Office reserve area or to modify the value or weight specified at clause 6 (**Clause 8**);
- suspending the licensing regime for limited period (**Clause 10**);
- transferring all the property, rights and liabilities of the Post Office to a company wholly owned by the Crown (**Clause 51**);
- cancelling any liability to Government of the Post Office company (or its subsidiaries) (**Clause 59**);
- increasing the £5,000 million limit of the Crown's financial arrangements with the Post Office (**Clause 60**);
- dissolving the Post Office (**Clause 62**);
- modifying the limits of liability for universal service providers (**Clause 78**);
- modifying enactments, instruments and other documents in consequence of the Bill (**Clause 101**);
- modifying local local enactments (**Clause 102**)
- modifying the lists showing permitted disclosure of information (**Schedule 6**)

This Paper accompanies the Explanatory Notes on the clauses of the Bill that are available from the Vote Office and the Parliamentary website.

This paper examines some of the issues affecting the Post Office, including: the competitive environment in which the Post Office operates and how it is seeking to respond; the financial framework, including its contributions to the Exchequer; the viability of the post office network, with special reference to the conversion programme and the effect of automated credit transfers on the payment of benefits.

A selection of relevant press articles is available from the Library.[2]

[2] Contact Current Affairs Room (6767) or Members Library (3666)

CONTENTS

I Introduction

> The Post Office is a public corporation, with a turnover of around £5½ billion a year, delivers over 60 million letters and three quarters of a million parcels every working day; its post offices serve some 28 million customers every week and has a network of some 20,000 post offices.[3]

The Post Office is a major communications enterprise, employing some 190,000 people and a major player in the business world. It regularly makes a significant financial contribution to the Treasury. The Post Office has a privileged monopoly position that protects it from competition in the delivery of letters with postage costing less than one pound. This reserved area is valued by the Post Office at £5 billion and compares with a total value of the postal services markets in the UK of around £8 billion.[4] It has a nationwide network of outlets and a nationwide delivery system that is unparalleled in the UK. It also has a social dimension to its commercial activities. The Post Office provides free postage for people who are registered blind or visually handicapped. It provides two daily deliveries in most urban areas. The payment of social security benefits gives some extra financial support to small sub-post offices, which is important for the viability of sub-post offices in rural and inner city areas. The Post Office even arranges for all stamped letters addressed to Father Christmas to receive a card in reply.

The Post Office Group comprises three major businesses: Parcelforce; Royal Mail; and Post Office Counters Ltd (POCL). Parcelforce provides a parcel delivery service whereas Royal Mail is responsible for letter services. Post Office Counters Ltd is responsible for the network of post offices, including sub-post offices, franchise offices and the remaining 600 Crown offices.

It is important to underline the connection between the monopoly privilege that is granted to Royal Mail in its letter services and its commitment to a universal postal service. Clearly, the real cost of delivering a second class letter to an isolated community greatly exceeds the price of a second class stamp. For example the real cost of delivering a letter to an isolated Scottish Island may be more than £10, for which the revenue from the (second class) stamp contributes only 19 pence. The difference between the real cost and the price is subsidised by other customers. The Post Office meets its universal service obligation by using its monopoly market position and its economies of scale to engage in this form of cross-subsidisation. To some extent, universality and a privileged monopoly position are simply reverse sides of the same coin. It is difficult to envisage how universal postal services could be preserved throughout the UK if the industry were completely open to all potential entrants. Therefore some degree of market protection and regulation are likely to be required in order to prohibit new entrants from "cherry-picking" the most profitable routes.

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3 Source: *Future of Postal Services*, Cm 2614, para 2

4 Explanatory Notes [Bill 54-EN]

II Historical background

The Post Office was created as a public corporation in 1969.[5] For the previous 300 years it had been a Government department. In 1981 a further reform took place when telecommunications services were transferred to a new corporation, British Telecom, which in turn was subsequently transferred to the private sector by the *British Telecommunications Act 1981*.

Under the terms of the *Post Office Act 1969* and the *British Telecommunications Act 1981*, the Post Office is obliged to provide a postal service to all addresses in the UK.

Members of the Post Office Board are appointed by the Secretary of State for Trade and Industry and are responsible for running the Post Office Group within broad criteria, including financial objectives, which are set by the Government. The Board comprises a Chairman, an executive Board of three and four other non-executive Members.

Within the overall Post Office structure, Scotland, Wales and Northern Ireland have their own Post Office Boards.

A. Pre 1997

In July 1992, the Conservative Government announced a review of the structure and operations of the Post Office along with its intention to privatise Parcelforce Worldwide.[6] A Cabinet meeting in May 1994 decided that further consultation was required and in June 1994, the Department of Trade & Industry published a Consultation Paper entitled “The Future of Postal Services”.[7] The Paper proposed retaining Post Office Counters Ltd [POCL] in the public sector, but with a greater degree of commercial freedom commensurate with public sector rules. The Government's preferred option for Royal Mail and Parcelforce Worldwide was to sell 51% of shares to the public, including special offers to Post Office employees and sub-postmasters. However, the proposals aroused a considerable degree of comment and criticism in Parliament and elsewhere. In Parliament, the Post Office was the subject of a large number of questions and debates.[8] The Government let it be known during November 1994 that the forthcoming Queen's speech would not contain a Bill to privatise the Post Office.[9] On 21 November 1994 the President of the Board of Trade told the House, during a debate on industry and education, that he would have preferred privatisation as an option for the Post Office but at that time this was not possible because of a lack of Parliamentary support.[10]

5 The *Post Office Act 1969*
6 HC Deb 15 July 1992 c 1137-47
7 30 June 1994, Cm 2614
8 See, for example, 18th Opposition Day Debate, HC Deb 12 July 1994 cc835-934
9 HC Deb 21 November 1994 c 353
10 HC Deb 21 November 1994 c 353

The Trade and Industry Committee also produced a number of critical reports.[11] In May 1995, in a statement to the House, Michael Heseltine, the then President of the Board of Trade, announced a series of measures, which reflected the lack of Parliamentary support for the Government's preferred option of privatisation.[12] These measures included:

- a relaxation of the external financing limit (the amount that the Post Office has to give to Government) to 'about half the Post Office's post-tax profit;'[13]
- removal of the formal limit on the Post Office's capital expenditure;
- extension of Post Office activities through the Private Finance Initiative;
- establishment of Post Office group of companies as Companies Act companies; and
- by default, the abandonment of the preferred privatisation of Royal Mail and Parcelforce Worldwide. The President admitted that this was due to insufficient ("some 10") support amongst fellow Conservative MPs.[14]

In the November 1995 Budget, the Government announced that, contrary to its earlier statement, the Post Office would be required by means of a negative External Financing Limit to contribute some £1 billion to the Exchequer over a 3 year period. The financial performance of the Post Office is considered in Section III of this paper.

In 1996, the possibility of privatising the Royal Mail was again back on the political agenda. On 17 July 1996, *The Guardian* reported that the Government was considering a blueprint for a scheme that would lead to the Royal Mail being broken up into 11 regional franchises, each to be tendered for by private firms.[15] The newspaper reported that the controversial proposals could also mean a 5p cut in the cost of posting a letter in certain areas, such as London. According to a Press Association report,[16] a DTI spokesman said that John Major had indicated after the previous privatisation proposals were dropped that the matter would be revisited, and might feature in consideration of the election manifesto.

11 For example, *The future of the Post Office* HC 207, 1993/94 and *The Post Office,* HC170, 1994/95
12 HC Deb 11 May 1995 cc885-894
13 Op cit c885
14 Op cit c 887
15 "Tories to sell Royal Mail: 5p cut in letter post to be offered in manifesto": *The Guardian*, 17 Jul 1996.
16 "Tories 'Planning Royal Mail Sell-Off": Press Association, 17 July 1996.

Suspension of the Post Office monopoly in 1996

The Post Office has a monopoly in the delivery of letters for up to one pound sterling. Section 69 of the *British Telecommunications Act 1981* provides for the Secretary of State, after consultation with the Post Office, to suspend the Post Office monopoly (of carriage of letters at a charge of up to £1), to the extent and for a period specified in an Order made by Statutory Instrument.

A proposal to suspend the Post Office monopoly was announced by Ian Lang, President of the Board of Trade in a statement to the House of Commons on the 22 July 1996 in response to a proposed strike action by postal workers. He said:

> I am now consulting the Post Office on a specific proposal to suspend its monopoly for an initial period of one month with effect from 26 July, unless before then the CWU (Communication Workers Union) calls off its strike action. If it becomes clear that disruption of the postal services is likely to continue beyond that currently announced, I would propose a further suspension of the monopoly for three months.[17]
>
> On 5 August 1996 the President of the Board of Trade announced the suspension of the Post Office monopoly for one month. Previously the Post Office monopoly was suspended from 18 January 1971 to 10 March 1971 under Section 23 of the *Post Office Act 1969*. On the 5 September 1996, when the one-month suspension of the Post Office monopoly had ended, the President announced that if further strikes which caused disruption to the postal services took place, it would be his intention, subject to consultation with the Post Office, to suspend the Post Office monopoly for a period of three months.[18]

On 19 September 1996, following calls for a re-ballot of members, the postal executive of the CWU "unaminously decided to re-ballot the union's members before continuing with its policy of extending or escalating the present industrial action".[19] The dispute ended on 12 November 1996 after the CWU postal workers' union and Royal Mail agreed a settlement, which involved postal workers receiving an immediate annual basic pay award of 3 per cent and with both sides agreeing that a joint union-management working party should examine the contentious issue of teamworking for three months.[20]

17 HC Deb 22 July 1996 cc 21-30
18 “Disruption of postal services”, DTI Press Release P/96/675, 5 September 1996
19 “Postal Ballot: ‘a positive step for the union’ says post union leader”, *Guardian*, 5 September 1996.
20 “Risk of mail strike at Christmas lifted: Postal union and management agree 3 per cent rise and three-month timetable for talks”: *Financial Times*, 13 November 1996

B. Since 1997

The Labour Party's 1997 General Election manifesto included the promise to give the Post Office greater commercial freedom to make the most of new opportunities. In May 1997, Ian McCartney, DTI Minister of State, announced a review of the Post Office, including the suspension of the Crown office conversion programme, whereby Crown offices are closed and converted into franchised agency offices.[21] This conversion programme had been very controversial in many constituencies.[22] This first phase of the review was a so-called "scoping review," which meant that officials would seek to establish the scope or parameters for the main review. The "scoping review" looked at how the Labour manifesto commitment could be met and its implications.

Discussions took place with the Post Office, Post Office Users Council (POUNC), Communication Workers Union (CWU), Direct Mail Users' Association (DMA) and other relevant organisations. The Government presented a summary of those discussions in its oral evidence to the Trade and Industry Committee on 26 November 1997. Their report was duly published on 22 January 1998.[23]

The Government then announced a second phase of its review programme, the terms of reference of which were set out in a written answer on 6 April 1998. This is reproduced below:

> **Mrs. Beckett:** Following consultations last year with the main interested parties and in the light of the Third Report of the Trade and Industry Select Committee, I have commissioned the next phase of the review of the Post Office. The terms of reference of the next phase of the review are:
>
> The Government are committed to the Post Office remaining in the public sector and continuing to provide a universal postal service at a uniform tariff and a nation-wide network of post offices. Against that background, the review will make recommendations on the Post Office's future organisation, structure and financing which will best deliver:
>
> - greater commercial freedom to enable it to compete effectively in the UK and overseas; and
>
> - improved efficiency, effectiveness and service standards.
>
> The review is to take account of the ways in which overseas competitors and analogous organisations are facing, or being set to face, the challenges of the changing market, and is to consider in particular:

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21 "Ian McCartney announces immediate and comprehensive review of options for the Post Office". DTI Press Notice 332/97, 16 May 1997.

22 Conversion programme is considered in greater detail in section V and annex II.

23 The Post Office, HC 380, 1997/98

> - a range of options for partnership with the private sector (such as joint ventures) and for the involvement of employees and customers;
> - how best to ensure fair competition in postal services;
> - the role of Post Office Counters in the delivery of Government services; and
> - the Crown Office conversion programme.
>
> In the meantime, to help it meet the challenges that are already evident, I am extending the current limited freedom that the Post Office already has for international joint ventures to the domestic market.[24]

In December 1998 the outcome of these reviews was set out in a statement by the then Secretary for State at the DTI, Mr Mandelson.[25] The main reforms are summarised below:

> Our starting point is that the relationship between the Post Office and Government has to change. I should make it clear that we certainly do not rule out the possibility of introducing private shareholding into the Post Office -for example, through the sale of a minority stake in it at a later stage. However, at present wholesale privatisation would not be a realistic option
>
> The Government's role in the Post Office will be restricted to the strategic level, both on matters of commercial direction and on setting social objectives. the Post Office board will become clearly accountable for its success or failure in running the business.
>
> An independent regulator will be established to protect consumer interests including standards of service; to regulate prices; to ensure that the Post Office is able to meet its universal service obligation; and to ensure fair competition.
>
> Government will agree a profit target for the Post Office and the equivalent of a dividend to Government, as shareholder, in line with normal commercial dividend practice. In effect, that will mean more than halving the rate at which profits are removed from the business. The external financing limit -- EFL -- for the Post Office for the next year, 1999-2000, will immediately be reduced to £207 million from the provisional figure of £335 million.
>
> In future years, the EFL will be on a more commercial footing. The Government will expect a dividend of 40 per cent., in contrast to the recent average of 80 per cent. That increase in retained profits will enable the Post Office to finance an increased level of investment in the maintenance of its existing business.

24 HC Deb 6 April 1998 c 64W
25 HC Deb 7 December 1998 cc 21-39

> The Post Office Users National Council will be given a more central role, and its powers increased. A uniform public tariff will be maintained for those activities that fall within the obligation on the Post Office to provide a universal service. However, the Post Office will be given the freedom to price flexibly for volume users, and, within the monopoly area, the regulator will restrict prices to ensure that the Post Office is not making excess monopoly profits.
>
> The Government remain firmly committed to a network of post offices throughout the country. The sub-post office in particular plays a valuable role in local communities and offers real service, particularly to the less mobile. We will set a social objective for the Post Office, and for the regulator, of maintaining an effective network….we will set criteria for public access to the services of Post Office Counters that will be policed by the regulator.
>
> There has been a moratorium on the Crown office conversion programme. I have now agreed with the Post Office a strategy, which reflects proposals put by the Post Office to the trades unions, of retaining a core of directly owned and managed Crown offices that account for a significant value of the business done at post office counters. The strategy also recognises that some further conversions will be beneficial to customers and the business. That is a sensible way forward, and I am therefore lifting the moratorium.
>
> If the Post Office is to operate on a commercial basis, it must be able to reward staff for their efforts, taking account of the success of their business, but cutting the cloth to fit in difficult periods. The Government therefore intend, as part of this staged process of reform, to invite the Post Office board to come forward with proposals that will, within the necessary context of public sector pay policy, allow more flexible means of reflecting performance in the various parts of the business.

At the time of the statement, it was reported in the press that some "Government insiders" were highly critical of the reforms.[26]

C. Recent Reforms

In July 1999 the Government published its White Paper, *Post Office Reform: a world class service for the 21st century*.[27] This *Postal Services Bill* implements measures proposed in that White Paper. Indeed, many of the proposals contained in the White Paper and the Bill are similar to those announced in December 1998 by Peter Mandelson. In the Government's view, the *Postal Services Bill* redefines the roles of the Government and the Post Office to reflect changes that have occurred in the postal services market since the 1969 Act. This section outlines the main reforms that the Government is proposing.

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[26] "Labour Goes To War As Mandelson Fails To Deliver On The Mail Sale: Brown's Men Accuse Trade Secretary of Bowing To Pressure From Unions": *Daily Mail*, 8 December 1998

[27] Cm 4340

1. Key reforms

The key reforms in the White Paper are outlined below:

1. Conversion of the Post Office to a public limited company under the Companies Act, with the Post Office remaining a publicly owned business operating within the context of a 5-year strategic plan at a more arm's-length commercial relationship with Government.
2. Establishment of a regulator: the Postal Services Commission, with a remit to promote and protect competition, customer interests and regulate prices.
3. Creation of a new consumer body: the Consumer Council for Postal Services, which should have greater powers than the existing user-representative bodies.[28]
4. The Post Office to maintain a nationwide network of outlets, although the precise shape and configuration should be responsive to commercial and social changes. Government to set minimum access to Post Office services with a view to protecting rural communities. Consumer Council to advise the regulator while the Post Office will include information on access in its annual report.
5. The programme of Crown post office conversion, which was suspended in 1997, to be continued, although for the foreseeable future the Post Office intends to manage the programme so that at least 15% of the total business transacted in post offices will be done in the remaining Crown post offices.[29]
6. Continued provision of an affordable universal service: delivery and collection to all addresses at a uniform and reasonable price.[30]
7. Halving of the threshold rate for the monopoly (or reserve) area to 50p: this issue was subsequently referred to the Postal Services Commission, which will start work in Spring 2000.[31]
8. Bulk users to be offered reduced rates on a discretionary basis.
9. A revised financial regime: the Post Office is expected to provide the Treasury with 50 per cent of its expected post-tax profits in 1999/2000 and, thereafter, 40 per cent of post-tax profits, similar to a commercial dividend; a group profit target will be set, replacing targets for real unit cost reduction (Royal Mail), return on capital employed (Parcelforce) and return on capital employed (Post Office Counters); and by 1 April 2002 the Post Office's balance sheet will be restructured.[32]

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[28] The existing user-representative bodies in the UK, which are limited in their scope to representing users of Post Office services, are abolished

[29] POCL intends to make changes to the consultation process on conversions, which amongst other things, should provide a more objective basis against which interested parties can judge a proposal. Such changes to be incorporated in the Code of Practice on the Network agreed between the Post Office and POUNC.

[30] Universal service at a uniform price inevitably involves an element of cross-subsidy.

[31] See HL Deb 29 November 1999 cc 702-709

[32] The Government will expect the Post Office to invest the equivalent of the commercial dividend in gilts or deposits with the National Loans Fund. The amount to be subject to a floor. Many of the elements of the financial regime will form part of the Strategic Plan. External Financing Limit (EFL) which will equal the sum of the gilts purchased and new NLF deposits less new borrowing) will be announced at the end of the financial year. Once the Post Office is established as a publicly owned plc it will pay an annual dividend over to the Government rather than invest in deposits.

10. Within the 5-year strategic plan, the Post Office to be given greater freedom to develop new products and services; invest; price commercially; and borrow for growth investments.[33]
11. Horizon project to computerise the Post Office network and automate benefit payments to go forward but without the so-called smart card. New benefit payment system using banking system (Automated Credit Transfer) to be in place in 2003 but benefit recipients who wish to collect their benefits in cash at post offices will continue to be able to do so both before and after the change.[34] The Government has agreed to contribute £480 million towards the £1 billion capital costs of the project.[35] The remainder will be funded by the Post Office.
12. The Government does not rule out the possibility of introducing private share-ownership into the Post Office at a later stage.

The Minister, Alan Johnson,[36] summarised the main reforms in a debate in the House in January 2000:

> Under the reforms, for the first time, we will create an arm's length relationship with Government, based on a five-year strategic plan, giving the Post Office greater freedoms to develop new products and services; to price commercially; and to borrow for growth investments. For the first time, we will introduce a tough, new independent regulator, the Postal Services Commission, to promote and protect customer interests, set high-quality standards, regulate prices, and promote competition and innovation. We will strengthen consumer representation through a revamped and reinvigorated Post Office Users National Council and we will put additional resources into the Post Office, more than doubling the post-tax earnings that the Post Office can keep for investment, rather than paying to Government. Also for the first time, we will enshrine the universal service obligation and the single uniform tariff in law, and we will establish access criteria to protect a nationwide network of post offices.
>
> As part of the package, we have already reduced the Government's take to a dividend at commercial levels--50 per cent. of post-tax profits for 1999-2000, falling to 40 per cent. thereafter. We have allowed the Post Office to invest substantially overseas by approving the acquisition of German Parcel, an investment of nearly £300 million and we have allowed the Post Office to borrow up to £75 million each year without prior approval, a facility that it has already used for further smaller European acquisitions in the parcels market.[37]

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[33] For national accounts purposes, borrowing by the Post Offices will continue to score within the Public Sector Net Cash Requirement.

[34] See *Post Office Reform: A World Class Service for the 21st Century*, p11

[35] HC Deb 14 December 1999 c 114W

[36] Before being elected to Parliament in 1997, Alan Johnson was the General Secretary of the Communication Workers Union (CWU)

[37] HC Deb 17 January 2000 c 620

A number of these reforms have already been implemented through administrative action and the *Postal Services Regulations 1999 (SI 1999/2107).*[38] Amongst other things, this SI designated the Secretary of State and the Postal Services Commission as the regulatory bodies for the postal sector in the United Kingdom in accordance with Article 22 of the *EU's Postal Services Directive (97/67/EC)*. The SI also sets the reserved or monopoly area at 350 grams; provided a legal basis for the provision of the universal postal service; and amended the *Post Office Act 1969* to require the Post Office to establish schemes for dealing with users' complaints. The *SI (Postal Privilege (Suspension) Order 1999)* which would have reduced the monopoly threshold area to 50p from 1 April 2000 was subsequently revoked by *The Postal Privilege (Suspension) Order 1999 (Revocation) Order 1999*. In effect, the action preserves the *Postal Privilege (Suspension) Order 1981* (as amended by the *Postal Services Regulations 1999 (S.I. 1999/2107))* which suspends the privilege until the end of the year 2006 for letters weighing not less than 350 grams or costing not less than £1 so permitting persons other than the Post Office to convey such letters.

The aim of the *Postal Services Bill* is to enable the Government to complete its package of reforms.

2. Responses to the reforms

The Post Office welcomed the White Paper on Post Office reform. An extract from its press release is reproduced below:

> The White Paper on Post Office Reform last July was a landmark as it promised real commercial freedoms under a more commercial financial regime and a new strategic arms-length relationship with Government.
>
> There was also freedom for the Post Office to borrow up to £75 million a year at commercial interest rates for acquisitions, joint ventures and business investments. The Government further pledged that it will approve commercially robust proposals from the Post Office for larger investments in projects within the scope of the Post Office's strategic plan.
>
> We also welcomed the White Paper's commitment to enshrine in law the universal service obligation under which the Post Office provides a letter and parcels service to every one of the 26 million UK addresses, no matter how remote, at a uniform price. In addition, there will also be a legal obligation to run and maintain a viable network of post offices.[39]

The *Postal Services Bill* received a generally warm reception from the Communication Workers Union. However, its General Secretary, Derek Hodgson, said he was concerned that

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[38] Laid 26 July 1999

[39] Post Office welcomes Government's announcement on Post Services Bill, Post Office press release, 17 November 1999,

a substantial amount of the Post Office could end up out of Government hands through a series of share swaps with other companies if the Post Office enters into joint ventures.[40]

An editorial in the *Daily Telegraph* was very critical of the proposed reforms. It stated:

> The Government could and should have privatised the Post Office now and with haste, so that it could act as the German and Dutch post offices have done – making alliances and acquisitions across the world. In the coming era of postal services, new worldwide postal companies will offer global services to companies for their complete postal needs. To compete in this utterly international business, it was essential for the Post Office to be able to do deals, and soon. But it will be so hamstrung that it will be incapable of acting with the vigour and decisiveness necessary. Under the arrangements announced yesterday, the Post Office will be allowed to borrow only a pitifully small pounds 75 million a year. But, worse still, the money available to it will go down, not up, as Stephen Byers, the Secretary of State for Trade and Industry, misleadingly claimed yesterday.
>
> Money will be taken out of its hands by the removal of the Post Office's monopoly on post worth between 50p and pounds 1, the Government's grabbing of the interest on its reserves, and the removal of many of the payments through post offices from the Department of Social Security in 2003. This latter measure, incidentally, means that sub-post offices – many in the countryside - are at great risk. As many as a quarter of them may close. It is true that the new, supposedly independent Post Office will be allowed to issue shares in order to acquire companies. But only after both Houses of Parliament have deigned to vote on the issue. This is an absurd idea that could have been dreamt up only by politicians and civil servants with no experience of business. Time will be of the essence.[41]

According to the editorial, “this great opportunity for our post office” was missed because “the trade unions do not like it.”

III Financial targets and performance of the Post Office

In 1998-99, the Post Office announced that it had:

- Generated an overall profit of £608 million, the 23rd year of subsidy-free profit.
- Achieved its External Financing Limit of a £310 million surplus.
- Contributed £2.4 billion to Government finances since 1981.[42]

A summary of the Post Office’s recent performance against its targets is shown overleaf:

40 “Post Office to hit Europe”, *Observer*, January 30, 2000
41 Leading article: “Lost in the post”, *The Daily Telegraph*, 9 July 1999
42 Post Office Annual Report, 1998/99 and Post Office website.

Post Office 1998/99 Annual Report

Results at a glance - The Post Office Group

Alternative accounting rules Companies Act 1985

	1998-99	**1997-98**
	£m	£m
Turnover	7,010	6,759
Profit before Taxation	608	664

Financial targets

As announced by the government following consultation with The Post Office

	Achievement		**Target**	
	1998-99		1998-99	
	%	*£m*	*%*	*£m*
Profit/(loss) before taxation				
Royal Mail (a)	22.6	485	20.0	430
Parcelforce Worldwide (a & b)	-11.0	-25	5.5	13
Post Office Counters (c)	2.8	32	2.5	29
				£m
External Financing Limit (d) **(*Cash surplus*)**				
Group performance after rollover		310		310
		%		*%*
Real unit cost reduction (e)				
Royal Mail		6.2		6.2

Source: The Post Office 1998-99 Annual Report

Notes

(a) Profit targets for Royal Mail and Parcelforce Worldwide are expressed as profit before taxation on capital employed. A profit target has not been set for the Group. Further details of government targets are given in Group Accounts note 29 on page 33 of the Annual Report.

(b) The government target for Parcelforce Worldwide is a 5.5% return on capital employed (equivalent to £13m profit). The government noted that The Post Office decided to adopt a 1998-99 target, for internal management control purposes, of a £12m loss.

(c) For Post Office Counters the profit target is expressed as profit before taxation on turnover.

(d) The Secretary of State has agreed that up to £30m of External Financing Limit (EFL) over achievement may be rolled over to offset the 1999-00 EFL target. £11m has been rolled over.

(e) Real unit cost achievement represents performance against target for the final year of a three year period during which Royal Mail was targeted by government to achieve a 6.2% reduction in RUC, measured against a 1995-96 base.RUC targets are not set for Counters, Parcelforce Worldwide or for the Group.

(f) The results for 1997-98 have been restated as a result of the implementation of FRS 12, as set out in Group Accounts note 29 on page 33 of the Annual Report.

A. Contribution to the Exchequer

The Post Office does not make payments to the Consolidated Fund as it does not pay a dividend. However, its contribution to the Exchequer can be measured by its negative External Financing Requirement, through which it is obliged to invest in gilt-edged stock or National Loan Fund deposits. In each of the last 10 years its contributions in both actual and in 1998-99 Retail Price Index values were as follows:

Contributions to the UK Exchequer

£ million

	Current	Real terms 1998/99 prices
1989-90	102	142
1990-91	0	0
1991-92	74	90
1992-93	80	94
1993-94	182	211
1994-95	235	265
1995-96	245	267
1996-97	285	304
1997-98	338	349
1998-99	321	321

Source: HC Deb 19 October 1999 c456-7W

By 1995 there was some criticism that over a 10 year period the Post Office had to hand over £1 billion to the Government. In March 1995, the then President of the Board of Trade, (Mr. Heseltine) announced:

> I am prepared to agree that, in future, we will aim to set the EFL at about half the Post Office's forecast post-tax profit. I hope to make progress in this direction this Autumn.

However, as stated earlier, in the November 1995 Budget the Government announced that, contrary to its earlier statement, the Post Office would be required by means of a negative External Financing Limit to contribute some £1 billion to the Exchequer over a 3 year period. This was met with consternation in the Post Office; the Post Office announced that such a drain on its funds would lead to a cut in its investment programme and an increase in the price of stamps.[43]

[43] For example, Budget demands threaten rise in price of stamps, *The Independent*, 1 December 1995

B. Proposed financial regime

In the White Paper on Post Office reform, the Government confirmed that under the proposed financial regime for the Post Office an equivalent of a commercial dividend would be set at 50 per cent of expected post-tax profits in the current financial year (1999/2000) and at 40 per cent in subsequent years. It is estimated that this change would give the Post Office an extra £600 million over five years when compared with the 80 per cent rate that had been imposed in some years. According to the Government:

> this will more than halve the rate at which profits are removed from the business and increase the funds available to the Post Office to fund future investment. Once the Post Office has been established as a plc, it will pay an annual dividend to the Exchequer rather than build up its deposits.[44]

Also under the proposed framework the Post Office will be able to borrow for growth investments up to an annual limit of £75 million in each of the next five years. In addition, the:

> Post Office will be free to seek approval for growth investments costing more than £75 million, as necessary, but the approval of Ministers will be required. The Government will approve Post Office requests for borrowing for these larger investment cases, which are consistent with the rolling five-year strategic plan, commercially robust, and pose no undue risk to the taxpayer. The precise terms of any borrowing will depend on the investment concerned.[45]

In short, borrowing by the Post Office should, on value-for-money grounds, be from the National Loans Fund, but at a commercial rate without a Government guarantee.[46]

IV The competitive environment

> The Post Office knows liberalisation is coming and, indeed, we welcome it. Together with globalisation and technology, liberalisation is one of the key drivers in the development of postal services worldwide, not just within Europe.
>
> But as well as providing a key resource for businesses, postal services are also a vital part of the social fabric.[47]

44 HC Deb 19 October 1999 cc 456-7W
45 HC 26 Jul 1999 c 94W
46 HC 26 July 1999 c 88W
47 "British Post Office recommendations for further liberalisation of European Community postal services", Post Office Chief Executive, John Roberts, speaking in Brussels, Post Office press release, 10 November 1999

Outside its reserve area, the Post Office operates in a highly competitive environment that is being increasingly affected by globalisation, liberalisation and technology. For example, the Post Office faces competition from other postal businesses, such as the Dutch Post Office, and electronic communications.

The Post Office is not solely a mail, parcels and retail business; but rather an important player in the rapidly changing and highly competitive communications market. Much of the discussion about the future of the Post Office, however, tends to focus on the network of post offices, especially as the Benefits Agency encourages the use of Automated Credit Transfer (ACT). The letter and parcel delivery services are also, of course, important parts of the business of the Post Office.

The following section considers three main factors that have been generating strong competitive pressures on the Post Office: globalisation, technology and liberalisation.

A. Globalisation and Technology

Global and European postal markets are changing rapidly. The Dutch and Swiss Post Offices now have sales forces in the UK to win business that would otherwise go to the UK Post Office. The Post Office competes head to head with private courier companies, foreign postal administrations, telephones, faxes, emails and other telemarketing businesses. Alan Johnson told the House:

> Over the past seven years, the challenge from overseas competitors has become ever more intense. At least six overseas postal administrations have established offices within a few miles of the House to entice British companies to print and post abroad. For years, overseas postal administrations have exploited the fact that the Post Office has been operating with one hand tied behind its back, with negligible commercial freedom; with no ability to invest other than from retained profits; with large chunks of those profits siphoned off by the Exchequer; and with its future under constant review since 1992.[48]

The Post Office's share of the overall communications market is increasingly being challenged by the use of fax, phone and e-mail. Only direct mail is increasing substantially. The importance of electronic information can be illustrated by the way that information is disseminated nowadays by Parliament compared with just a few years ago: faxes, emails and the use of the Internet and Intranet are widely available.

B. Liberalisation

The postal market in Europe is about to undergo dramatic changes in the next few years. The EU *Postal Services Directive (97/67/EC)* underpins improvements in quality of services and

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[48] HC Deb 17 January 2000 c 618

establishes common rules for the development of the internal market in Community postal services. The main objectives of the Directive are:

- ensuring a universal postal service within all Member States;
- setting criteria for defining the monopoly area which may be permitted;
- requiring that prices are affordable, geared to costs, transparent and non-discriminatory;
- requiring that accounting systems of postal operators enable the regulator to check that costs are properly allocated to the monopoly and non-monopoly areas;
- requiring the setting and publication of service standards;
- requiring the establishment of a national regulatory authority separate from the public postal operator.

In those countries, including the UK, which have an efficient postal system, the Directive is not expected to have much immediate effect. Under the first stage of liberalisation, some outgoing cross border mail is removed from the reserved area. This stage is likely to have most effect in those countries with a weak and relatively inefficient postal system, which in general are those countries in southern Europe. The UK is likely to be affected more by the *Distance Selling Directive (97/7/EC)*, which seeks to establish protection of consumers in respect of distance contracts. This Directive has to be implemented in national law by 4 June 2000. The Post Office Users' National Council described the effect of the Directive as follows:

> Article 10 of the Directive places restrictions on the use of certain means of distance communication unless the supplier has obtained the prior consent of the consumer. This could have serious implications for the direct mail market.[49]

The view of the UK Government is that the Post Office can generally deal with the extra competition involved. The Select Committee on the European Communities (House of Lords) took a different view on this aspect in its report. The report concluded:

> The extent of liberalisation of domestic mail proposed is acceptable, though a simple price threshold would be preferable. The liberalisation of outgoing cross-border mail is unobjectionable, but the proposed automatic liberalisation of new services should be replaced by a presumption in favour of their continued reservation.
>
> Direct mailing and incoming cross-border mail should be maintained within the reserved area. At the very least the decision whether to proceed with a second stage of liberalisation should not be taken until the effects of the first stage of liberalisation have become apparent and should only involve liberalisation by content if the issues of verification and enforcement have been satisfactorily resolved.[50]

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[49] POUNC Annual Report, 1998-99

[50] *Community Postal Services*, para.181-182, 10th report, HL 81, 1995/96

The European Commission published a series of studies into a number of aspects of postal systems at the end of 1998. These studies are available on the Internet.[51]

C. Response by the Post Office to competitive pressures

In order to meet competitive challenges the Post Office has long argued that it needed greater commercial freedom to:

1. Invest in companies, participate in joint ventures, acquire/establish companies within the postal and related sectors domestically and internationally;[52]
2. Develop new products and services to meet the changing needs of our customers;
3. Pay a reasonable dividend to the Government in place of the EFL regime;
4. Raise external finance for investment;
5. Adjust letter prices within a cap formula for letter monopoly services and at competitive rates for non-monopoly services; and
6. Reward and incentivise employees outside public sector pay constraints.

In recent years, the Post Office has had some success in diversifying into new areas of business. The success of the lottery business carried out in post office outlets and the establishment of bureau de change facilities and personal insurance are notable examples.[53]

Currently, there are 170 different transactions that are provided at post offices, although not all post offices offer all transactions. Under the revised Horizon project, and with £500 million from the Treasury, post offices should be provided with an on-line IT platform that will modernise the way that they operate.[54] The Horizon project is described more fully in annex 1.

According to the Alan Johnson:

> [..] with computerisation, every office in the country will be able to provide every service. At the moment, some offices in rural areas are restricted in the services that

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[51] www.ispo.cec.be. On September 16 1999 the Commission approved the REIMS II Agreement between 16 European postal operators on terminal dues.

[52] To some extent the Post Office can already engage in joint ventures. For example, on 24 November 1999 the Post Office announced that it had acquired a 100 per cent holding in Citipost Group, the New York based document delivery company which has operations in Europe and North America. On 12 October 1999 the Post Office announced it had bought the Williames group of companies, one of the leading suppliers of parcel and logistics services in Ireland. On 3 May 1999 the Post Office announced that it had bought one of the leading German express carriers, Der Kurier, as part of its continued drive to be one of the world's top distribution companies. On 11 January 1999 the Post Office announced that it had made its first major foreign acquisition – the complete take-over of German Parcel, the third largest private carrier in Germany with annual sales of £250m. On 2 February 2000 the Post Office announced that had bought the Paris-based Crie group of postal companies which specialise in delivery of domestic French and international express mail.

[53] HC Deb 17 January 2000 c 624

[54] HC Deb 17 January 2000 c 622

> they can provide because of the difficulty of training staff in 170 transactions. We need to deal with that issue.[55]

In addition to the lack of staff training, some services may not be available in some post offices as a result of the terms of the particular contract that Post Office Counters has with its client, such as the Driver and Vehicle Licensing Agency (DVLA). Under the terms of the contract, DVLA, for example, may not consider it good value for money to pay POCL a higher fee to have the service provided at all post office outlets. Therefore, availability may be limited.

Joint ventures would also allow the Post Office to fight the competition. According to a press report, the Post Office is planning a £3 billion assault on the European postal market, aiming to build a major position in every EU country by 2008. For example chief executive, John Roberts, is reported in the press as saying that he would use the greater commercial freedoms outlined in the Government's *Postal Services Bill* to launch into Europe and the US. According to the article:

> Roberts wants to build a presence on the Continent before markets there are liberalised. There are plans to reduce state monopolies on delivery of letters in 2002, with the possibility of all restrictions going in 2008.[56]

The Post Office can also respond to competition by increasing efficiency. For example, as an illustration, a 1% improvement in efficiency would give a benefit to the economy of around £80 million.[57]

V Pressure on the network

The size and composition of the network have become two particularly sensitive issues in recent years. Indeed, there have been five parliamentary debates on the Post Office network this session, reflecting the widespread interest in the issue.[58] However, the Post Office network has been in decline for some years, with post offices closing at a rate of about 200 offices or 1 per cent of the network per year for 20 years.[59]

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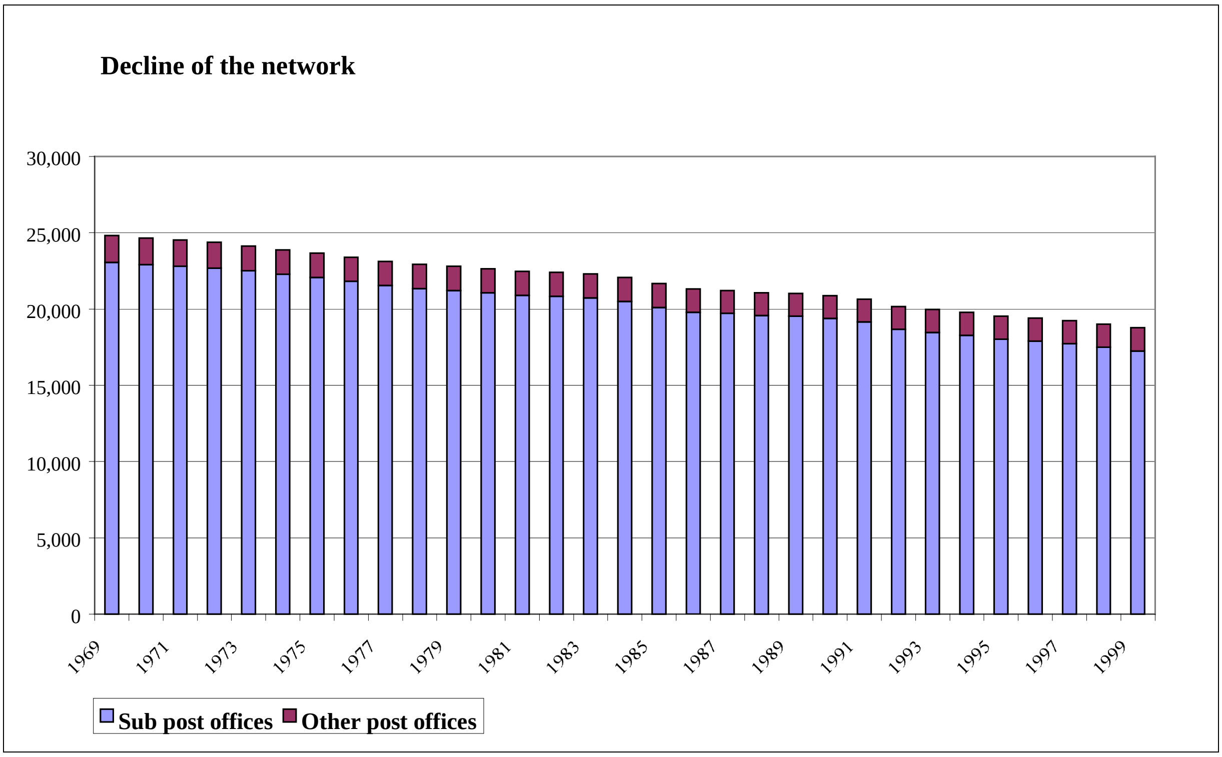
[55] HC Deb 17 January 2000 c 652

[56] "Post Office to hit Europe", *Observer*, 30 January 2000

[57] Source: Explanatory Note –Bill 54-EN.

[58] HC Deb 17 January 2000 cc 611-58; HC Deb 12 January 2000 cc 47-52WH; 15 December 1999 cc 89-95WH; HC Deb 13 December 1999 cc 95-97; and HC Deb 21 October 1999 cc 675-8.

[59] HC Deb 17 January 2000 c 621



The sections below consider the effect of ACT and the Conversion programme on the Post Office network.

A. Increased use of automated credit transfer (ACT)[60]

> Mr. Rooker: As at August 1999, about 65 per cent. of all benefit recipients were receiving payment in cash by order book or girocheque at the Post Office. Thirty-four per cent. were receiving payment by direct credit transfer and 1 per cent. by other methods of payment into banks (these include payable orders and the small proportion of giro cheques paid into bank accounts).
>
> It is estimated that fraudulent losses during 1998-99 from cash payments were £19 million in respect of girocheques and £83 million in respect of order books. No fraud has been detected to date directly arising from payment by direct credit transfer.[61]

Provisions relating to payment of benefits by to Automated Credit Transfer (ACT) are not contained in the *Postal Services Bill* because legislative provision for this already exists.[62] However, the Government has announced that from 2003 the Department of Social Security (DSS) will begin the process of moving from paper-based methods of paying benefits (i.e. giros and order books) to ACT into bank accounts. Further details on this subject, including

[60] Much of the material for this section was produced by Pat Strickland and Kim Greener

[61] HC Deb 26 October 1999 c 842W

[62] See Annex 1.

the comparative costs of paying benefits via the giro, order book and ACT, are set out in annex 1.

The move towards ACT was expected to be completed in 2005. However, in a recent Written Answer it was announced:

> In 2003, the transition from current paper based methods of payment will begin, and by the end of 2005 the **majority** of benefit recipients will receive payments via automated credit transfer. Detailed migration plans are not yet in place. We are still researching our customers' needs and will ensure that the migration is managed carefully and in a way that will not put at risk the efficient distribution of benefit payments.[63]

1. Collecting benefits at the post office

The DSS estimate that, at present, around 80% of benefit recipients already have an account suitable for receiving benefit payments and 34% of benefit recipients choose to have their benefits paid by ACT.[64] Of course, that leaves 20% of benefit recipients without a suitable bank account. The Government has repeatedly emphasised that those benefit recipients who wish to collect their benefits in cash at post offices from 2003 will continue to be able to do so.[65] However, a Written Answer suggests that such cash payments will be paid into a bank account first,[66] although on the 2 February 2000 the Prime Minister stated:

> We should modernise so that benefits are paid into bank accounts for people who want that, but we shall make arrangements for those who do not want that to enable them to continue collecting in cash.[67]

It has also indicated that special arrangements will be made for the minority of claimants who cannot operate bank accounts.[68] For example:

> The vast majority of benefit customers already have bank accounts. We will be making arrangements for the people and payments where ACT is not the right answer. This may include supporting people as they access the increasing number of simple banking products being introduced. As these arrangements will not be required until after 2003 we are still researching our customers' needs and studying current market trends.[69]

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63 HC Deb 31 January 2000 c 469W. [Author's emphasis].

64 Memorandum submitted to the Trade and Industry Select Committee by the Department of Social Security, July 1999, Trade and Industry Committee, *The Horizon Project for Automated Payment of Benefits through Post Offices*, 14 September 1999, HC 530 1998-99,

65 See for example HC Deb 29 November 1999 c 54W

66 HC Deb 24 January 2000 c 83W, see Annex 1

67 HC Deb 2 February 2000 cc1036-7

68 Alistair Darling, evidence to Trade and Industry Committee, *The Horizon Project for Automated Payment of Benefits through Post Offices*, 14 September 1999, HC 530 1998-99, page 40

69 HC Deb 31 January 2000 c 469W

A Briefing Note from Alistair Darling and Steven Byers on benefits payment by ACT at post offices set out the position as follows:

> The Government have made a clear commitment. Even after the move to ACT is complete, people will still be able to get their cash at the post office, if they want. This will be true whether or not they have their money paid into an account at a bank.
>
> The Government is in discussion with the Post Office and financial services industry about how this will work in practice, but we recognise that people will expect to be able to withdraw the exact amount of their benefits, and to do so quickly and without incurring bank charges.[70]

Currently, individual post offices are being computerised with the aim of providing some kind of banking facility. In addition, a number of banks already allow access to personal accounts at post offices. The Government envisages that the period to 2003 "will allow the Post Office to develop its relationship with the banking industry and the range of services it offers to personal customers."[71] In terms of providing better commercial opportunities for post offices, the Government is keen to underline the importance of the two-year gap that will exist between the time when post offices become fully automated and the start of the migration towards ACT. The position was set out by Alan Johnson:

> The Government will not take active measures to move customers on to automated credit transfer before 2003. With automation completed by spring 2001, Post Office Counters will have a further two years to grow new areas of work to compensate for what has always been an unhealthy and fragile over-reliance on Benefits Agency work.
>
> By moving to ACT, we will merely be replacing outdated paper-based methods of payment, which have scarcely changed in the past 50 years with a modern, more secure and more cost-effective system. Ensuring that individuals will continue to be able to access their benefits and pensions in cash at post offices is fundamental to our plans.[72]

On 28 January 2000, in a publicity campaign to make it clear that benefit claimants would continue to be able to collect their benefits in cash at local post offices even after changes to the benefit payments system, Stephen Byers, Secretary of State for Trade and Industry, unveiled a joint DTI, DSS and Post Office poster and leaflet. He said:

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70 "Benefit Payment by ACT at post offices", Briefing Note sent to Labour MPs from Alistair Darling and Steven Byers, 7 February 2000

71 HC Deb 16 June 1999 c 189W

72 HC Deb 17 January 2000 c 624

> The posters confirm the Governments commitment to the Post Office Counters network which is currently being automated at a rate of 300 post offices per week. More than 2000 post offices have been fully automated.
>
> There have been some consumer concerns that this service would no longer be available after 2003 when the changes start. This is not the case. Posters and leaflets will be displayed at post offices across the country to make this clear and put an end to any worries people have.

He added:

> I can also announce today that we are on target to have a fully computerised network by 2001. This will enable post offices and sub-post offices to offer customers new computerised services and bring bank facilities back to rural and urban deprived areas.[73]

2. The number of post office closures

It has been suggested that between 5,000 to 8,000 post offices could become non-viable from 2003 when the Government encourage the automatic transfer of benefit payments to bank accounts.[74] Indeed, the Federation of Sub Post Masters and Post Mistresses is reported as saying that 8,000 rural post offices faced closure because of the Government's move to pay social security benefits into bank accounts by 2003.[75] Post Office Chief Executive John Roberts is reported as saying that he has grave concerns over the future of Britain's 19,000 post offices because of Government plans to switch benefits payments to banks within two years.

> If you take away this business, which accounts for 30 to 35 per cent of some sub-post offices' work, there could be real trouble.
>
> 'No business can replace that in two years,' he said. 'You are either looking at slowing the process down, subsidising the sub post-office network or seeing up to 8,000 of them close.[76]

The figure of 8,000 post office closures was refuted by the Prime Minister when he told the House:

> We have given a strong commitment to rural post offices. The previous Government were committed to privatising the Post Office. That is not our policy. As a result of the measures that have been announced, we shall be able to protect rural post offices in future.

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73 *Byers delivers on Government commitment to world class UK postal service*, Department of Trade and Industry Press Release, P/00/053 28 January 2000.

74 For example, see "Subsidies may be needed to save post office chain", *Financial Times*, 29/20 January 2000

75 "Cash machines to help save rural post offices": *The Daily Telegraph*, 5 February 2000

76 "Post Office to hit Europe", *Observer*, 30 January 2000

He added:

> The figure of 8,000 is wrong for the reasons that I have just given. [77]

3. Vulnerability of post offices

There is genuine concern that a number of post offices, especially in poor urban and rural areas, could become financially non-viable as a result of a significant loss of business income. There is another view that excessive emphasis on the threats to post offices could significantly reduce the capital value of some sub-post offices, which are likely to be thriving businesses.

According to Post Office figures, some 45% of all post offices in GB, or 7,890 post offices out of a total of some 17,635, depend on the Benefits Agency for at least 40% of their work[78] Although 40% is an arbitrary threshold figure, it does perhaps illustrate the number of post offices that are potentially vulnerable to greater use of ACT. This is perhaps the basis of the claim that "8,000 post offices" face closure. As expected, the number of post offices that are highly dependent on Benefits Agency work varies greatly between constituencies. Although there are genuine concerns about post offices in rural areas, an analysis of the figures seems to indicate that the constituencies with the highest percentage of vulnerable post offices are likely to be the poorer urban areas rather than rural areas. For example, Liverpool Walton where all 16 post offices depend upon Benefits Agency work for more than 40% of their business.

The table overleaf ranks constituencies by the percentage of post offices they have that depend heavily on benefit payments. The table shows the top and bottom twenty constituencies in Great Britain. This constituency analysis is provided simply because it is the most convenient way of combining detailed figures from the Post Office figures with data on rurality.

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[77] HC Deb 2 February 2000 c1036

[78] Figures provided by the Post Office are given in a paper deposited paper (99/1942) in the Library in response to a question by Mr Corbett: HC Deb 29 November 1999 C22W

Post offices and benefit payments: measure of vulnerability?

Rank (from most to least vulnerable)	Constituency	Number of post offices	Benefit Agency work exceeds 40% number	Benefit Agency work exceeds 40% % of total	Rank (from most to least rural)
1	Liverpool, Walton	16	16	100%	639
2	Burnley	28	26	93%	379
3	Hyndburn	22	20	91%	349
4	Wentworth	22	20	91%	452
5	Liverpool, Wavertree	21	19	90%	643
6	Cynon Valley	28	25	89%	324
7	Barnsley East and Mexborough	27	24	89%	295
8	Motherwell and Wishaw	17	15	88%	522
9	Houghton and Washington East	24	21	88%	438
10	Liverpool, West Derby	15	13	87%	653
11	St.Helens South	22	19	86%	418
12	Merthyr Tydfil and Rhymney	34	29	85%	334
13	Knowsley North and Sefton East	20	17	85%	284
14	Glasgow Baillieston	13	11	85%	647
15	Rother Valley	13	11	85%	320
16	Rhondda	32	27	84%	456
17	Bradford North	19	16	84%	602
18	Coventry North East	19	16	84%	594
19	Dudley North	18	15	83%	597
20	Leigh	18	15	83%	400
617	Reigate	28	2	7%	297
618	Wealden	43	3	7%	113
619	Guildford	29	2	7%	233
620	Tunbridge Wells	29	2	7%	236
621	Kensington and Chelsea	15	1	7%	550
622	Solihull	16	1	6%	463
623	Horsham	33	2	6%	145
624	Huntingdon	33	2	6%	186
625	Hendon	17	1	6%	604
626	Holborn and St.Pancras	17	1	6%	587
627	Stevenage	17	1	6%	290
628	Henley	35	2	6%	139
629	Mole Valley	39	2	5%	161
630	Edinburgh Central	20	1	5%	287
631	Hammersmith and Fulham	20	1	5%	605
632	Surrey Heath	20	1	5%	273
633	Witney	41	2	5%	130
634	Hertford and Stortford	22	1	5%	263
635	Sevenoaks	29	1	3%	290
636	South West Surrey	31	1	3%	184
	Total	17,635	7,890	45%	-

Source: Number of post offices in each constituency are given in Deposited Paper 99/1942

Notes

The Post Office provided numbers for 636 constituencies in GB only.

Rurality index is derived from population sparsity and employment in the primary sector. Figures available for 659 constituencies.

Another common perception seems to be that sub post offices rather than Crown post offices will be most affected by the loss of DSS benefit payment business. However, figures for the number of DSS benefit transactions show that some 24% of payments in 1998-99 were actually made through 600 Crown post offices, which accounted for only 3.2% of the network.[79] By comparison, some 17,300 sub post offices account for just three times as many transactions. In short, Crown post offices stand on average to lose about nine times as much business as the average sub post office. The potential effect of a loss of DSS business on the remaining Crown post offices should not be under-estimated. The figures are set out in the following table.[80]

Post offices and the number of benefit payments

	Number of transactions	Percentage
Crown offices	181,469,895	23.9
Sub-post offices	572,503,350	75.4
Community offices	4,555,729	0.6
Other	759,288	0.1

To sum up this section, although the post offices in rural areas look vulnerable to the increased use of ACT, a large number of sub post offices in poor urban areas and Crown offices nationally could be as, or more, vulnerable.

B. The conversion programme

The issue of the conversion of Crown post offices into agency post offices is very sensitive in a number of areas. Under the conversion programme Post Office Counters Limited (POCL) have been implementing a programme of converting the directly operated (Crown) post offices into franchised post offices. A Crown post office, usually on a high street, is converted into a franchised operation, or more usually the Crown post office is closed down and at some distance away (possibly as little as a few hundred yards) a franchised post office is opened. The franchised post office will usually be situated in some commercial retail outlet owned perhaps by a supermarket chain, say, Safeway or the Co-operative Retail Society. The franchised post office may be open for longer hours and may offer a similar or greater range of postal services than available at the Crown office. Rightly or wrongly, post office conversions are often resisted by local groups, especially in the beginning and strongly resisted if the new franchised post office is transferred to an out-of-town shopping complex.

The conversion programme was introduced in 1989/90 and was suspended when the new Government came to power in 1997. The lifting of the moratorium on the conversion programme was announced on 7 December 1998 by the then Secretary of State for Trade and Industry, Mr. Mandelson.[81]

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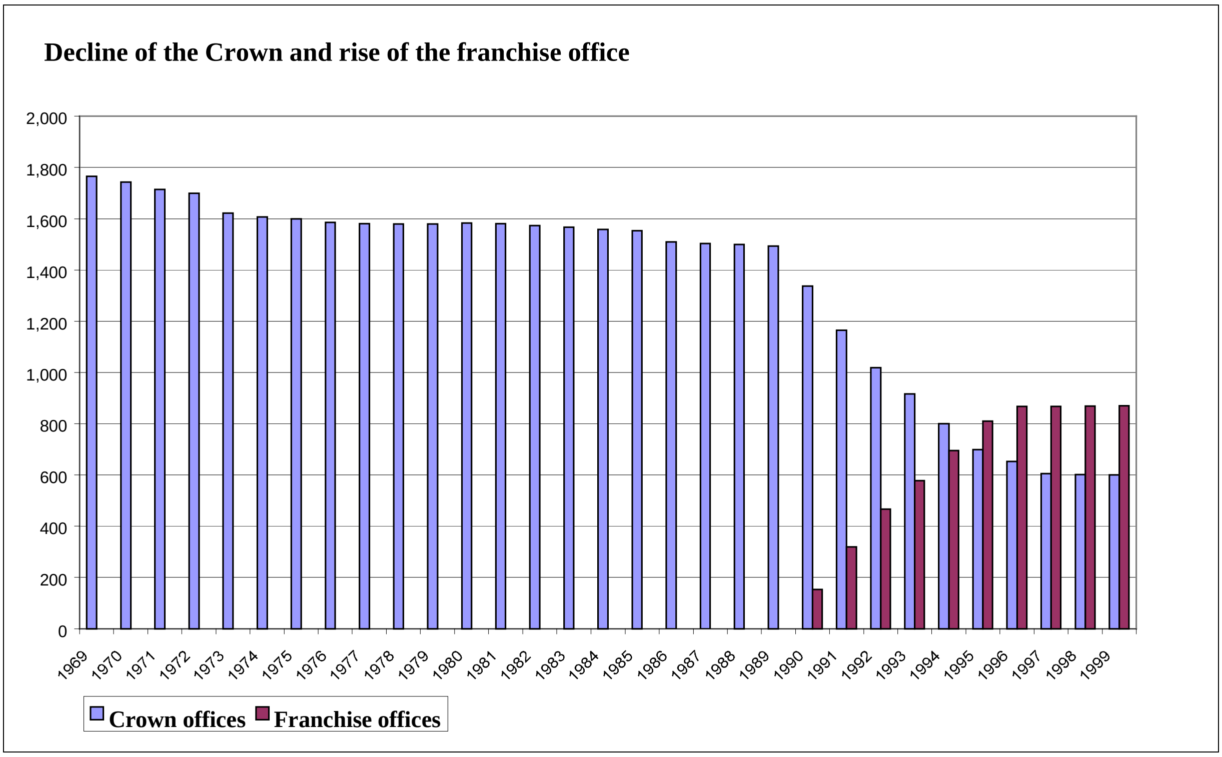
79 HC Deb 26 July 1999 c 97W
80 HC Deb 26 July 1999 c 97W
81 HC Deb 7 December 1998 cc 21-39



The rationale behind the conversion programme is set out in annex 2.

VI Support for the network

The previous section showed that the present size and configuration of the post office network is under pressure from greater use of ACT payments and the conversion programme. This section considers some ways in which the network can be supported.

A. The remuneration system

The prospect of a significant loss of business for many post offices will inevitably prompt calls for a more generous remuneration system, or even explicit subsidies. Although the remuneration arrangements between Post Office Counters Ltd. and sub-postmasters and sub-postmistresses are commercially confidential,[82] it is generally known that smaller post offices, mainly in rural areas, receive additional financial support. According to Ian McCartney:

> [..] all sub-post offices receive some level of guaranteed minimum income. The system, which was specifically designed to help support smaller, mainly rural offices, includes a fixed element and an element which varies according to the amount of

[82] HC Deb 26 July 1999 c 97

> business a sub-post office handles. The fixed element is a larger proportion of the overall pay for small offices.[83]

Under the Bill the Government will have power to set criteria to ensure public accessibility to post offices. Mr Byers is reported as saying that in certain circumstances, a subsidy from local authorities or the Government might be appropriate.[84] The precise arrangements of such a system of subsidy are currently unknown.

B. Increases in other services

Post offices may also offset the loss of Benefits Agency work by attracting new work from both the public and private sector. At present, post offices provide services for other departments, such as the Department for Health. For example, Health Minister, Yvette Cooper, told the House:

> Crown post offices issue leaflets called "Health Advice for Travellers" to customers on request, check the customer's self-completion of form CM1 contained in the leaflet and issue properly completed and authorised Form E111 to entitled persons. These documents entitle the holder to free or reduced cost emergency health care in other European Economic Area states.
>
> Main post offices also display a poster and two leaflets informing the general public about entitlement to help with health costs. They distribute approximately one million leaflets per annum.
>
> Crown and other post offices pay cash refunds of prescription charges when presented with a properly completed claim form by a patient or his/her representative.
>
> Crown and other post offices distribute milk tokens under the Welfare Food Scheme on behalf of the Department. Milk token issues through post offices are expected to decrease over the next five years.[85]

The Post Office may attract new business as central Government makes greater use of electronic delivery of services. The Government sees this development as a real opportunity for the Post Office network to gain additional business across all public services delivered by central Government. The current targets for electronic delivery of Government information are 50 per cent by 2005 to 100 per cent by 2008. Alan Johnson made clear that there electronic delivery of information could provide an opportunity for post offices. He said:

> Currently, no specific new areas of business for post offices are foreseen by this department but the targets for electronic delivery of services (50 per cent. by 2005, 100 per cent. by 2008) represent a real opportunity for additional business for the Post

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83 HC Deb 26 July 1999 c 96W
84 "Subsidies may be needed to save post office chain", *Financial Times*, 29/30 January 2000
85 HC Deb 10 January 2000 cc 51-52W

> Office network across all public services delivered by central Government. Moreover, equivalent targets are now being set for local Government and there is an opportunity for the Post Office network to gain further business in delivery of services which are the responsibility of local Government. In addition to these "Modern Government initiatives", the potential to provide a wider range of banking and other financial services through the Horizon automated system could facilitate an increase in the levels of business generated by or with Government Departments and agencies.[86]

Automation of post offices should be completed by 2001, leaving just two years in which Post Office Counters can develop new areas of business before the migration to ACT starts.[87] Alan Johnson told the House:

> The Horizon counters automation project will equip all post offices with a modern, on-line IT platform by 2001, and will enable the Post Office to extend its existing arrangements with the high street banks under which customers of those banks - including benefit recipients - can access their accounts at post offices. This project, to which the Government have made a significant financial contribution, represents a major investment in the future of the Post Office network to which the Government remain fully committed. It will ensure that all benefit recipients who wish to do so will be able to access their benefits in cash at post offices. It will also offer other bank customers the benefits of wider availability of banking services, especially in rural areas.
>
> For the longer-term future, the Prime Minister has asked the Performance and Innovation Unit within the Cabinet Office to undertake a study of the contribution which post offices make to their local communities, and how the network can best contribute to Government objectives.[88]

According to a press report, the Prime Minister offered:

> [..] a lifeline to struggling rural post offices yesterday [4 February 2000] by announcing plans to install cash dispensing machines in 3,000 outlets over the next two years. Details are expected to be unveiled next month but Mr Blair said the first 400 hole in the wall machines would be in place by summer. 'We want to see rural post offices not just survive but thrive,' he said during his tour of the West Country. Downing Street said the Post Office had set a target of installing all 3,000 machines by the end of next year but hoped that the banks would put up enough money to provide even more in future.[89]

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86 HC Deb 29 November 1999 c 22W
87 HC Deb 17 January 2000 c 623
88 HC Deb 14 December 1999 c 116W and HC Deb 24 January 2000 c 46W
89 "Cash machines to help save rural post offices": *The Daily Telegraph*, 5 February 2000

The current dispute between Barclays Bank and the Nationwide Building Society over charges for use of cash machines suggests that negotiations with the Post Office could be difficult.

C. Right of access to postal services

The availability of extra services at post offices will only be meaningful if post offices are reasonably local. A common complaint about threatened post office closures and conversions has been the loss of access to postal services. Under the proposed reforms, the Government will seek to establish a right of access to a post office. Individuals will be able to appeal to the Consumer Council for Postal Services about the provision of postal services in their area, even when individual sub-post offices close through a sub-postmaster or sub-postmistress deciding to sell or retire. This right of access was outlined in a Written Answer:

> For the first time the Government will be setting criteria for access to postal services, and there will be a requirement in law for the new Postal Services Commission to monitor these criteria to ensure that they are being met, and to advise my right hon. Friend the Secretary of State of any concerns about access to postal services in local areas. Particular attention will be paid to rural and socially deprived areas. Following work by the Performance and Innovation Unit (PIU), access criteria for Post Office services will be announced within the next few months.
>
> Sub-postmasters and sub-postmistresses own their businesses and any decision to sell or retire is a matter for them. But our proposals will ensure that the effects of their decision on the provision of services in local areas can be considered. Under our proposals, where an individual sub-post office closes, individuals will be able to appeal to the Post Office Users' Council about the provision of post offices in their area if they do not receive a satisfactory response from the Post Office. Using the access criteria as a benchmark, the Users' Council, through the Commission, will take up specific cases with the Post Office to ensure the access criteria are met.[90]

The Performance and Innovation Unit (PIU) has been commissioned to undertake a study on the social obligations and the social value of the Post Office - a network that is socially necessary but sometimes not commercially viable.[91] The findings are expected to be published in the spring.[92]

[90] HC Deb 19 January 2000 c 486W
[91] HC Deb 17 January 2000 c 626
[92] HC Deb 17 January 2000 c 650

Annex 1: Post offices and the payment of benefits[93]

1. Background

Detailed information on the Horizon project is set out in the report by the Trade and Industry Committee.[94] The previous Government began the Horizon project to computerise the Post Office network and automate benefit payments under the Private Finance Initiative in the mid-1990s. The contract was awarded to ICL Pathway in May 1996, and this was announced by the then Secretary of State for Social Security, Peter Lilley.[95] Originally, the previous Government had announced in May 1996 that the card – a magnetic strip card containing basic information, which was to be swiped at the new Post Office terminals – would be introduced in the next two to three years.[96]

2. The Abandonment of the Benefits Payment Card

The previous Government began the Horizon project to computerise the Post Office network and automate benefit payments under the Private Finance Initiative in the mid-1990s. There were a number of delays to the Horizon project and on 24 May 1999, the Secretary of State for Trade and Industry, Stephen Byers, announced that the Benefits Payment Card would no longer be part of the project. Instead the Government intends "to move from the traditional paper-based methods of payment to a more modern and efficient way of paying benefits through the Post Office network, building on banking technology":

> Mr. Boswell: To ask the Secretary of State for Trade and Industry (1) if he will make a statement on the implications for the Post Office of the Pathway Scheme;
> (2) what evaluation he has made of the role of information technology in developing postal and other services in rural areas;
> (3) what evaluation he has made of the benefits of the Pathway project for the viability of sub-post offices.
>
> Mr. Byers:: The Government today reached agreement in principle with ICL about the continuation of the Horizon project to computerise the Post Office network and automate the payment of benefits.
>
> The changes to the Horizon project are aimed to put it on a sustainable footing for the future and allow the Post Office to move as quickly as possible to the computerisation of post office counter services.

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[93] Much of the material for this annex was produced by Pat Strickland and Kim Greener

[94] *The Horizon Project for Automated Payment of Benefits through Post Offices*, Trade and Industry Committee, HC 530 1998-99

[95] DSS Press Release, 15 May 1996, 96/094

[96] ibid

> The main elements of the agreement are: First, we will be moving forward as planned, as quickly as possible with the automation of Post Office Counter services. For the first time ever, Post Offices will have an up to date automation platform, helping them to provide a better service to their customers, and representing a major investment in the future of the nationwide network of Post Offices. We have agreed with ICL to remove the magnetic strip benefit payment card from the project. Given the delays, this is now an outdated concept and the Banks, among others, are already moving away from magnetic strip in favour of the next generation technology--the smart card. For the future, we intend to move from the traditional paper-based methods of payment to a more modern and efficient way of paying benefits through the Post Office network, building on banking technology. POCL and DSS/BA will be working together on plans to introduce the new arrangements in 2003. The Government can give an assurance that those benefit recipients who wish to collect their benefits in cash at Post Offices will continue to be able to do so. In the interim, we will be using bar-coding on order books to tackle benefit fraud. This will provide savings of around £100 million a year, a saving originally promised by the last administration but not yet delivered. We and ICL believe the target of achieving the computerisation of the network of 18,000 Post Offices by the end of 2001 is more realistic. This will give customers a better service and help to secure a viable future for the network of Post Offices.[97]

The Government announced that the Post Office would be reimbursed £8 million from Reserve for the additional costs incurred in the negotiations with ICL earlier this year. This was to cover the ongoing costs of the contractor while further work on the merits of the various options was carried out.[98]

3. The new system of paying benefits

ACT is by far the cheapest means of paying benefits. This was emphasised by the Secretary of State for Social Security, Alistair Darling, in his evidence to the Committee:

> When it comes to making payments to customers, it might be helpful if I just gave you some figures. To pay by giro cheque costs 79p per payment; to pay by order book…costs 49p per payment; the payment card would have cost 67p; to pay by ACT costs about a penny. If you look at the total admin. spend of my Department on simply paying benefits, never mind the cash they get, just over 22 per cent now goes on the cost of paying out money. With ACT this comes down to 8 per cent.[99]

Later in his evidence, Mr Darling stated that the extra “head room” provided by the lower administrative costs of ACT would allow the DSS to make special provisions for the minority of people who are not going to be able to operate bank accounts:

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97 HC Deb 24 May 1999 c 21W

98 HC Deb 11 November 1999, c721W

99 Alistair Darling, evidence to Trade and Industry Committee, *The Horizon Project for Automated Payment of Benefits through Post Offices*, HC 530 1998-99, page 40

> Firstly, about 85 per cent of' those who receive benefits have bank accounts at the present time, about 15 per cent do not. Of that 15 per cent, a number of them do not have bank accounts out of choice rather than it being a question of the banks not taking them. I believe that we can ensure that a good proportion of those people who do not have bank accounts at the moment will get bank accounts in the future, either through the Post Office or other commercial banks, and we will have to make special arrangements for the minority—I suspect something under 5 per cent of the total benefit recipients—who for one reason or another are not going to be able to operate a bank account. But with the head room we have, as a result of the reduction in the costs which we currently incur in paying out benefits, I am very confident we can do that. The second point you make is in relation to the periodicity of payments, which of course is of crucial importance. There are some people, predominantly pensioners, a lot of people now on child benefit, who are quite happy to get their payments monthly or fortnightly, but there are other people on income support who by the very nature of things need payments more regularly. That is one of the issues we are looking at with a view to making an announcement in due course as to how we will implement the transformation to ACT. Remember we start to move in 2003 to complete in 2005. But it might be helpful to know that of the new entrants on to the system, 55 per cent of child benefit people are opting for ACT, 47 per cent of pensioners, 40 per cent of incapacity benefit people, and I think the group you will have most concerns about are those on income support where quite clearly their need is far greater but we will address that problem; we have created now the head room to do it. [100]

This was reiterated by Social Security Minister, Jeff Rooker, in the following Written Answer:

> We have decided to move to automated credit transfer (ACT) from 2003 as a modern, more secure and efficient method of paying benefits. People are increasingly choosing ACT as their preferred method of payment. The Benefits Agency and Post Offices Counters Ltd. will be working together to build on this trend to ensure that, from 2003, ACT offers an attractive choice to benefit recipients, offering a wider range of banking and other financial services, while continuing to offer access to cash at post office counters. The Performance and Innovation Unit will pay particular attention to this as part of their study into the Post Office network which was announced by my right hon. friend the Prime Minister on 21 October.
>
> The Department will be arranging discussions with the banking industry on issues surrounding benefit recipients, charges and other matters in due course. We envisage there will be alternative arrangements for anyone who cannot open a bank account. We will ensure procedures are in place for payment of emergency payments where cash is required on day of decision.[101]

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[100] *The Horizon Project for Automated Payment of Benefits through Post Offices*, Trade and Industry Committee, HC 530 1998-99, page 42

[101] HC Deb 29 November 1999 c 54W

The Secretary of State for Trade and Industry, Stephen Byers, stated in his evidence to the Trade and Industry Committee that the automation of the Post Office network will mean that it will be more attractive to benefit claimants and others in the future:

> (Mr Baldry)
> 180. I want to ask the Secretary of State for Trade and Industry, wearing his Post Office hat here. I am a bit confused in all of this. I can understand the Government collectively wanting to move on the technology, but, of course, the advantage of the Benefit Card its exclusivity, so that people actually only really used it in the Post Office. What I do not really understand now is this: if you take Banbury High Street, I think we have more banks and building societies than any town in the United Kingdom, so if you are telling me that 85 per cent. of those in receipt of benefits have bank accounts and, indeed, you are going to encourage those who do not have them, why on earth do they want to go to the Post Office? Why are they going to Bloxham sub-post office to get these benefits paid? They are just going to go to a bank, so I do not entirely understand how this is good news for the Post Office. Surely it is actually pretty awful news for the Post Office, because up until now you have been receiving very considerable revenue from the Department of Social Security for providing these services which you are no longer going to have and there is going to be no exclusivity?
>
> *(Mr Byers*) No. One of the great challenges of the l9,000-strong network is that they all have different needs and the needs of the Post Office in the High Street of Banbury will be quite different from the needs of the sub-post office in Bloxham, and the sub-post office in Bloxham will have a future, not based on the Benefit Payment Card, I have to say, but actually based on a smart card, where people who do not receive benefit will go along and get cash out. I have to say my nearest bank is far further away than my local post office. It would be very convenient for me if I could go along and get cash from the Post Office. I cannot do that at the moment. With the smart card technology I will be able to do that and while I am there I might buy a newspaper or buy a can of baked beans. That is a far better future for the Post Office, and particularly protecting the rural network, because people will have more reasons to go there. We should not just be relying on people who are in receipt of benefits. We should be saying to the whole community, “There is a good reason for you to go into your local post office.” The smart card will allow them to do that.[102]

The Government anticipates annual savings of about £400 million per year to the welfare budget when the transition to ACT is complete.[103] The following Parliamentary Question raises the assumptions behind this:

> Mr. Webb: To ask the Secretary of State for Social Security if he will set out the assumptions about the proportion of benefit recipients opting to receive their benefits

[102] *The Horizon Project for Automated Payment of Benefits through Post Offices*, Trade and Industry Committee, HC 530 1998-99, page 42

[103] Memorandum submitted to the Trade and Industry Select Committee by the Department of Social Security, July 1999, Trade and Industry Committee, *The Horizon Project for Automated Payment of Benefits through Post Offices*, 14 September 1999, HC 530 1998-99 Appendix One

> by automated credit transfer which underlie his estimate of a saving of £400 million on benefit delivery by 2005.
>
> Mr. Rooker: The move to automated credit transfer as the normal method of payment from 2003 brings significant savings in DSS administrative costs. This is anticipated to be in the region of £400 million per year once the transition from current paper based methods of payment is complete, and the majority of benefit recipients have moved to ACT. Further savings on fraud are also expected. Estimates of these range from £140 million to £240 million.
>
> One third of benefit recipients already choose to have their benefits paid by automated credit transfer, direct into to their bank accounts and the vast majority, around 85 per cent., already have access to a bank account.[104]

The position for receiving benefits was complicated further by a recent leaflet from the Benefits Agency, which failed to mention the option of receiving benefit payments in cash at post offices.[105] In reply the Minister said that the Government was in contact with the Benefits Agency about the letter that was sent to 370,000 of the 7.5million recipients of child benefit who get their payments weekly.[106]

Although there have been repeated assurances that benefit recipients who wish to collect their benefit in cash at post offices will continue to be able to do so after 2003[107] a Written Answer suggests that such cash payments will have been paid into a bank account first:

> Mr. Hurst: To ask the Secretary of State for Social Security what arrangements he has made to ensure that recipients of pensions and benefits are aware that they may be paid in cash after 2003.
>
> Mr. Rooker: The majority of benefit customers are paid by girocheque, order book or automated credit transfer (ACT) to a bank account. In some cases, the Department makes payment in cash to the customer.
>
> Following the move to ACT from 2003 customers will have their benefits paid into a bank account but will continue to have a choice of where they access their cash, with those who wish to collect at post offices still being able to do so. Our information leaflets and forms will be updated in line with the revised payment arrangements. Arrangements to meet other information needs of our customers arising from the change are being developed.[108]

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[104] HC Deb 17 January 2000 c 333W
[105] HC Deb 17 January 2000 c 648.
[106] HC Deb 17 January 2000 c 652.
[107] See for example HC Deb 29 November 1999 c 54W
[108] HC Deb 24 January 2000 cc 82-3W

Provisions relating to payment of benefits by ACT are not contained in the *Postal Services Bill* because legislative provision for this already exists. The *Social Security Administration Act 1992*, a Consolidation Act, allows for the making of regulations "for the person to whom, time when and manner in which" a benefit is to be paid.[109] The *Social Security (Claims and Payments) Regulations 1997*[110] prescribe the current arrangements for paying benefits by ACT and only allow this method of payment where an application has been made by the claimant and the Secretary of State consents to this.[111] The arrangement may be terminated by the person entitled to benefit or by the Secretary of State. There are also regulations dealing specifically with the recovery of overpayments of benefit directly from accounts where these benefit overpayments have been made by ACT.[112]

The current arrangements for payment of benefit by ACT are therefore consensual. If the choices available to claimants over methods of payments were to be removed, it is this aspect of the regulations which would require change. The Trade and Industry Committee found evidence that there may be caution on the part of benefit claimants who already have bank accounts to switch to ACT, and on the part of banks to offer accounts which may not be profitable:

> 24. the Post Office told us –
>
> "Benefit recipients like to be able to collect benefits from post offices".[113]
>
> It is estimated that around 80 or 85 per cent of benefit claimants have a bank account. 70 per cent of those claimants nevertheless prefer cash payment to a bank transfer. A memorandum from the DSS drawing on recent research by the DSS and others sets out some of the reasons why claimants choose not to have ACT for their benefits. The Managing Director of POCL told us that
>
> "for some people it is the only way they trust themselves to actually budget through a week ... they know that is what they have to spend and live on and that is their choice".
>
> There is resistance to compulsory ACT, as was demonstrated in 1992. The General Secretary of the NFSP told us
>
> "There are people who are not able or are very unwilling to have bank accounts ... the last time there was significant resistance to being forced to have bank accounts, forced to remember PIN numbers or write them down on the back of your purse, forced to queue at automatic telling machines ....".

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[109] s5 (1) (i)

[110] SI 1987/1968, as amended

[111] Regulation 21

[112] Section 71 *Social Security Administration Act 1992* and Regulation 11 of the *Social Security (Payments on Account, Overpayments and Recovery) Regulations 1988* SI 1988/664 as amended

[113] Trade and Industry Committee, *The Horizon Project for Automated Payment of Benefits through Post Offices*, 14 September 1999, HC 530 1998-99, para 24. References in this and the following footnote are taken from the Committee's report. [99] Ev, p27, para 7; [100] Qq 160, 183; [101] Ev, pp 53-5

Witnesses from the Post Office put emphasis on the "human face" of withdrawing cash from a Post Office:

"People are fairly reluctant to go and do business with a machine ... at the end of the day there has to be a human face attached to that automation .... one of our greatest strengths is the personal service that we can give in virtually every community in the country ...".[114]

It is also asserted that the banks and other financial institutions may be less than enthusiastic at the prospect of a huge additional number of small personal accounts, although research suggests that few applicants for an account are refused. The CWU suggested " .... all our evidence shows that the banks do not really want these small bank accounts". The Chief Executive of the Post Office told us that from the experience of discussions with banks "I have to say that at senior levels when I raised this there is something less than enthusiasm ....". The Government is promoting as a matter of policy the spread of bank accounts especially among the more socially disadvantaged: but it remains to be seen how far financial institutions will respond to this policy.

[114] [102] Q116; [103] Q7 ; [104] Qq32, 116 etc; [105] Q51; [106] Qq121-3; [107] Ev, p35, para 14

Annex 2: The conversion programme

This annex sets out some background material on the conversion programme whereby Post Office Counters Limited (POCL) converts Crown offices to agency offices.

The Post Office has five main categories of post office, depending upon the precise terms and conditions of the contractual relationship with Post Office Counters Limited (POCL):

Crown (Branch) Office:
These are directly operated by Post Office Counters Ltd and are also known as the main or Crown post offices and are staffed by Post Office employees.
Independent Franchised Post Office (IFPO):
These are operated by an "Independent" operator, which is not a company. The operator may have one or two post offices.
Company Franchised Post Office (CFPO):
These franchise post offices are operated by a "company" such as Safeway.
Modified Sub Post Offices (MSPO):
This was the original name given to "franchised" post offices.
Sub Post Office (SPO):
These are usually run on a scale payment system basis but contrary to the popular image, some sub post offices can be relatively large and are very common in urban areas as well as rural areas.

Two categories (IFPOs/CFPOs) are jointly described as franchised/agency post offices. The Modified Sub Post Office (MSPO) is included in the sub post office category by virtue that the contractual terms for such offices are more like those of a sub post office than a franchised post office. the Post Office insists that the IFPOs/CFPOs/MSPOs offer the same services as the Crown offices. If an office is in a particular area where there has never been demand for a particular service then that particular service is unlikely to be made available even at the franchised office.

The motivation behind the conversion/regrading of Crown post offices was set out, perhaps for the first time, in the Monopolies and Mergers Commission (MMC) report into Post Office Counter Services[115] (June 1988). Chapter 13 of that report related to the network and in that chapter the report stated:

115 A report on the efficiency and costs of, and the service provided by, the Post Office in the provision of counter services at Crown post offices. Monopolies and Mergers Commission, Cm 398, June 1988, chapter 13.

Franchised offices

13.31. In an effort to reduce costs while retaining control over office appearance and quality of service, Counters is developing an intermediate tier of office between a Crown and a sub-office--the franchised office. A trial is currently under way at a Savacentre hypermarket near Reading. Like a sub-office, a franchised office would involve a contract between Counters and a private sector partner for the provision of counter services. The main differences between a franchised and the present sub-office contract would be:

(a) The remuneration scale of the franchised office would be more closely related to the volume of business, for example a lump sum payment plus a fixed fee for each of a number of types of transaction. Sub-Postmasters' present remuneration involves a unit fee which reduces with transaction volume.

(b) The contract would specify opening hours, standards of presentation and layout of the premises and quality of service targets.

(c) The franchised office could make its own arrangements for provision of cash and the banking of any surplus (sub-offices are provided with cash by the remittance units - see paragraph 4.42).

13.32. In the long run Counters expects that franchised offices might represent 10 to 15 per cent of the network (2,000 to 3,000 offices)[116]. However, there would not be a single standard franchise, but a range of options, including in-store offices (such as Savacentre) and new contracts for some existing Sub-Postmasters which would include some of the features mentioned in the previous paragraph. It would be important to have a remuneration scale which gave an incentive to the franchisee to increase his business. Some forms of franchise might be saleable on the open market and others could involve Counters' existing staff taking over certain Crown offices as going concerns.[117]

The MMC noted that at that time POCL had made a planning assumption that the Crown network would be reduced from 1,500 to 750 offices by the conversion of 750 offices to sub-offices or franchises (para. 13.79). The Commission decided that a major conversion of Crown offices into sub or franchised offices would reduce Counters' costs while maintaining similar services. The MMC commended POCL's plans but recommended that since the regrading/conversion programme would reduce the operating costs of running the network, a much larger number of Crown offices should be regraded. The MMC recommended that the operating costs of all outlets and administrative overheads should be examined. The MMC also recommended that the regrading of Crown post offices should be staged with completion in 1992-93.

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116 This number presumably includes Modified Sub Post Offices (MSPO).

117 A report on the efficiency and costs of, and the service provided by, the Post Office in the provision of counter services at Crown post offices. Monopolies and Mergers Commission, Cm 398, June 1988, chapter 13.

According to the Post Office, a review in the late 1980s indicated a need to close a number of offices. The Post Office stated:

> Principal factors include the decline in inner urban areas and other population shifts, changing patterns of business and a growing requirement to run a more efficient and competitive network. In many areas, offices are closer to each other than the current one-mile minimum distance.
>
> ***The Post Office has promised to retain 95% of the total network of Crown and sub-offices.*** *[Author's emphasis]*[118]. Rural areas were excluded from the review, to meet social commitment to country communities. The UK still has one of the world's most comprehensive networks of post offices.[119]

There are two aspects of Crown Office conversions that perhaps deserve special mention: the pace of the conversion programme and the financial benefits that accrue to POCL, including the link that in the past has been made with the cost of subsidising the rural network.

Pace of the conversion programme

The following table sets out the growth in the number of Crown, franchised and sub post offices since 1969.

118 The figures in table 1 show that in 1996 Crown and sub post offices combined accounted for 95% of the network.

119 *The Post Office: the facts*, published 1988 by the Public Affairs Division, the Post Office.

Number of Crown, Franchise and Sub Post Offices 1969-1999 in UK

	Directly operated main post offices *(Crown post offices)*	Other main post offices *(Franchise)*		Sub post offices	Sub and franchise offices	Total post offices	Crown and sub as % of total network
	number	***number***		***number***	***number***		
Mar 1969	1,765	0		23,055	23,055	24,820	100%
Mar 1970	1,743	0		22,907	22,907	24,650	100%
Mar 1971	1,715	0		22,799	22,799	24,514	100%
Mar 1972	1,699	0		22,672	22,672	24,371	100%
Mar 1973	1,622	0		22,510	22,510	24,132	100%
Mar 1974	1,607	0		22,276	22,276	23,883	100%
Mar 1975	1,600	0		22,060	22,060	23,660	100%
Mar 1976	1,586	0		21,804	21,804	23,390	100%
Mar 1977	1,581	0		21,543	21,543	23,124	100%
Mar 1978	1,579	0		21,342	21,342	22,921	100%
Mar 1979	1,580	0		21,213	21,213	22,793	100%
Mar 1980	1,583	0		21,056	21,056	22,639	100%
Mar 1981	1,581	0		20,894	20,894	22,475	100%
Mar 1982	1,573	0		20,832	20,832	22,405	100%
Mar 1983	1,567	0		20,734	20,734	22,301	100%
Mar 1984	1,559	0		20,499	20,499	22,058	100%
Mar 1985	1,553	0		20,110	20,110	21,663	100%
Mar 1986	1,509	0		19,796	19,796	21,305	100%
Mar 1987	1,503	0		19,708	19,708	21,211	100%
Mar 1988	1,499	0		19,376	19,376	20,875	100%
Mar 1989	1,493	0		19,343	19,343	20,836	100%
Mar 1990	1,338	153	(a)	19,124	19,277	20,615	99%
Mar 1991	1,165	319	(a)	18,822	19,141	20,306	98%
Mar 1992	1019	466	(a)	18,601	19,067	20,086	98%
Mar 1993	917	578	(a)	18,382	18,960	19,877	97%
Mar 1994	800	696	(a)	18,196	18,892	19,692	96%
Mar 1995	699	810	(a)	18,016	18,826	19,525	96%
Mar 1996	653	867	(a)	17,806	18,673	19,326	96%
Mar 1997	606	914	(a)	17,616	18,530	19,136	95%
Mar 1998	601	919	(a)	17,381	18,300	18,901	95%
Mar 1999	600	920	(a)	17,175	18,095	18,695	95%

(a) Breakdown between franchise and sub-post offices are House of Commons Library estimates.
POCL prefer not to publish figures showing sub-post offices and franchise offices separately.
Sources:
Post Office Counters Ltd.
Library paper 94/87, HC Deb 18 Jan. 1996 c702w
Evidence to Trade and Industry Committee,1987-88, HC 273-i,ii,iii, Annex C, UCW

In March 1989, before conversions, there were nearly 1,500 Crown post offices (7.4% of the network) and 19,537 sub-post offices (92.9% of the network). In March 1999 the number of Crown post offices had fallen to 600 (3.2% of the network) and sub-post offices had fallen to 17,236 (92% of the network) with another 939 franchise offices (5% of the network). As the final column shows, in 1999 Crown post offices and sub post offices accounted for 95% of the total network in line with the figure given as a commitment by the Post Office in 1988.

The Conversion programme was suspended from 1997 until 1999. As part of the Government reforms, the Post Office intends for the foreseeable future to manage a conversion programme so that at least 15% of the total business transacted in post offices is done in the remaining Crown post offices.[120] Interestingly whereas the previous commitment related to the size of the network, the new measure relates to only the volume of work.

Financial benefits and the rural network.

The second aspect of the Conversion programme that needs highlighting is the financial benefit that accrue to POCL The following note on the benefits of the conversion programme was produced by the Post Office:[121]

THE NATIONWIDE NETWORK

> The post office network has always comprised different types of post office from community offices in the smallest villages to main and sub post offices elsewhere. According to opinion research, what matters to most Office Counters customers is whether a post office is situated in a convenient location, offers a high quality of service, the staff are well trained and provides the range services they want. They are not concerned about the type of office -main, sub or franchise - only that the above criteria are met.
>
> Post Office Counters is committed to maintaining the nationwide network, but they can only succeed if that network has sufficient flexibility to respond to changing shopping patterns and population movements. That is the driving force behind the establishment of franchise post offices which are run in partnership with retailers and bring post offices closer to where most people do their shopping.
>
> There are now more than 750 main post offices run in partnership with retailers, but the number of post offices offering the full range of business remains at 1,500: the same number as four years ago.
>
> When franchise conversions take place, they provide the opportunity to offer some, if not all, of the following:
>
> * a more convenient location closer to where customers do most of their shopping
> * a modern, accessible and comfortable office
> * better provision for disabled customers
> * longer opening hours including Saturday afternoons
> * improved parking facilities
> * the chance to do other shopping at the same outlet.

According to POUNC,

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120 POCL intends to make changes to the consultation process on conversions, which amongst other things, should provide a more objective basis against which interested parties can judge a proposal. Such changes to be incorporated in the Code of Practice on the Network agreed between the Post Office and POUNC.

121 Source: Post Office, February 1996

> At the end of 1995/96, the programme was producing total cumulative recurring benefits for POCL estimated at £27,7 million, roughly equivalent to POCL's claimed cost of subsidising its rural network and approaching the total annual pre-tax profits of the business. While individual conversions often arouse fierce opposition before the event, in most cases the arrangements turn out successfully for users as well as the business. Nevertheless the incidence of post conversion complaints has increased as POCL's attention turn to franchising the larger, more prominent offices[122].

POCL seems keen to identify the conversion programme as the price for maintaining the rural network. Clearly connections can be found between the cumulative financial benefits and any other claim on POCL's resources, such as its investment programme and its contribution to the exchequer via large negative external financing limits.

Code of Practice

A code of practice on post office relocations, closure and conversion has been agreed between the POCL and the POUNC. The revised code (which came into effect on 1 November 1996) replaced the 1988 agreement and

> is intended to remove any misunderstandings about the purpose of public consultations and lead to a more constructive, genuine dialogue between POCL and its customers.[123]

The code of practice describes the process for relocation, closure and conversion of a post office.

Relocation:
Where a relocation of a post office is planned, the regional general manager (RGM) writes to local groups and local MPs with specified information such as the full address of the post office which is to be relocated, convenience of the proposed location, details of proposed opening hours, and number of serving positions and the reasons why the relocation is being proposed. Under the code the information is also to be displayed simultaneously at the post office proposed for relocation. This is followed by a period of not less than a month for comments. The comments and responses are then considered by the RGM or representatives. All respondents are advised of the decision before it is publicly announced. An announcement of the decision should be displayed at the post office. Where the decision is to proceed, the notice should be on display for at least one month before the relocation takes place (unless exceptionally it has not been possible to maintain service in the meantime).

Closure:

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122 Source: Post Office Users' National Council (POUNC) *Annual Report and Review of the Post Office*, December 1996

123 POUNC 1996 Annual Report , para 68

Closure of a post office can happen in one of two general ways: either because it is no longer needed in the locality, or much more commonly, because no suitable applicant and or premises can be found.

Closure when no longer needed:
This usually arises when the existing sub post master wants to resign. Normally the sub post master will give 3 months notice of his resignation. The consultation process is similar to that for relocation of a post office with local groups and local MPs being informed and provided with information such as, the distance which customers will have to travel to the other post offices, convenience of the other post offices, details of their opening hours, facilities for access for disabled people, and number of serving positions and the reasons why the relocation is being proposed.

Closure where no suitable applicant or premises is available:
Where this occurs, the RGM writes to local groups and local MPs informing them of the plans to close the Post Office with information such as the steps they have taken to try and find a suitable applicant or suitable premises. If the owner consents, some information will be displayed at the Post Office. If subsequently, a suitable applicant or premises or another way of restoring the service is found, the office will re-open. The usual local groups and MPs will be given details.

Conversion of a Crown (branch) to a franchise/agency

Below is reproduced the extract from the code of practice regarding conversion of a Crown (branch) to a franchise office. The code states:

> From time to time, Regional General managers or their representatives may propose to convert a branch office to franchise or agency operation in circumstances in which either a) the office is to remain in the same premises or b) at the time at which the proposal is formulated, no preferred option for siting has emerged. While the act of conversion as such is not a matter for consultation, the service implications, which are normally enhancements, are of interest to local customer groups, and, therefore, the process at section A *[as for relocation]* will be followed, even if there is no specific proposal to relocate, with as much detail as is then possible being provided on any service implications.
>
> If consultation takes place before a preferred option for siting has emerged, the parties will be invited to express views on locations since such information can usefully aid a decision. Subsequent to the formal consultation process being completed, whether the ultimate decision is to relocate or remain on site, the appropriate parties will be advised as set out in section 5 *[as above]*.

Communication Workers Union

In February 1997 the Communication Workers Union published a consultative/Green Paper ("Freedom to deliver-Posting the way to greater success"), which proposed, amongst other things, that:

The Government cease immediately the current programme of Crown Office closure and franchising, conduct an open review on the future of the nation-wide network of post offices, and publish a clear policy statement on the size, nature and funding of the Counters network.