



National Audit Office

**DEPARTMENT FOR BUSINESS, ENTERPRISE AND REGULATORY REFORM**

# Oversight of the Post Office Network Change Programme

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Oversight of the Post Office Network  
Change Programme

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# SUMMARY

**1** In May 2007 the Department for Business, Enterprise and Regulatory Reform (BERR) approved plans to close up to 2,500 post offices run by sub-postmasters, partly offset by at least 500 new Outreach services, leaving a network of around 12,000 outlets. The closures are known as the Network Change Programme, which is part of a larger plan aimed at returning Post Office Ltd to profitability by 2010-11, after allowing for a £150 million annual Government subsidy. This plan also includes action to improve efficiency and Post Office Ltd's financial performance, and to sustain revenues, in part by developing significant new revenue streams. The plan is being supported by funding of up to £1.7 billion over five years from BERR, including the £150 million annual subsidy payment in recognition of the social and economic role that post offices play.

**2** As the principal shareholder in Royal Mail Holdings plc, BERR is responsible for the oversight of Post Office Ltd. In carrying out this oversight function, BERR has three tasks:

- To act as a shareholder and safeguard the public's investment in Post Office Ltd.
- To ensure a nationwide post office network with reasonable access for all because of the social and economic benefits that such a network delivers.
- To put Post Office Ltd on a footing that creates a sustainable network for the future.



**3** This report focuses on BERR's oversight of the development and implementation of the Network Change Programme. The report explains why the closure programme was proposed (Part 1), and BERR's oversight of the development of the programme (Part 2). The report then evaluates:

- the effectiveness in practice of the protections for users given when the programme was announced (Part 3); and
- BERR's ongoing monitoring of the programme (Part 4).

**4** We also examined the role played by Postwatch and its successor organisation, Consumer Focus, in monitoring the implementation of the Network Change Programme. Appendix 1 sets out our audit methodology.

## Findings

### Why the change programme was proposed

#### **5 Post Office Ltd had been loss making since 2000 and the viability of the network was under threat.**

The network had received financial support from Government since 2003, but in 2005-06 Post Office Ltd lost £130 million and Post Office Ltd advised that without larger subsidies it was at risk of insolvency unless the size of the network was reduced. One aim of the programme was that any further reduction should be within an overall strategy determining the shape and size of the network, rather than just allowing the least viable branches to cease trading.

#### **6 Post Office Ltd's poor financial position reflected a decline in its traditional business and increased competition, only partly offset by new business.**

The closures are the latest stage of a long decline in the number of post offices, which from a peak of 25,000 in 1964 had fallen to 14,200 by March 2007. Post Office Ltd had lost business as a result of its customers using alternative services on the internet, the payment of pensions and benefits directly into bank accounts, and increased competition for some of its products. The decline in footfall led to a drop in the revenues of the retail business associated with many post offices. Other types of business, for example, financial services and telephony, had grown but the net effect had been a continued decline

### BERR's oversight of the development of the programme

#### **7 BERR tested Post Office Ltd's proposals for their impact on Post Office Ltd's finances and the post office network, with support from Deloitte, who reviewed the financial model developed by Post Office Ltd and McKinsey and concluded that it was robust.**

BERR examined a wide range of options for balancing the number and spread of closures, the sustainability of the remaining network, and the level of subsidy required.

**8** BERR conducted a limited evaluation of the social and economic benefit provided by the network of post offices. This evaluation took into consideration:

- the size of the network after the end of the programme (around 12,000 outlets), a larger network being expected to provide greater social and economic benefits;
- the network's spread between different areas (for example, the balance between rural and urban closures and closures in deprived areas and elsewhere); and
- the ongoing Government support and Post Office Ltd's costs and profitability.

BERR drew on existing research on the social and economic value of supporting a network larger than a purely commercial network. This assessment concluded that the funding package of £1.7 billion, including the network subsidy payment of £150 million a year, was, on balance, justified by the wider social and economic benefits of the network, which derived from the role post offices play in providing services to individuals within communities.

**9** Post Office Ltd estimated that the costs of the Network Change Programme would total £176 million, mainly the payment of compensation to sub-postmasters. The programme is expected to deliver on-going net savings of some £45 million a year. **The costs of the Network Change Programme will not be fully met by the savings arising until 2011-12.**

## Applying the criteria to the programme implementation

**10** When approving Post Office Ltd's proposals for the Network Change Programme in May 2007, BERR gave a number of undertakings about the outcomes it hoped to achieve and the processes it would require to be put in place. The undertakings are set out in **Figure 1**.

**11 BERR has met five of the six undertakings, but the undertaking to open at least 500 new Outreaches has not yet been met.** The following issues arise from BERR's work to meet the undertakings.

- BERR established access criteria to ensure a national network with reasonable access to post office services across the country. These criteria limit the distance most people have to travel to reach their nearest post office. **As at the end of March 2009, four of the five access criteria were being met.** One criterion – that 95 per cent of the population of each postcode district should be within six miles of their nearest post office outlet – was not being met in six out of 2,796 postcode districts, although five of these cases have since been resolved. At the start of the Network Change Programme, the number of failing postcode districts was 15. This dropped to two districts in March 2009, but due to closures unrelated to the programme, another four postcode districts failed the criterion in March. Post Office Ltd is required to establish new outlets in the remaining non-compliant districts.
- BERR carried out a 12 week national consultation in advance of the Network Change Programme. This consultation included proposals for local public consultations to last six weeks, to avoid uncertainty for the sub-postmasters involved, to avoid the risk of blighting their businesses, and to reduce losses for Post Office Ltd. **The six-week consultation period was felt to be too short by some of those taking part, some of whom formed the impression that the consultation process was not being taken seriously and that the closure decisions were a fait accompli.** The handling of some of the early post office closures at the local level also suffered from poor communications; subsequent changes were made to improve the process.
- Postwatch was actively engaged in evaluating every proposed closure for its impact on the local community. Post Office Ltd changed plans for 261 branch closures before public consultations following comments from Postwatch and local

authorities. In addition, 92 offices originally selected for closure were withdrawn following the local consultations, and 48 others were put into a further six week public consultation as substitutes.

- Outreach services (for example mobile post offices) are designed to offer a post office outlet where otherwise Post Office Ltd would be unable to afford to provide a service. **As at the end of March 2009, 433 Outreach services had been opened against a requirement of a minimum of 500 (87 per cent of the minimum required).** Post Office Ltd expect the final total to be 507. The programme was originally expected to have been completed by late 2008, but is now expected to be completed in summer 2009.
- **Contracts with providers of Outreach services are to be reviewed internally after the first year, which has prompted concerns over the longevity of individual services.** This period allows Post Office Ltd flexibility in provision of Outreach services and takes into account their success or otherwise. It also allows the core sub-postmaster some flexibility in the level of commitment they make.

### 1 The undertakings given on the outcomes of the Network Change Programme

BERR to:

- Introduce a framework of minimum access criteria setting out the maximum distance most users would have to travel to their nearest post office.

Post Office Ltd to:

- Develop area plans for closures and other changes in service provision in conjunction with interested parties, including Postwatch, as set out in a Memorandum of Understanding.
- Conduct local public consultations on these plans.
- Provide Outreach services in at least 500 new locations to mitigate the impact of the up to 2,500 compensated closures.

As well as its undertakings specifically on the implementation of the Network Change Programme, BERR also gave related undertakings to:

- Department of Work and Pensions (DWP) to introduce a new account to succeed the Post Office Card Account.
- Work on proposals for future decisions about post office provision, engagement with local authorities, and funding after 2011.

*Source: 'The Post Office Network: Government response to public consultation', May 2007*

## Monitoring the Change programme

**12** As at the end of March 2009 the projected final cost of the programme was £161 million, compared to the original budget of £176 million. Within these totals, £122 million had been paid out or committed in compensation to sub-postmasters, against an original projection of £140 million. This £122 million represents an average of £51,000 per closure. Net savings of £18.0 million in sub-postmasters' remuneration had been achieved by the end of March 2009 against £19.6 million and there have been 2,383 compensated closures of branches against an expected final figure of 2,435 (98 per cent completion). Post Office Ltd projected that it was on course to have 11,966 outlets at the end of the programme, and to achieve the expected on-going savings of £45 million a year. The amount of business migrating from closed post offices to those remaining open is higher than expected at 88 per cent, against a target of 80 per cent. The higher figure for migration has the effect of increasing business at the remaining branches and hence improving their sustainability.

**13** BERR monitors the size of the network and its performance against the access criteria, but does not have arrangements to monitor the social and economic outcomes it expects in return for its £150 million network subsidy payment. BERR has asked Postcomm, the postal services regulator, to undertake further research into the social value of the post office network. Postcomm has commissioned NERA/Accent to carry out this research. BERR will look to Consumer Focus to continue to assist in monitoring the size and spread of the network, and the services provided to users, but will also rely on Post Office Ltd. BERR has also asked the Business and Enterprise Select Committee to review future services to be offered through the post office network. And in May 2009 BERR tabled an amendment to the Postal Services Bill which requires Post Office Ltd to produce an annual report about the number, location and accessibility of post offices.

## Conclusion on value for money

**14** To achieve value for money in overseeing changes to the post office network, BERR needs to understand the value and costs of the post office network, set criteria for changes in the network that protect its value, and monitor the outcomes of changes.

**15** In its oversight of the development of the Network Change Programme, BERR assessed a wide range of options; checking and challenging the proposals produced by Post Office Ltd for their impact on the size of the network and Post Office Ltd's finances; and understanding

the costs of these options. BERR evaluated the social and economic value of supporting the network after the planned 2,500 closures.

**16** At the time of the programme's announcement, BERR gave undertakings on outcomes and processes to protect users of the network. Almost all of these undertakings have been met and, as at the end of March 2009, 98 per cent of the planned closures had taken place. The programme's projected final cost was £161 million compared to a budget of £176 million (8.5 per cent below budget). By the end of March 2009 net savings of £18.0 million in sub-postmasters' remuneration had been achieved against a planned £19.6 million (eight per cent below target), but BERR still expects the programme to deliver the forecast savings of £45 million a year once completed. So costs have been lower than expected, but benefits to date have also been lower. Overall, the Network Change Programme has largely met its targets and complied with the undertakings given by BERR.

## The way forward

**17** The access criteria were, however, set at a level which could theoretically have been met across the United Kingdom by a network of 7,500 post offices. It follows that the criteria are more than met with the planned network of 12,000 offices; but more comfortably in some places than in others where they may only just be met. Some users may, therefore, have been left with a less favourable perception of the resulting service than others. While we make no formal recommendations in this report, BERR and Post Office Ltd will need to reassure users of post office services by making sure that alternative provision – for example through Outreach services – meets users' needs effectively.

**18** Further change to the network is in prospect, for example, as individual sub-postmasters retire or decide to sell their business. The management of such change should reflect the lessons of this report. In particular, the Network Change Programme has brought a more strategic approach to planning the size and shape of the network, and future developments should work within such a strategy.

**19** BERR has asked Postcomm to undertake research into the social value of the network. It has also asked the Business and Enterprise Select Committee to review future services to be offered through the network.

# PART ONE

## Introduction

**1.1** This report examines the oversight of the Post Office Network Change Programme conducted by the Department for Business, Enterprise and Regulatory Reform (BERR) and its associated non-departmental public bodies Postwatch (until October 2008) and Consumer Focus (from October 2008).

**1.2** This Part describes the background to the development of the Network Change Programme, including:

- The ownership and oversight of Post Office Ltd.
- The reduction in size of the post office network since the 1960s.
- Post Office Ltd's continued losses in the period leading up to the adoption of the Programme.
- The plans agreed between BERR and Post Office Ltd for change in the period 2007-08 to 2010-11.

### Ownership and oversight of Post Office Ltd

**1.3** Before the Postal Services Act 2000, the business of Royal Mail was vested in the Post Office Corporation, a statutory corporation established under the Post Office Act 1969. The Post Office Corporation had three separate businesses – Royal Mail Letters, Royal Mail Parcels and Post Office Counters. The Postal Service Act provided for the conversion of the Post Office Corporation into a public limited company, now known as Royal Mail Holdings plc, wholly-owned by the Government. The Act also established the postal services regulator (Postcomm) and the Consumer Council for Postal services (Postwatch). In 2001 Post Office Ltd assumed the functions of Post Office Counters and therefore took on responsibility for the post office network.

**1.4** **Figure 2** shows the roles of the different parties involved in the post office network. Amongst the public bodies, the main roles are as follows:

- BERR manages the Government's shareholding in Royal Mail Holdings plc (Post Office Ltd's ultimate parent company); since 2004 BERR has done so through its Shareholder Executive. BERR has overall responsibility for the policy of maintaining access to the post office services through the network; and is responsible for the framework for regulating postal services in the UK. The Department also has Government responsibility for the small business sector.
- The Postal Services Commission (Postcomm) is an independent regulator. It was created by the Postal Services Act 2000 to ensure the provision of a universal postal service, and to further the interests of users of postal services, by promoting effective competition. Postcomm regulates Royal Mail and other postal service providers. It does not directly regulate Post Office Ltd, but it has an interest in the size of the post office network insofar as it supports Royal Mail's delivery of a universal postal (i.e. mail) service. Postcomm also has a remit to report to the Government on developments in the post office network and publishes an annual report on the network.
- Until October 2008, Postwatch represented users of postal and post office services in the UK and monitored standards of service. It had a network of six regional committees around England, and committees in Wales, Scotland and Northern Ireland. The chairman of each of these committees sat on the Postwatch national council, along with other members of the council. In October 2008, Postwatch was abolished and its statutory functions transferred to Consumer Focus, the new consumer representative body, which has central offices in the four nations, but does not have an equivalent regional structure. Consumer Focus replaces Postwatch, Energywatch and the National Consumer Council.

## The reduction in size of the post office network since the 1960s

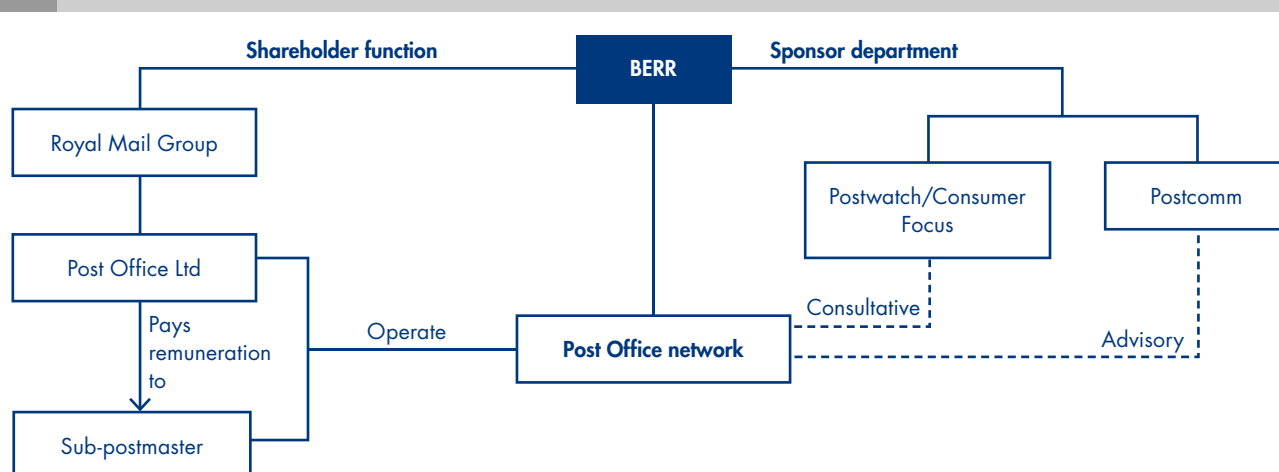
**1.5** The post office network consists of:

- Crown offices – post offices owned and managed by Post Office Ltd. Crown Offices comprise around three per cent of the network.
- Franchise post offices – post offices franchised to established retailers. Franchise post offices make up four per cent of the network.
- Sub-post offices – post offices run by sub-postmasters: independent retailers working under contract with Post Office Ltd. Sub-post offices make up approximately 87 per cent of the post office network.
- Outreach services – core post offices provide, or arrange for the provision of, post office products and services via different methods including through mobile vans, partnered services with local businesses, or hosted services in the local community. Outreach services comprise about six per cent of the network. More information on Outreach services is given in Appendix 3.
- Post Office Essentials – providing certain post office services over the counter in outlets such as convenience stores. Post Office Essentials are a new concept at the pilot stage.

**1.6** The network reached its height in 1964, when there were 25,056 offices – of which 23,234 were sub-post offices. This number dropped by approximately 7,000 offices by 2000 (**Figure 3 overleaf**). These post office closures were situations such as where, on the sub-postmaster's retirement or death, the branch was not resold commercially or no replacement could be found to take over the service. These closures were voluntary and uncompensated, in that nothing was paid to the sub-postmaster for surrendering the franchise.

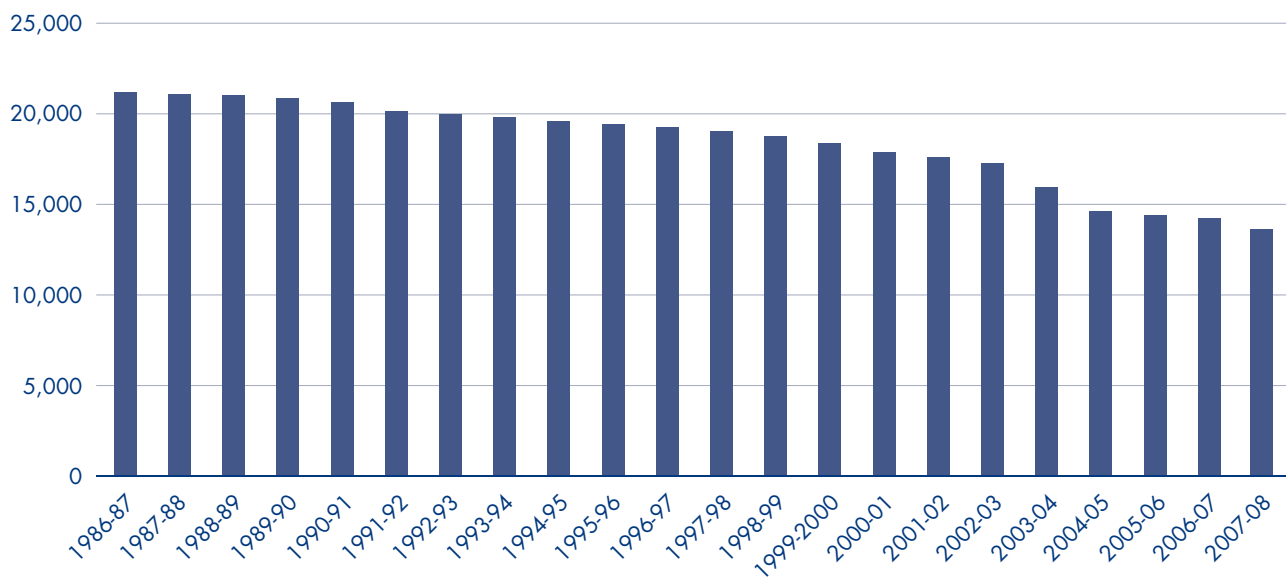
**1.7** The main reason for the decline in the number of post offices has been that the volume of business handled by the network has declined. The decline in business reflects several factors, including the payment of most state pensions and benefits directly into customers' bank accounts, and increased online use of services that used to be provided mainly over the counter, such as car tax disc applications, as well as competition from other suppliers. Government business as a proportion of Post Office Ltd revenue fell from 43 per cent (some £550 million) in 2003-04, to 26 per cent in 2007-08 (some £294 million). This decline has been only partially offset by growth in other services such as telephony, which represented nine per cent of revenue in 2007-08 (some £100 million), and financial services, such as the sale of foreign currency, representing 29 per cent of revenue in 2007-08 (£326 million).

## 2 Administrative context of the post office network



Source: National Audit Office

### 3 Number of post office outlets since 1986



Source: Postcomm

**1.8** Between 2000 and 2004, the rate of decline in the number of post offices had been affected by two main initiatives:

- **The rural policy of ‘No Avoidable Closures’.**

In November 2000, the then Department of Trade and Industry (DTI) introduced the policy that Post Office Ltd should do everything it could to avoid permanent closures of rural post offices when sub-postmasters wished to retire and were unwilling or unable to sell the sub-post office commercially. Post Office Ltd became more active in finding alternative providers such as local businesses and parish councils. After one year the situation was reviewed, and if no replacement could be found, then the branch was officially designated as permanently closed. This policy helped to cut the loss of rural post office branches from 500 per year to around 200 per year, but it did not address the viability of the network.

- **The Urban Reinvention Programme.** In 2002 Post Office Ltd and DTI agreed to implement a Performance and Innovation Unit<sup>1</sup> recommendation for a managed reduction in the size of the urban network, rather than the unmanaged decline of the previous years. Under the programme, known as the Urban Reinvention Programme, 2,422 sub-post offices in urban areas were closed between the end of 2002 and 2005, 300 of them in ‘urban deprived’

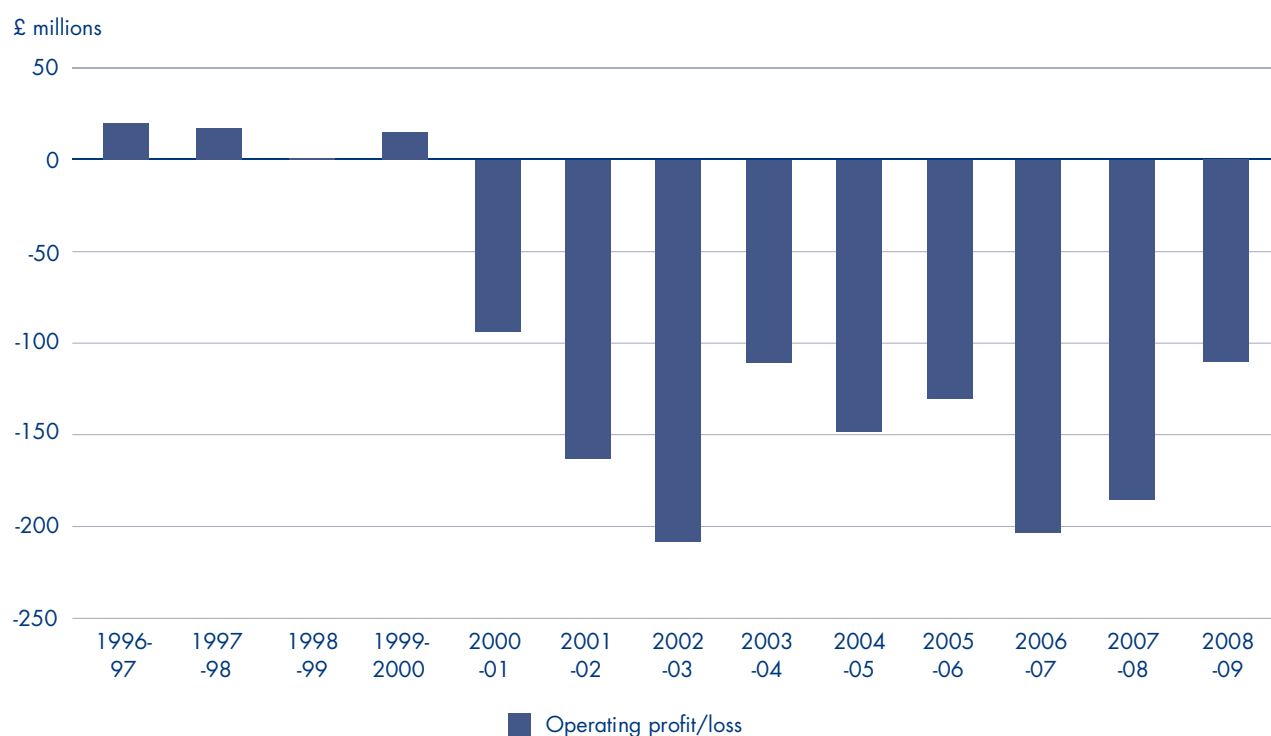
areas. The closures were carried out on a voluntary basis, and the sub-postmasters whose branches were closed were financially compensated. This was the first time that the Government had funded Post Office Ltd compensation payments. The closures were agreed by Post Office Ltd provided that the sub-post office to be closed was one that Post Office Ltd had identified as a possible closure. The programme cost £180 million, mainly through compensation paid to sub-postmasters.

## Post Office Ltd losses

**1.9** Despite the reduction in the number of post offices, the profitability of the network continued to decline. **Figure 4** gives Post Office Ltd’s profit and loss figures between 1996 and 2009, adjusted to remove the effects of the network subsidy payment received from 2006-07. It shows that in the financial year 2000-01, Post Office Ltd’s operating profit became an operating loss. In 2002-03, it recorded an operating loss of £206 million, and from 2003-04 the Government provided annual support of £150 million. Even after the completion of the Urban Reinvention Programme, however, it lost £130 million in 2005-06, and losses again increased in 2006-07.

<sup>1</sup> Cabinet Office (2000). *Counter Revolution: Modernising the Post Office Network*.

#### 4 Post Office Ltd's operating profit and loss between 1996-97 and 2008-09 (after removing the network subsidy payment)



Source: Post Office Ltd

#### NOTE

From 2003-04 until mid-way through 2006-07, the £150 million a year Government support took the form of direct support for Post Office Ltd's balance sheet and therefore did not impact on the profit and loss statement. It was replaced from the middle of 2006-07 by a Network Subsidy Payment which was accounted for as income. This payment amounted to £75 million in 2006-07 and £150 million in 2007-08 and £150 million in 2008-09. We have adjusted the reported profit and loss figures for Post Office Ltd so that the data shown from 2006 onwards is presented on the same basis as earlier years.

**1.10** In 2003, the Government introduced a Social Network Payment of £150 million annually to support loss-making rural outlets and until 2006 the payment included funding for the development of innovative ways to provide rural post office services. The payment did not affect Post Office Ltd's operating profit, but provided Post Office Ltd with cash to offset the losses made in operating the network.

**1.11** Our February 2005 report *Financial Support for Post Offices*<sup>2</sup> examined the Urban Reinvention Programme and concluded that, as a result of the then DTI financial support and involvement, through its role as shareholder, Post Office Ltd had, to some extent, improved its financial position. We noted that the future of post offices remained uncertain, however, and that the DTI would need to be alert to falling volumes of business that could threaten the viability of sub-post offices. We also highlighted some uncertainty as to whether the Urban Reinvention Programme would achieve its aim in the long term of producing a network that represented a viable business for individual sub-postmasters and Post Office Ltd.

## The plans for change agreed between BERR and Post Office Ltd

**1.12** Later in 2005, as Post Office Ltd's finances failed to recover sufficiently to avoid insolvency, Post Office Ltd's executive board agreed with BERR that a new business strategy was needed to reduce the losses being made by the network, and place the company on a sounder financial footing. Without financial support, the Board believed the business could not continue as a going concern. The outcome of these discussions was a strategy aimed at creating a sustainable network and returning Post Office Ltd to profitability. The strategy focussed on both reducing costs and increasing revenue. Post Office Ltd expected it to improve profitability by a total of £298 million up to 2010-11 and by just under £300 million a year in each of the five years thereafter.

2 HC 287, Session 2004-2005.

**1.13** The strategy consisted of four main elements:

- Restoring Crown offices to profitability.
- Central cost cutting efficiencies.
- Closing up to 2,500 sub-post offices with payment of compensation to the sub-postmasters, partly offset by the introduction of at least 500 Outreach services. These measures were called the Network Change Programme.
- Developing and expanding new business, such as in telephony and financial services.

**Figure 5** shows the impact each element was expected to make on Post Office Ltd's profitability.

**1.14** The strategy was supported by funding from BERR, agreed in May 2007, of up to £1.7 billion, consisting of:

- £176 million cost of the Network Change Programme, mainly in compensation for sub-postmasters when their sub-post offices are closed.
- £750 million network subsidy payment over five years, comprising £150 million per year between 2006 and 2011.
- £620 million to cover loans Post Office Ltd owed to Royal Mail Holdings, as well as future losses, thus enabling the company to avoid insolvency.
- £150 million of support for other initiatives including central cost reductions and the changes to Crown offices.

**1.15** In addition to the maximum of 2,500 compensated closures included within the strategy, Post Office Ltd envisaged that some additional closures would take place through natural wastage, for example when sub-postmasters closed their branch upon their retirement. BERR's announcement included an expectation, however, that a network of around 12,000 would be sustainable, taking into account both this natural wastage and the net reduction of about 2,000 (up to 2,500 closures minus 500 new Outreach services) under the Programme.

## 5 Impact of Planned initiatives on profitability

Initiative	Net Impact on profitability (£ million)	
	Total between 2006-07 and 2010-11	Annual impact thereafter
Restoring Crown offices to profitability	31	56
Central cost cutting efficiencies	245	122
Network Change Programme	-17	45
Developing and expanding new business	39	70
<b>Total</b>	<b>298</b>	<b>293</b>

Source: Post Office Ltd



# PART TWO

## Planning the closures

**2.1** The Network Change Programme developed over the period 2005 to 2007. This part of the report describes:

- BERR's assessment of the proposals for reducing the size of the network, including its assessment of the impact on the costs and benefits of the post office network.
- The forecast costs and savings of the Network Change Programme.

### Assessing the options for change

**2.2** Post Office Ltd estimated that, of the existing network of 14,500 offices, only around 3,000 to 3,500 offices were profitable; and Royal Mail estimated that a network of 4,000 offices would suffice for it to deliver the service required by its licence.

**2.3** BERR did not consider a reduction to a network of this size to be acceptable because of the social and economic value of the post office network. This value can be divided into two categories:

- services of general economic interest – for example delivering public services such as benefit and tax payments; and
- the wider value of the network – for example in supporting shops in rural areas and providing social support to vulnerable users.

**2.4** The Treasury's guidance on investment appraisal (the Green Book) recommends that all new programmes 'should be subject to comprehensive but proportionate assessment', and that cost benefit analysis should form part of this analysis, including an assessment of wider social costs and benefits, even where these cannot easily be costed. Accordingly, throughout 2006, Post Office Ltd developed a range of scenarios for BERR's consideration. We examined the modelling for BERR of the options

available and BERR's assessment of the value of the social and economic benefits of maintaining a network larger than that indicated by strictly commercial considerations.

### Modelling the impact of the programme

**2.5** To assess the financial impact of change on the costs and benefits of the network Post Office Ltd developed a model with McKinsey. This modelled the number of post office outlets delivering services of general economic interest alongside the costs of maintaining them. The model assessed the impact of change on profitability, taking into account the following aspects:

- The cost of change: because of the need to compensate sub-postmasters operating post offices that closed, rapid reductions in the size of the network would incur large costs in the short term.
- The scale of change and its distribution across different categories of post office.
- The extent of migration of many customers from a closed post office to a nearby alternative, thereby limiting the impact on Post Office Ltd's total income and improving the sustainability of the remaining branches.

**2.6** The model also took into account how the spread of closures would impact on vulnerable consumers. BERR considered that a programme driven only by reducing costs would place undue burden on the large number of vulnerable groups living in urban deprived areas. A high proportion of the loss-making section of the network consisted of large offices in deprived urban areas which predominantly handle benefit transactions. Furthermore, BERR considered that it would be inappropriate to concentrate closures in urban areas following the 2002-2004 Urban Reinvention Programme (paragraph 1.8).

**2.7** To allow for these factors, and so that BERR could examine what type of network could be obtained for a given cost, the model categorised post offices into five types: Crown; urban; urban deprived; rural; and rural social. The model then sub-divided these categories into three further categories: average performance, and better or worse than average performance.

**2.8** BERR employed Deloitte to monitor the development of the model used to assess the scenarios. At the end of the process Deloitte carried out a review of the model, explaining that they had ‘not performed a model audit, but ... reviewed the application of some of the key assumptions to gain some assurance on the integrity of the model’. Deloitte concluded that the model was robust.

**2.9** The model allowed BERR to estimate the costs of the closure programme in terms of both Post Office Ltd’s costs, and the on-going Government support required, which ranged from £280 million a year (no closures, and maintenance of a network of around 14,000 offices) to nil (closure of almost all loss-making offices and reduction of the network to around 4,000 offices, although the one-off compensation costs of such a scenario were high). It also allowed BERR to estimate the benefits attached to the scenarios, in terms of the number and spread of outlets that would stay open and offer services of general economic interest.

## Wider social and economic benefits

**2.10** The model used by BERR did not take into account the impact of different levels of closures on the wider social and economic benefits. BERR decided that its principal focus was on the size and spread of network that could be obtained for a particular level of funding. BERR did, however, have existing research on the social and economic value of the network: a report by Axon in 2003 on the rural network; the New Economic Foundation’s (NEF) report on the urban network in 2006; and research from Postwatch, Post Office Ltd and BERR’s own analysis. BERR used this research to assess the impact once the decision on the level of closures had been reached.

**2.11** The Axon 2003 study valued the annual social and economic benefits of the rural network as some £590 million. The main components of these benefits were:

- the presence of a post office branch in rural communities led to additional expenditure in rural shops of £186 million per annum; and
- the saving in travel time to consumers – in terms of the distance they would have to travel should a rural post office close – valued at some £325 million.

The research did not reach a conclusion as to what size of network would be most appropriate.

**2.12** In December 2006, BERR used the existing reports and research as the basis for estimating the social and economic value of the rural network alone to be around £455 million per annum, after the completion of the Network Change Programme. This calculation used the assumption that a reduction in the size of the network would reduce the value of these benefits in proportion to the number of offices closed. BERR’s analysis did not provide a corresponding figure for the urban post office network but BERR considered that, on balance, the £1.7 billion funding package constituted value for money.

**2.13** BERR has asked Postcomm to follow up the earlier research on the social and economic benefits of the network. Postcomm has commissioned NERA/Accent to carry out this research.

## The closure programme

**2.14** As a result of its planning and modelling, BERR announced in December 2006 that, subject to public consultation, it proposed to approve a programme of a maximum of 2,500 compensated closures, with compensation paid to the sub-postmasters of the closed offices on a similar basis to the 28 months remuneration paid under the Urban Reinvention Programme. The impact of the closures would be partly mitigated by the introduction of at least 500 new Outreach services, and BERR committed sufficient funding to support a network of around 12,000 until 2011 including the non-commercial element. Financial support of £150 million a year would be provided to support the network at this size, as part of the broader £1.7 billion package. The programme would be implemented by Post Office Ltd over an 18 month period from summer 2007.

**2.15** Post Office Ltd estimated that because of the need to pay compensation to sub-postmasters, the proposed programme of a maximum 2,500 compensated closures would incur costs in the first two years exceeding the savings made in these years. Over the five years of Post Office Ltd's investment plan (2006-07 to 2010-11) total costs would exceed savings by £17 million (**Figure 6**), but in-year savings would exceed costs from the third year, and cumulative savings would exceed cumulative costs by 2011-12.

**2.16** Annual net savings after the Programme had been completed were estimated at £45 million, made up as shown in **Figure 7**. In addition, Post Office Ltd expected to make one-off savings in 2008-09 and 2009-10 totalling £42 million, because of a reduction in the amount of cash it would need to hold in post offices as the number of post offices were reduced.

**2.17** When announcing its intention to approve Post Office Ltd's plans for the Network Change Programme, BERR gave a number of undertakings about the outcomes it would require Post Office Ltd to achieve, for example adherence to criteria describing the maximum distance most users would have to travel to their nearest post office, and on processes it would put in place, for example on public consultation. These undertakings are set out in Part 3, which also evaluates progress against them.

## 6 Annual movement in net cash flow as a result of the Programme

Year	Cash flow £ millions				
	2006-07	2007-08	2008-09	2009-10	2010-11
Benefits	-	2	59	53	45
Costs	-	-71	-105	0	0
Cumulative net benefit/(cost)	-	-69	-115	-62	-17

Source: Post Office Ltd

## 7 Estimated annual savings after the Programme had been completed

Item	Description	Value (£ million)
Fixed sub-postmasters pay	Savings in pay to sub-postmasters of offices that have been closed.	30.4
Lost contribution to profit from sales	Caused by a reduction in income associated with fewer offices.	-1.4
Other (central) savings	Allocation of efficiency savings to post office branch closures.	15.6
<b>Total</b>		<b>44.6</b>

Source: Post Office Ltd

# PART THREE

## Implementing the safeguards for users

**3.1** This Part examines the implementation of the Network Change Programme against the undertakings given by BERR in May 2007 and reproduced in Appendix 4. We examined progress against the undertakings under four headings:

- the framework of minimum access criteria;
- development of area plans for closures in conjunction with interested parties, including Postwatch;
- local public consultations on these plans; and
- the provision of Outreach services in at least 500 new locations to mitigate the impact of up to 2,500 compensated closures.

**3.2** As well as its undertakings specifically on the implementation of the Network Change Programme, BERR also gave related undertakings that:

- DWP would introduce a new account to succeed the Post Office card account (POCA); and
- BERR would work on proposals for future decisions about post office provision, engagement with local authorities, and funding after 2011.

We examined BERR's performance against these undertakings where they are relevant to the Network Change Programme. Appendix 4 reproduces the undertakings given in May 2007, when BERR announced its final decision following the public consultations on its initial proposals.

### The framework of minimum access criteria

**3.3** An important factor in the Network Change Programme was the need to protect a minimum level of access to post office services for the majority of the population. BERR therefore established minimum access criteria, set out in **Box 1**.

#### BOX 1

##### The undertakings given on the access criteria

We will introduce a new framework of minimum access criteria to maintain a national network of post offices and, in particular, to protect vulnerable consumers in deprived urban, rural and remote areas:

- Nationally, 99 per cent of the UK population to be within three miles and 90 per cent of the population to be within 1 mile of their nearest post office outlet.
- Ninety-nine per cent of the total population in deprived urban areas across the UK to be within 1 mile of their nearest post office outlet.
- Ninety-five per cent of the total urban population across the UK to be within 1 mile of their nearest post office outlet.
- Ninety-five per cent of the total rural population across the UK to be within 3 miles of their nearest post office outlet.

In addition for each individual postcode district:

- Ninety-five per cent of the population of the postcode district to be within 6 miles of their nearest post office outlet.

In applying these criteria, Post Office Ltd will be required to take into account obstacles such as rivers, mountains and valleys, motorways and sea crossings to islands to avoid undue hardship.

Post Office Ltd will be required to ensure that, by the end of local area plan implementation, in every postcode district, without exception, 95 per cent of the population will be within 6 miles of their nearest post office outlet.

*Source: 'The Post Office Network: Government response to public consultation', May 2007*

**3.4** In effect, therefore, BERR set out the maximum distance most users would have to travel to their nearest post office. Before the start of the Network Change Programme, similar criteria had already existed for mail services. For example, Royal Mail's licence specifies that nationally no less than 95 per cent of users (or potential users) of mail services must be within five km of an access point (normally, a post office). But in practice the criteria for mail services had not significantly affected the size of the post office network, since only around 4,000 offices would be needed to meet these criteria. In 1999 the Government committed itself to determine criteria for minimum access to other post office services throughout the country and developed a series of proposed numerical access criteria. But this commitment had been suspended following a June 2000 report by the Cabinet Office's Performance and Innovation Unit into the post office network and the adoption of the no avoidable rural closures policy (paragraph 1.8).

**3.5** BERR's December 2006 announcement included a series of numerical 'access criteria', which, following adjustment as a result of the national public consultation, were confirmed in May 2007. These criteria aimed to maintain a national network of post offices and, in particular, to protect vulnerable consumers in deprived urban, rural and remote areas.

**3.6** As at the end of March 2009, when 95 per cent of the planned closures had taken place, four out of five of the access criteria were being met.

- Nationally, 99.7 per cent of the population was within three miles and 93.3 per cent was within one mile of their nearest post office outlet (including both branches and Outreach services), against respective targets of 99 per cent and 90 per cent.
- 99.8 per cent of the total urban deprived population was within one mile of an outlet against a target of 99 per cent.
- 99.1 per cent of the total urban population was within one mile of a post office outlet against a target of 95 per cent.
- 99.1 per cent of the total rural population was within three miles of a post office outlet against a target of 95 per cent.

- At the end of March 2009, out of 2,796 postcode districts in the UK, six did not meet the criterion that 95 per cent of the population of each such district should be within six miles of a post office outlet. The six districts comprised:

- two of the 15 postcode districts which were non-compliant at the start of the programme. Post Office Ltd plans to establish new outlets to meet the criterion by the end of the programme.
- four districts which became non-compliant as a result of unplanned branch closures unrelated to the Network Change Programme. Post Office Ltd is required to re-establish the service as soon as possible.

Five of these six cases have since been resolved and Post Office Ltd is addressing the sixth.

**3.7** The access criteria do not guarantee any particular number of post office outlets, but Post Office Ltd has estimated that they could theoretically be met by a network of as few as 7,500 offices.<sup>3</sup> Since Post Office Ltd and BERR have committed funding to support a network of 12,000 outlets up to 2011, the criteria do not therefore significantly affect the total number of offices in the network, but they influence the geographic distribution of those offices. Our examination of Postwatch files and individual cases showed that Postwatch confirmed Post Office Ltd's work in ensuring the proposed closures did not breach the access criteria.

## Development of area plans for closures in conjunction with interested parties, including Postwatch

**3.8** The first key stage in the implementation of the Network Change Programme was that of identifying the branches for closure which minimised the negative impact on customers, whilst contributing towards the financial savings envisaged for the programme. BERR set out the overall method for this process, as seen in **Box 2 overleaf**.

**3.9** We examined whether BERR had applied the lessons learnt from the Urban Reinvention Programme and whether the area plans had been drawn up in accordance with the undertakings given.

3 The access criteria are based on straight line distances, and therefore do not take into account issues such as topography and road distances, but Post Office Ltd took them into account in the area-planning process.

**BOX 2**

**The undertakings given on the development of area plans**

The role of Postwatch and local authorities in the development of proposals for, and local consultation on, closures and other changes in service provision is set out in a Memorandum of Understanding signed by Post Office Ltd and Postwatch and described in more detail below. In drawing up this Memorandum of Understanding, Post Office Ltd and Postwatch have drawn extensively on the lessons learned from the Urban Reinvention Programme.

Post Office Ltd will draw up area plans for closures and other changes in service provision within the framework above. Post Office Ltd will be initiating this process immediately and will in due course seek information and input from relevant parties including Postwatch, sub-postmasters and local authorities as area plan proposals are developed for local public consultation.

Post Office Ltd will also consider the availability of public transport and alternative access to key services, local demographics and the impact on local economies when drawing up area plans.

Nationally, there will be around 50-60 area plans, based predominantly on groupings of parliamentary constituencies but allowing Post Office Ltd and Postwatch the flexibility to establish different boundaries where local considerations dictate otherwise.

*Source: 'The Post Office Network: Government response to public consultation', May 2007*

**Learning lessons from the Urban Reinvention Programme**

**3.10** In our 2005 report on the Urban Reinvention Programme<sup>4</sup>, we found that the programme had provided several lessons:

During 2003:

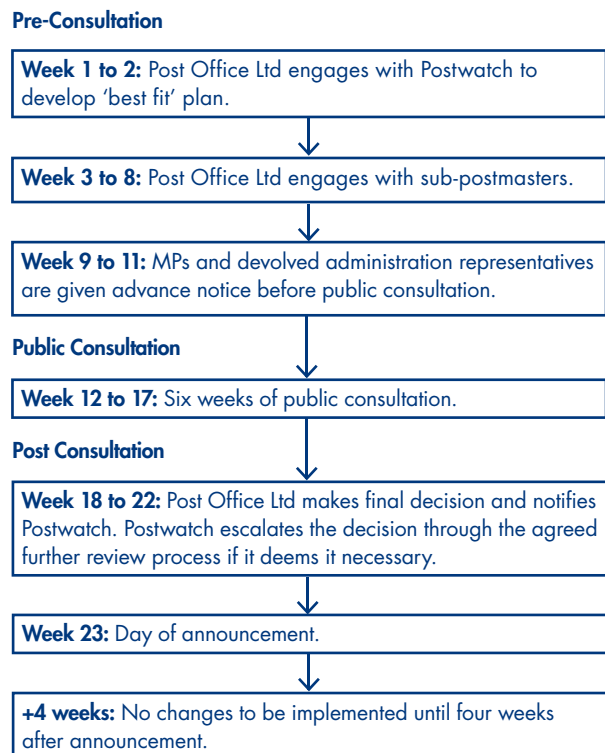
- The time allowed for public consultation was extended from four weeks initially, to six weeks.
- The method of identifying potential closures was changed from a 'single office' approach to an 'area' approach.
- A dispute resolution process was introduced for closures objected to by Postwatch.

From February 2004, Post Office Ltd:

- Notified MPs and devolved administrations about closure proposals for areas one week before public consultation.
- Responded to, and took account of, correspondence received and views expressed about the proposed service provision.
- Informed Postwatch, MPs and local authorities of the key issues raised during the consultation and outlined reasons for its decision.

**3.11** The process adopted for the Network Change Programme (**Figure 8**) applied these lessons. In addition, we found that two further lessons were applied: Postwatch were involved from the outset in the development of area plans, rather than being brought in only two weeks before public consultation began; and Postwatch visited all branches involved in the Programme.

**8 Overview of the planning process**



*Source: National Audit Office*

<sup>4</sup> Financial Support for Post Offices, HC 287, Session 2004-2005.

**3.12** Postwatch's role was to provide an independent check in terms of the impact of Post Office Ltd's proposed closures on local communities, and to ensure customers and those who represented them were fully informed about the proposed change and had the opportunity to contribute. This role was set out in a memorandum of understanding agreed with Post Office Ltd. BERR did not seek an active part in developing the memorandum, but approved the final draft. Postwatch recognised that there was a tension between a close involvement in the closure programme and its role as a consumer advocate, but took the view that close involvement was the best way to protect consumers' interests.

### Delivery of the undertakings on drawing up area plans

**3.13** We assessed the extent to which the actual process matched that agreed, and whether it resulted in any changes in plans. Appendix 5 lists the areas and the number of planned closures in each, and Appendix 6 gives more detail on Post Office Ltd's actions in developing the area plans. We found that:

- Post Office Ltd's initial development of plans used a combination of its Geographical Information System (GIS) and business data to draw up area plans identifying the branches proposed for closure and those for replacement with Outreach services. The resultant model used four criteria:
  - Branch proximity to other branches.
  - Level of customer usage.
  - Financial benefit of closure.
  - Branch size relative to surrounding branches.
- In the development of the area plans, Post Office Ltd received and sought to take account of considerable input from Postwatch on the likely impact of each proposal on consumers, including issues of access to alternative branches, such as: distance; transportation; ease of access to alternative branches; and the capacity of alternative branches to absorb additional customers. Both Post Office Ltd and Postwatch visited every branch proposed or impacted by closure before the consultation process. Post Office Ltd also wrote to local authorities during the pre-public consultation period, receiving responses from over 350 of the 450 local authorities.
- Postwatch used its existing regional network to harvest local knowledge and assess the impact on local communities; and visited each branch proposed for closure in the area plans. It purchased its own IT geographic information system to provide more information than Post Office Ltd's system, enabling Postwatch both to check Post Office Ltd's analysis, and to perform any independent investigation if necessary.

**3.14** As a result of the joint working between Post Office Ltd and Postwatch, in addition to input from local authorities for the pre-consultation phase, 261 branches originally intended for closure were withdrawn before public consultation on the individual area plans. These branches were replaced by others regarded as more suitable for closure.

### Public consultation on the plans

**3.15** The relevant undertakings are set out in **Box 3**. We examined the time allowed for public consultation, communication with stakeholders, the response to comments made during the consultation and effect of the escalation process developed to allow Postwatch to make representations at senior levels.

#### BOX 3

##### The undertakings given on local public consultations

Individual local area plans will each be subject to a 6 week public consultation. The role of Postwatch and local authorities in the development of proposals for, and local consultation on, closures and other changes in service provision is set out in a Memorandum of Understanding signed by Post Office Ltd and Postwatch.

*Source: 'The Post Office Network: Government response to public consultation', May 2007*

### Six week local consultation

**3.16** Following a 12 week national consultation on the future of the post office network, which included the issue of the length of local consultations, BERR determined that there should be a six week consultation on each of the area plans. We examined whether the six week criterion had been met and the effects of the length of consultation on stakeholders.

**3.17** Cabinet Office guidelines recommend no less than twelve weeks for national consultations, although these do not apply to local consultations. With BERR's agreement, Post Office Ltd's local public consultations lasted for six weeks. The reason given by BERR for the shorter six week period was to minimise uncertainty for the sub-postmasters and customers involved, and to limit the harm done to the business of those post offices initially listed for closure that might yet be reprieved, and to stem Post Office Ltd's ongoing losses.

**3.18** We found that the short consultation period caused resentment among some local customers. They felt that insufficient weight was being given to the consultation process and had the impression that the closure decisions were a *fait accompli*. However, 92 closure proposals were withdrawn as a result of consultation responses. Postwatch's network advisors, and some respondents in our own case studies, highlighted that in a number of cases local residents felt that running a six week consultation rather than a 12 week consultation indicated that Post Office Ltd did not take the process seriously, and regarded it as going through the motions. An Ipsos Mori survey into the effectiveness of the public consultation process and its materials, commissioned in the early stages of the Programme by Postwatch, found that when respondents were questioned as to why they did not intend to take part in the consultation process, the most common response (25 per cent of respondents) was that they did not have enough time, or were too busy to respond. A later survey found that this number had fallen to 12 per cent.

### The public consultation process: communicating with stakeholders

**3.19** BERR required Post Office Ltd to seek information from relevant parties, including Postwatch, sub-postmasters, and local authorities. We examined whether there was effective communication with stakeholders and whether the issues raised had been dealt with satisfactorily, either by Post Office Ltd's response to issues raised in the consultation, or by Postwatch.

**3.20** In terms of the communication with stakeholders, we found that:

- Post Office Ltd sent packs of publicity material to the branches proposed for closure, which included posters and letters with information on the intended closure and alternative branches.
- Customers who wished to be involved, and the key stakeholder groups (who were agreed with Postwatch and set out in a Memorandum of Understanding), for example the Local Chambers of Commerce, were sent information on which branches were planned for closure, and details of two alternative offices, together with information on transport links, disabled access, shops and banking machines in the vicinity of those branches. Post Office Ltd also published the area plan and associated information on its website from the first day of the consultation.
- Over 190,000 items of correspondence relating to the consultation were received by Post Office Ltd, primarily via written correspondence or email. Postwatch requested that Post Office Ltd accept submissions to the consultation process by telephone as well as in writing. However, Post Office Ltd decided not to do so and required all submissions to be made in writing, either by post or by email, unless customers were unable to provide a written response. This approach was intended to safeguard the confidentiality and accuracy of the submissions.
- During the 42 local area plan consultations, representatives from Post Office Ltd attended 836 meetings with MPs, 407 meetings with local authorities and 426 public meetings.
- Post Office Ltd issued press releases at the start and end of the consultation. An Ipsos Mori survey commissioned by Postwatch showed that, for the early closures, only 18 per cent of respondents were aware that a public consultation was taking place. A later survey found that this had risen to 36 per cent during the closure programme. This survey also found 88 per cent of the respondents were aware of plans to close a post office in their area.

**3.21** There were a number of instances in the early post office closures where the communication process was inadequate, and where improvements were put in place during the course of the programme, including:

- cases where only one type of Outreach service was presented in the consultation document even though there were a number of options under discussion pre-consultation, and the type eventually provided was not the one presented in the consultation document; and
- closure notices and consultation documents that identified alternative branches using proximity as the only criterion, rather than accessibility – even though the nearest post office was not the most accessible due to insufficient public transport, or topographical obstacles such as hills and rivers.



## The public consultation process: responding to comments

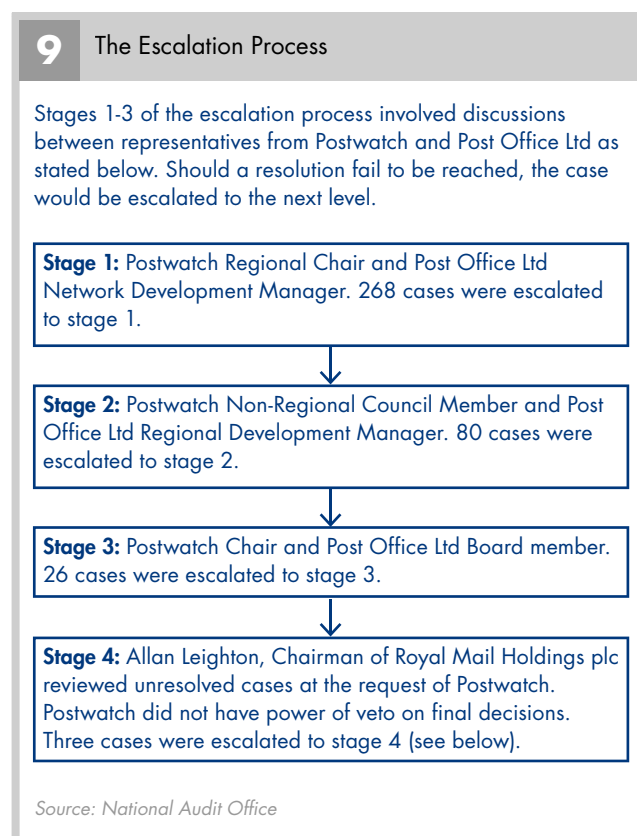
**3.22** We examined whether the points raised by respondents had been dealt with satisfactorily, either by Post Office Ltd's response to issues raised in the consultation, or by Postwatch, including a review of Postwatch files.

**3.23** The full process by which Post Office Ltd collated and responded to comments is set out in Appendix 6. We found that:

- By the end of December 2008, 190,000 items of correspondence responding to the consultation had been received. Post Office Ltd's initial target was to acknowledge 90 per cent of consultation correspondence received within ten days, but the target was reduced to 80 per cent when it became clear that more responses would be received than originally expected. Post Office Ltd, according to the figures in its progress-reporting spreadsheet, achieved 87.5 per cent.
- Our review of Postwatch files found that Post Office Ltd was sometimes slow to respond to comments as it took a legalistic approach to communications during the consultation process. Post Office Ltd was concerned to avoid the possibility that closures would face a judicial review, which meant that some communications were referred to its lawyers as one of the first stages of the communication process. There were eight formal judicial review claims made against Post Office Ltd, and 25 other complaints which required it to use its external lawyers.
- Throughout the programme, Postwatch examined whether Post Office Ltd had responded effectively to the consultation process by reviewing the summaries prepared for Post Office Ltd managers of the responses received, and auditing them to check whether Post Office Ltd had taken into consideration all the evidence presented in the responses. Postwatch performed a mix of 38 detailed audit and 68 more limited reviews of the summaries. At first this was performed on a weekly basis, but this was then extended to a fortnightly basis later in the programme. Overall, Postwatch checked four per cent of all summaries and found them to be satisfactory.

## Post-public consultation: the escalation process

**3.24** Under the Memorandum of Understanding, Post Office Ltd retained the final power to decide on any particular closures, and Postwatch did not have a right of veto on the post offices proposed for closure. However, the two bodies agreed a four-stage escalation process (**Figure 9**), designed to get Post Office Ltd to consider alternative solutions and to allow further discussion of closure decisions with which Postwatch disagreed.



**3.25** We reviewed Postwatch files on the operation of the process, and examined in depth its operation in an illustrative example of one area plan. We found that:

- Following consultation, and as a result of both Postwatch challenges and other consultation comments, 92 offices originally selected for closure were withdrawn and 48 others were put into public consultation as substitutes. Other changes were also made, such as the provision of an Outreach, or the improvement of customer service at particular branches in the remaining network.
- Postwatch often used the escalation process to obtain Post Office Ltd's undertaking to communicate relevant and useful information to customers of a to-be-closed office, or to guarantee increased capacity or staffing at one of the alternative offices. This method of using escalations by Postwatch was a key factor in the low number of Stage 1 escalations that continued through to Stage 2.
- Postwatch felt that it would have been better able to perform its role in ensuring that customers and their representatives were able to understand the consultation process and make their views heard, if it had had powers to enforce changes to Post Office Ltd's communication material and process.
- Post Office Ltd gave undertakings to Postwatch that it would increase staffing and improve accessibility in branches that were expected to become busier as a result of a nearby closure. As at March 2009, of the 686 branches planned for staffing or capacity improvements, 239 had not yet had the necessary refurbishment.
- Of the three Stage 4 escalation cases, Micklegate (North Yorkshire) was revoked; Trafford Park (Greater Manchester) was confirmed as going ahead; and Podsmead (Gloucester) is to be replaced with an Outreach service.
- There is still work to be done in ensuring that Post Office Ltd meets the undertakings given as part of the escalation process, and they will require continued monitoring. Consumer Focus is continuing to undertake spot checks of improvements which Post Office Ltd agreed as part of the escalation process.

## The provision of Outreach services to mitigate the impact of closures

**3.26** To partially offset the impact of up to 2,500 closures, Post Office Ltd was required by BERR to create at least 500 new Outreach services. Outreach is different from traditional post office outlets and has been designed in order to help cut the fixed costs of post office service provision, while maintaining service. The relevant undertaking is set out in **Box 4**.

### BOX 4

#### The undertaking given on the provision of Outreach services

Post Office Ltd will be establishing new Outreach locations to provide access to services and Government will provide support for about 500 of these to mitigate the impact of the compensated closures.

*Source: 'The Post Office Network: Government response to public consultation', May 2007*

**3.27** Outreach services can take the form of a Partnered Outreach, where services are provided via a third party retailer that are available for the same hours as a retail business; a Hosted Outreach, where a shop or other establishment would host a post office counter for a fixed period each week; a Mobile Outreach, where post office facilities would be delivered by mobile vans for a limited number of hours a week; or a Home service, where services are delivered directly to customers in a small community. Appendix 3 describes in more detail the development of Outreach services and how they operate. We found that:

- An Outreach service can be used to meet the access criteria in the same way as a branch, irrespective of the number of hours that it is open. The access criteria measure service in terms of the presence of a postal counter, rather than the opening hours or the range of services provided, although BERR expect that in practice the Outreach will reflect the level of customer business.

- The contracts for the new Outreach services will be reviewed internally after the first year. This period allows Post Office Ltd flexibility in provision of Outreach services and takes into account their success or otherwise. It also allows the core sub-postmaster some flexibility in the level of commitment they make. It has, however, also prompted fears that some Outreach services might be withdrawn after the first year. BERR and Post Office Ltd have advised that this is not the intention of the one year initial contract and have confirmed that the closure of an Outreach service will trigger a full consultation process as defined in the Code of Practice recently agreed with Consumer Focus and operative from 1 April 2009.
- A total of 256 Outreach services had been opened by 30 November 2008 (the approximate scheduled end of the programme) against a commitment of at least 500. By 31 March 2009, 433 Outreach services had been opened – 87 per cent of the target – and Post Office Ltd forecast a final number of 507 Outreach services.
- This delay in reaching the target was due to negotiations over Hosted and Partner Outreach taking longer than expected. During such negotiations, the branch due for replacement by the Outreach service is kept open.
- Consumer Focus has commissioned two research projects to assess consumer satisfaction with Outreach services, and to identify recommendations to ensure that Outreach services meet consumer needs. Consumer Focus will also continue to monitor Outreach services on an ongoing basis. BERR will rely on the work of Consumer Focus and Post Office Ltd in its evaluation of Outreach.

## A successor to the Post Office card account

**3.28** The Post Office card account is a basic account that can only be used to receive central government administered benefits, state pensions and tax credit payments. No other payments, such as housing benefit, occupational pensions, or wages can be paid into it. Card holders can make cash withdrawals or find out their balance at any post office using their Post Office card account card and their Personal Identification Number. The account is designed for people who want a simple account that does not allow them to go overdrawn or incur any charges. No credit checks are carried out when a Post Office card account is opened.

### BOX 5

#### The undertaking given on the Post Office card account

A new account will be introduced to succeed the Post Office card account, available nationally and on the same basis of eligibility as now. The Government will be tendering for this service in accordance with EU rules.

*Source: 'The Post Office Network: Government response to public consultation', May 2007*

**3.29** In developing the Network Change Programme, BERR and Post Office Ltd took into account income from the Post Office card account only until the end of the present contract in 2010. DWP had announced that it would be launching a competitive process for the successor contract. In November 2008, DWP Ministers announced that Post Office Ltd would be awarded the contract to run the Post Office card account for the five years from 2010 with the possibility of an extension beyond that. The aim of the Network Change Programme was to improve Post Office Ltd's financial position in the period leading to 2010-11. Thus the award of the new contract has little impact on Post Office Ltd's financial position before then, when the existing contract still applied, and so has no bearing on the Programme. It will, however, help support the network in place after the implementation of the Programme, thereby supporting the longer term viability of the network.

## Developing proposals for future decisions about post office provision, local authority engagement, and funding

### BOX 6

#### The undertaking given on developing future proposals

This [consultation] process will also allow an opportunity both to assess how local authorities can better engage with Post Office Ltd to channel more business through post offices to help strengthen their viability and also to explore the scope for co-hosting or co-locating post office services with local authority facilities under the Network Change Programme or more widely in establishing Outreach services.

We will be working on proposals for devolving greater responsibility after 2011 for decisions on post office service provision to a local level and for providing greater flexibility for local funding decisions

*Source: 'The Post Office Network: Government response to public consultation', May 2007*

**3.30** During the implementation of the Network Change Programme, some local authorities approached Post Office Ltd with proposals to take over the running or funding of some, or all, of the post office branches marked for closure within their locale. Post Office Ltd made it clear that the closures would go ahead as planned and that any discussion enabling additional branches to be funded separately by a third party would only take place separately to the Network Change Programme. The local authorities would have preferred that the branches were kept open whilst discussions progressed as it was more difficult to get a branch up and running once the fittings had been removed and the customers had been told that the post office was closed. In eight cases, Post Office Ltd agreed to delay the removal of fittings in order to allow local authorities more time to consider options, although there were cost implications for Post Office Ltd of doing so.

**3.31** Post Office Ltd has produced formal guidance to the local authorities and other interested parties in setting up a new process to fund a continued service provision at recently-closed branches, and this guidance is publicly available. In the case of Essex, a member of the company's Network Change Programme team was seconded to the County Council to help with the new arrangements. BERR's role was to set out the framework for Post Office Ltd's engagement with the local authority, to monitor developments, and provide information on State Aid requirements; but the department did not regard it as appropriate to become further involved, since it felt that these developments were part of Post Office Ltd's usual business operations.

**3.32** Towards the end of the Network Change Programme, and following the November 2008 decision to award the Post Office card account to Post Office Ltd, the Secretary of State asked the House of Commons Business and Enterprise Select Committee to review future services to be offered through the post office network. The Committee agreed to do so, while making it clear that it would have full control over the scope of its inquiry, setting the detailed terms of reference and reporting to the House of Commons in the normal way. The Committee announced its inquiry on 11 December 2008. The key question which the Committee intends its inquiry to answer is how to ensure a comprehensive and sustainable network which provides the services the public needs for the foreseeable future.

**3.33** In addition, in May 2009, BERR tabled an amendment to the Postal Services Bill to require annual publication of information about the post office network. The amendment will introduce a new requirement for Post Office Ltd to produce an annual report about the number, location and accessibility of post offices across the national network.

# PART FOUR

## BERR's monitoring of the implementation and impact of the Network Change Programme

**4.1** This Part examines BERR's monitoring of:

- The implementation of the Programme.
- Its wider impact on the network and services.

### Implementation

**4.2** The Network Change Programme was due to have been completed by late 2008. All consultations and closure decisions were announced to timetable, but as at January 2009 the Programme was still active, largely because of delays in establishing Outreach services, which had delayed the closure of offices that these services were due to replace. Out of the 42 area plans, 15 had been concluded in full (i.e. with all closures and Outreaches implemented) by the end of January 2009 and 27 remained in progress.

**4.3** **Figure 10** shows the key measures of the progress of the Programme at the end of November 2008 (broadly when it had originally been planned to be completed) and at the end of March 2009. Key points were:

- Branches: there were 2,383 compensated closures achieved by March 2009, against an expected final figure of 2,435, representing 98 per cent completion. Post Office Ltd's commitment to keep branches open until the replacement Outreach service is ready to become active, has been a key cause of the lag in the number of branches closed. Post Office Ltd predicted a final outturn of 2,435 compensated closures, against the maximum limit of 2,500. In addition, during the period of the Programme, there were 95 uncompensated closures (for example, due to retirement), making a forecast total of 2,530. In terms of Outreach services, 433 had been established, and a smaller number of new outlets opened, to improve compliance with the access criteria relating to postcode districts.

**10** Key measures of the progress of the Network Change Programme

	Target (for the whole Programme unless otherwise stated)	Outturn to date	
		As at end Nov 2008	End of March 2009
<b>Costs of Programme</b>	£176 million	£156.7 million	£156.9 million <sup>1</sup>
<i>(Of which compensation paid to sub-postmasters)</i>	£139.7 million	£125.5 million <sup>2</sup>	£122.3 million <sup>2</sup>
<b>Savings<sup>3</sup></b>	£10 million as at 30 Nov 2008; £19.6 million as at 31 Mar 2009	£9.4 million	£18 million
<b>Branches closed under the Programme</b>	up to 2,500	2,206	2,383
<b>Outreach services established</b>	minimum 500	256	433
<b>Customer migration</b>	80 per cent	86 per cent	88 per cent

Source: BERR

#### NOTES

1 Projected final outturn cost of the Programme was £161 million.

2 The 'Compensation paid to sub-postmasters' figures for November and March include both compensation paid and amounts committed to payment.

3 Savings from reduced remuneration to sub-postmasters, net of lost profit margin from reduced sales. Post Office Ltd do not separately monitor central efficiency savings or reduced cash holding costs attributable to the Programme as distinct from other initiatives.

- Compensation: as at the end of March 2009, approximately £122 million had been paid out or was committed to be paid out in compensation to sub-postmasters – an average of £51,000 per compensated closure. Post Office Ltd expects to pay less compensation than the £140 million originally expected because a larger-than-expected proportion of sub-postmasters were choosing to work out the full notice period, which reduced the amount of compensation that they were paid, and because of the lower number of compensated closures. These sub-postmasters are therefore acting as agents for Post Office Ltd for longer, however, so the reduction in compensation costs will increase the company's normal operating costs during the notice period.
- Cost savings: £18 million of cost savings had been realised at the end of March 2009 against a target at that point of £19.6 million, representing a shortfall of £1.6 million in savings, whereas at the end of November 2008 £9.4 million had been achieved against a target of £10 million. An important reason for the slower realisation of savings was that the continued existence of the branches due to be replaced by Outreach, and the utilisation of the full notice period. Post Office Ltd expects the full cost savings to be achieved on the completion of the Programme.
- Migration of revenue: Post Office Ltd estimate the extent to which customers have taken their business to other Post Office Ltd branches following closures to have been around 88 per cent against a target of 80 per cent. Migration is difficult to measure precisely, but the figure indicates a movement of 88 per cent of revenue from closed post offices to those in close proximity.

## Impact on the network and services

**4.4** The May 2007 decision document set out BERR's belief that its funding could support a network of 'around 12,000' outlets until March 2011, including the 500 new Outreach outlets from the Network Change Programme. From 14,219 outlets at the end of March 2007, the network had fallen to 13,567 at 31 March 2008, and 11,953 at March 2009. At the end of the Network Change Programme, the size of the network is expected to be some 11,966 outlets, including Outreach.

**4.5** BERR expects further reductions to occur over the period to 2011 through unplanned closures, such as those due to retirements, which BERR has estimated might further reduce the size of the network by around 200 per year. Post Office Ltd told us that, while working within government funding and policy, it strongly desired to retain a network of 11,500 branches and 500 Outreach services. It was committed to replacing branches which closed voluntarily after the Programme was completed, except in the exceptional circumstances where there was no customer base of any size. Any closures causing a breach of the access criteria would be replaced, and proposals for permanent closures would be consulted on in accordance with the code of practice agreed between Consumer Focus and Post Office Ltd.

**4.6** The network subsidy payment of £150 million a year is intended to support the loss-making post offices that still exist after the Network Change Programme, as these offices provide services of general social and economic interest. BERR monitors the services of general social and economic interest in terms of the number of branches and Outreach locations against the agreed totals of around 12,000 outlets, including 500 Outreach. BERR also requires Post Office Ltd to commission an independent audit to confirm that the network subsidy does not exceed the net costs incurred by Post Office Ltd in providing the services of general economic interest. BERR has not set out criteria for the social value of the network, but it has asked Postcomm to carry out research following up BERR's previous research on the social value of the network. BERR has also not set any requirements on the operation of post office counters in terms of hours of service or quality of service, as it believes that these must be decided at a local level in light of the local circumstances.

**4.7** Postwatch had a strong base of regional knowledge as a result of its regional structure, with representatives of each of the UK regions on the Postwatch Council. Postwatch's investigation of area plans operated on a regional basis. This structure enabled Postwatch to gather sufficiently detailed and relevant information to be able to challenge Post Office Ltd on its closure proposals. Each regional office received additional staffing to reflect the resource implications of the closure programme.

**4.8** From 1 October 2008, Postwatch was subsumed into the new Consumer Focus body, but the Network Change Programme team continued in place until the end of January 2009 and Consumer Focus has continued its work on the Programme since then. As Consumer Focus did not inherit the wider complaints function of its predecessors, it no longer has an English regional structure. In any future closures, Consumer Focus will have substantially less prior knowledge of the area than Postwatch did and will therefore require additional time prior to and during the Programme to inform its investigation.

**4.9** Monitoring of the network and impact of the Network Change Programme or future changes on customers, currently covers checking the number of outlets, rather than the quality of service provided by the post office network, although Consumer Focus is also covering this. To monitor quality of service in post offices, Postwatch carried out an annual survey of a representative sample of post offices. Consumer Focus intends to continue to monitor the quality and accessibility of post office services and will use not only primary data and research, but also Post Office Ltd information, and complaints data from Consumer Direct. The way in which Consumer Focus will monitor quality of service as part of the forward work programmes will be finalised following consultation with interested parties. BERR does not currently have any agreements with Consumer Focus over monitoring the post office network, either through the annual survey or via other means. BERR does however have the ability to direct Consumer Focus to carry out work in the interest of the consumer, if it considers that Consumer Focus is not currently undertaking such activity.

# APPENDIX ONE

## Audit Methodology

### Methodology

**1** The key elements of our methodology are set out below.

#### A) Document review

**2** We reviewed relevant documentation from BERR, Post Office Ltd and Postwatch. The documents reviewed covered all aspects of the Network Change Programme and included board minutes, submissions to ministers, and public consultation responses amongst other items.

**3** The review allowed us to examine the evidence base that was used for key decisions, to monitor the level of communication between BERR, Postwatch and Post Office Ltd, and to track the development of the Network Change Programme from its inception to the current period.

**4** We also examined BERR's financial modelling to assess the costs to Post Office Ltd, and we reviewed their performance measurement arrangements in order to assess whether they provide appropriate indicators for measuring the success of the programme.

**5** We used the document review to inform and develop our semi-structured interviews. The review was also the basis for a number of workshops which we held subsequently.

#### B) Workshops

**6** The document review was supplemented by a number of workshops with all three parties. These covered a range of topics from the financial model used by Post Office Ltd for its business case, to the underlying finances of the business. We also held workshops with Postwatch's Network Advisory Group, and its Counters Advisory Group.

#### C) Interviews

**7** We held numerous unstructured and semi-structured interviews with key staff from BERR, Postwatch, and Post Office Ltd. These interviews were designed to give us a deeper understanding of the key issues, and were co-ordinated with the document review.

**8** We spoke to a number of third parties to obtain their views on the Network Change Programme and BERR's oversight of it. We also received submissions from third parties who had views on the programme, both at a local and national level. The third parties that we spoke to are listed below:

- National Federation of Sub-Postmasters.
- Help the Aged.
- Age Concern.
- Federation of Small Businesses.
- Rural Shops Alliance.
- Countryside Alliance.
- Essex County Council.

#### D) Case studies

**9** To understand more fully the impact of post office closures on local communities, and the way that post office users had modified their behaviours following the closures, we carried out six case studies. These case studies covered both urban and rural areas, as well as deprived areas. Three of the six case studies were areas where the post office had been replaced with an Outreach service. Appendix 2 gives more details of the case studies and gives the summary of the report on the findings.

**10** We also carried out a case study on the Devon area plan to evaluate the local consultation process in more detail.



# APPENDIX TWO

## Summary report of case studies

**1** In order to understand the impact of branch closures, we commissioned Ipsos MORI to carry out six case studies on communities whose post office branch had closed, three each in rural and urban areas. In the three rural case studies, the post office had been replaced with a Hosted Outreach service for between six and twelve hours each week. In the three urban case studies the branch had not been replaced.

**2** These case studies are not intended to be representative of the closure programme as a whole. They provide some examples of how communities have coped with the closure of their post office, and some illustrations of the challenges faced by different sections of the community as a result of the closure.

**3** This is a summary of Ipsos MORI's findings. The full report is available on the NAO website: [www.nao.org.uk](http://www.nao.org.uk)

### Methodology

**4** The case study areas were chosen to offer a geographical spread across the country and in locations where the post office closure had occurred at least five months previously. A research study conducted over three weeks can only provide a 'snapshot' of the impacts that the closure has had on local communities at that particular point in time. However, by selecting only those areas where the post office had closed at least five months previously, the impacts of the closures will have had some time to bed down and local residents, businesses and stakeholders will have begun to adapt to the new situation and have had time to reflect on it.

**5** Ipsos MORI's research team spent a day in each community, observing the local area and speaking to a variety of audiences about the impact of the closure, including residents, vulnerable residents, businesses and stakeholders. A total of 10 discussion groups and 21 depth interviews were carried out across six case study areas.

The table below details the area types selected and the nature of the research carried out in each.

Area	Description	Discussion Groups	Depth Interviews
1	Rural remote	General public (1)	Business (2) & Stakeholder (2)
2	Rural remote	General (1) & vulnerable public (1)	Business (2) & Stakeholder (1)
3	Urban deprived	General (1) & vulnerable public (1)	Business (1) & Stakeholder (1)
4	Urban	General (1) & vulnerable public (1)	Business (2) & Stakeholder (2)
5	Urban	General public (1)	Business (2) & Stakeholder (2)
6	Rural	General (1) & vulnerable public (1)	Business (2) & Stakeholder (2)

**6** In each of the rural locations, the post office had been replaced by a Hosted Outreach service (Appendix 3), with opening hours ranging from six to 12 hours per week.

### Findings

#### Impact on local residents

**7** Local residents generally are vocal about the impacts the post office closure programme has had on their communities despite their relatively low usage of the facilities, old and new. As a more socially and physically mobile group than vulnerable residents, they are able to access a wider variety of services, whether by going to other areas close by or by using different channels, for example, internet banking. The post office closure programme has undoubtedly been an inconvenience for this group, removing a service that had always been available, in a convenient location, whenever they needed it. Nevertheless, it has had little significant impact.

**8** In the rural areas where they are provided, Outreach services tend to be used by local residents only where they happen to fit in with their work and lifestyles, due to their limited opening hours. Generally however, this group has had to begin to plan to use alternative post offices. They now fit it into the routines of their lives, often combining it with journeys to work or a shopping trip. The closure has undoubtedly been an inconvenience, but one that this group of residents are capable of comfortably dealing with.

### Impact on vulnerable groups

**9** The lives of vulnerable residents have been more seriously impacted upon by post office closures. Due to issues of mobility and routine, combined with little public transport provision in rural areas, this group of residents are more centred in their communities and therefore rely more heavily on local facilities. For some vulnerable residents, the post office was an integral part of their routine, allowing them to leave their homes and engage with other people. For this group, the loss of the post office really does mean the loss of an inclusive, social, community hub. Local post offices also played an important role in checking on the wellbeing of vulnerable local residents, where absence or a deviation from routine was noted.

**10** These losses are even greater in the cities where there are fewer alternative facilities available. The change in post office provision has led to some vulnerable residents becoming increasingly housebound. A combination of increased distance, difficult access or a change in route, has prevented some in this group from continuing to access postal services themselves, while others have become increasingly reliant on those around them, friends, family and neighbours, for assistance.

### Impact on the business community

**11** The business community has also largely been able to cope with the inconvenience and subsequent change to its routines. Following the post office closures, businesses have had to continue to access the post office and in some cases, alter how they continue to bank. By utilising a combination of the new and remaining postal services, as well as by negotiating services directly, most businesses have taken the closure in their stride, albeit with some extra fuel costs and possible delays in posting items. More profoundly impacted by the closures have been the shops that formerly hosted the post offices and the local

businesses that have remained. All have suffered from a reduction in customer numbers, as those that had been previously drawn to the area by the post offices, no longer come to use their businesses. Despite wider economic circumstances, such as the looming recession, these businesses identify the post office closure as the major factor in their current financial difficulties.

### The future of the network

**12** Looking to the future, there is fear amongst rural communities that the post office closure programme could result in areas being left with no local facilities at all. There is some concern in these communities that Outreach services are simply part of a staggered closure programme that will at some point lead to a full removal of postal services. More widely, across both rural and urban areas, post office closures are seen as a contributing factor to a wider spiral of decline in which, as facilities disappear, fewer and fewer potential customers are drawn to an area, which in turn results in further closures for local businesses. There are of course wider contributory factors, such as increased shopping at supermarkets and out of town shopping and leisure facilities, which only add to small communities' fears for the future survival of their local areas.

# APPENDIX THREE

## Outreach services

**1** An Outreach is a way of providing a reduced post office service to a rural community where a post office closure has been proposed to take place, and the possibility of migrating to an alternative post office nearby is not feasible.

**2** The Outreach model is based on the idea of a core sub-postmaster at the centre of a 'hub' which operates Outreach services for the surrounding villages, within a certain radius.

### Background

**3** The Outreach model was developed to deliver a new cost effective way of providing the core post office services to rural areas that met the needs of the local community. The Outreach concept was piloted at 73 locations by Post Office Ltd in 2005 for a period of 18 months to determine the viability and satisfaction amongst consumers of the service. Customer reaction to Outreach was broadly positive with 67 per cent expressing satisfaction with the service.

**4** The model enables a reduction in the fixed cost element of having a bricks and mortar post office, and replaces it with a flexible service with an associated cost that can be varied in relation to demand. The cost savings derived from Outreach are not sufficient to make it a commercially viable model, and there is no increase in demand from a move to the new model, but it is a more cost effective model for Post Office Ltd. Outreach reduces the amount of loss whilst still being applicable for the purposes of the access criteria.

**5** In most circumstances Outreach still provides the full range of post office services. The contracts for the 500 new Outreach services will be reviewed internally after the first year. This period allows Post Office Ltd flexibility in provision of Outreach services and takes into account their success or otherwise. It also allows the core sub-postmaster some flexibility in the level of commitment they make. However, the Outreach model is seen by Post Office Ltd as being an integral part of the future of the network.

### Formats of Outreach

**6** The decision to provide an Outreach service and determine which type of Outreach service to provide is based on a number of factors including location, demand and levels of existing service. This leads to Outreach being an inherently bespoke local solution that is tailored to the needs of the community it is serving, but within the parameters of the 4 types of Outreach service.

**7** The four types of Outreach service are as follows:

**8** **Home service** – This service is directed at small rural communities with low and infrequent demand. A basic range of products and services can be ordered over the phone or via the internet. The order is then delivered to a village collection point, or to the customer's home. It is the most expensive and the least-used form of Outreach.

**9 Partner service** – This is where a third party with a permanent presence in the village provides a range of post office services. The third party is typically an established business such as a village store or pub, and the service reflects the opening hours of the third party. The third party is not employed by Post Office Ltd, but has a separate agreement with the core sub-postmaster. Operational equipment, such as the IT system, safe, and scales are provided free of charge to the operator. Remuneration for the third party is agreed with the core office and can typically take the form of a nominal rent and/or commission on sales.

**10 Mobile service** – This is where the Outreach service is delivered to the community by a mobile van parked in a fixed location for a number of hours per week. This enables a range of post office services to be offered, whilst being flexible enough to meet the varying levels of demand. The mobile service is operated by the core sub-postmaster, or a member of his staff, and comprises a service where customers stand inside a custom-fitted van and are served at a counter. Originally, there were also services where customers were served through a window, but this was subsequently withdrawn.

**11 Hosted service** – This where the core sub-postmaster, or one of his staff, visit a 'host' location, such as a village hall, newsagent or pub to set up a mini post office that would provide a range of services for a few hours a week.

## APPENDIX FOUR

# Undertakings about outcomes and processes given by BERR

**1** In its May 2007 announcement of its final decision, following the public consultation on its initial proposals, BERR made the following undertaking about the implementation of the programme:

“We will introduce a new framework of minimum access criteria to maintain a national network of post offices and, in particular, to protect vulnerable consumers in deprived urban, rural and remote areas:

- Nationally, 99 per cent of the UK population to be within three miles and 90 per cent of the population to be within one mile of their nearest post office outlet.
- Ninety-nine per cent of the total population in deprived urban areas across the UK to be within one mile of their nearest post office outlet.
- Ninety-five per cent of the total urban population across the UK to be within one mile of their nearest post office outlet.
- Ninety-five per cent of the total rural population across the UK to be within three miles of their nearest post office outlet.

In addition for each individual postcode district:

- Ninety-five per cent of the population of the postcode district to be within six miles of their nearest post office outlet.

In applying these criteria, Post Office Ltd will be required to take into account obstacles such as rivers, mountains and valleys, motorways and sea crossings to islands to avoid undue hardship.

Post Office Ltd will also consider the availability of public transport and alternative access to key services, local demographics and the impact on local economies when drawing up area plans.

Post Office Ltd will be required to ensure that, by the end of local area plan implementation, in every postcode district, without exception, 95 per cent of the population will be within six miles of their nearest post office outlet.

The Government funding will support strategic changes to the network with up to 2,500 compensated closures within the access criteria framework above. The Government expects that Post Office Ltd will implement this over an 18 month period from summer 2007. Post Office Ltd will be establishing new Outreach locations to provide access to services and Government will provide support for about 500 of these to mitigate the impact of the compensated closures.

A new account will be introduced to succeed the Post Office card account, available nationally and on the same basis of eligibility as now. The Government will be tendering for this service in accordance with EU rules.

Post Office Ltd will draw up area plans for closures and other changes in service provision within the framework above. Post Office Ltd will be initiating this process immediately and will in due course seek information and input from relevant parties including Postwatch, sub-postmasters and local authorities as area plan proposals are developed for local public consultation.

Nationally, there will be around 50-60 area plans, based predominantly on groupings of parliamentary constituencies but allowing Post Office Ltd and Postwatch the flexibility to establish different boundaries where local considerations dictate otherwise.

Individual local area plans will each be subject to a six week public consultation. The role of Postwatch and local authorities in the development of proposals for, and local consultation on, closures and other changes in service provision is set out in a Memorandum of Understanding signed by Post Office Ltd and Postwatch and described in more detail below. In drawing up this Memorandum of Understanding, Post Office Ltd and Postwatch have drawn extensively on the lessons learned from the Urban Reinvention programme.

This process will also allow an opportunity both to assess how local authorities can better engage with Post Office Ltd to channel more business through post offices to help strengthen their viability and also to explore the scope for cohosting or co-locating post office services with local authority facilities under the network change programme or more widely in establishing Outreach services.

We will be working on proposals for devolving greater responsibility after 2011 for decisions on post office service provision to a local level and for providing greater flexibility for local funding decisions.”

*Source: THE POST OFFICE NETWORK, Government response to public consultation, published May 2007*

# APPENDIX FIVE

## Number of closures per Area

Sequence Number	Area Plan Name	Number of Closures
1	Kent	54
2	East Midlands	87
3	East Yorkshire with Bassetlaw and North Lincolnshire	69
4	East Essex and Suffolk	66
5	Hampshire and The Isle of Wight	68
6	Greater Glasgow, Central Argyll and Bute	44
7a	Cardiff and Glamorgan Valleys	30
7b	Northern Ireland <sup>1</sup>	Note 1
8	Merseyside, Wirral, and Cheshire with Wigan, Leigh and Makerfield	68
9	Sussex	51
10	Leicestershire, Northamptonshire and Rutland	56
11	North Yorkshire with Yorkshire East and Keighley	53
12	London	Note 1
13	West Berkshire and Wiltshire	47
14	Highlands of Scotland	26
15a	Newport and Gwent Valleys	27
15b	Northern Ireland	Note 1
16	Lancashire and Fylde with Southport	63
17	Surrey and Berks	45
18	Gloucestershire and Oxfordshire	66
19	Cleveland with South Durham and Richmond	38
20	London	160
21	Bristol and Somerset	70
22	Northern and Western Isles	17
23a	Central Wales	32
23b	Northern Ireland	92
24	Cumbria	41
25	Norfolk and West Suffolk	61
26	Shropshire and Staffordshire	59
27	West Yorkshire	56

Sequence Number	Area Plan Name	Number of Closures
29	Devon	75
30	North East, Tayside and Fife	77
31	South and West Wales	55
32	Greater Manchester with High Peak	60
33	South Essex and South Herts	36
34	Birmingham Coventry and Warwickshire	56
35	Tyne and Wear with Northumberland and Durham	72
36	Cambs, Herts, Beds and South Lincolnshire	77
37a	Dorset	27
37b	Cornwall	60
38	Ayrshire, Inverclyde, Lanarkshire and Renfrewshire	49
39	North Wales	60
40	South Yorkshire with Huddersfield, Colne Valley and North Derbyshire	62
41	Edinburgh, The Lothians and South of Scotland	55
42	Herefordshire , Worcestershire and the West Midlands	68
<b>Total</b>		<b>2,435</b>

## NOTE

1 These were treated as a single area for the purposes of consultation, but each had more than one sequence of planning.



## APPENDIX SIX

# Post Office Ltd's role in the implementation of the Network Change Programme

### Developing area plans

**1** Post Office Ltd used a combination of its Geographical Information System (GIS) and business data to draw up the 42 Area plans, identifying the branches proposed for closure, and those for replacement with Outreach services. The GIS and business data were combined into an overall Closure Model.

**2** Underpinning branch selection was the need to meet the minimum access criteria set by BERR. The GIS had been developed in order to ensure that the accessibility of the post office network supported Royal Mail's adherence to its regulatory requirements, and the same methodology was used to measure levels of access in the Network Change Programme.

**3** The Closure Model covered all branches, and had data on location, weekly numbers of customer sessions, proximity to other branches, income generated, sub-postmaster's pay, impact on accessibility criteria if closed, and anticipated migration to other branches if closed. The model had four key criteria for closure:

- Proximity to other branches, measured by road distance.
- Level of use, measured by customer sessions.
- Financial benefit to Post Office Ltd of closure.
- Relative size, measured by customer usage compared to other branches in the area.

**4** Utilisation of this model enabled a first draft of each Area Plan to be generated. This first draft was issued at the start of each Area Plan sequence, to both Post Office Ltd teams and Postwatch teams, and was the basis for the subsequent local validation, sub-postmaster engagement and local public consultation. Prior to each local public consultation, for each plan, Post Office Ltd's regional Network Development Manager and team of Field Change Advisors worked with Postwatch in assessing the draft plan and adjusting this plan to take account of issues of access to alternative branches, particularly with regard to vulnerable customer groups.

**5** To support this assessment, Post Office Ltd staff visited every location where a proposed closure or Outreach was located to ensure relevant local data (terrain and public transport availability) was collected. Visits were also made to the alternative outlets wherein customers impacted by the proposed closure were expected to migrate. This enabled full account to be taken of the resultant journey required as well as gaining an assurance that access to the actual alternative branch was appropriate with regard to the needs of disabled and elderly customers. This also enabled Post Office Ltd to assess whether additional investment was required in these branches to either improve access or capacity. Post Office Ltd wrote to local authorities three times during the pre-public consultation period, asking them to notify Post Office Ltd of any key issues with their proposals. Around 80 per cent of the over 450 local authorities contacted, responded.

**6** Overall, 427 (around 15 per cent) of the initial area plans were changed to some extent as a result of this pre-public consultation process, including 261 proposed branches being withdrawn and substituted. Once a revised plan had been established, Post Office Ltd notified all sub-postmasters who were to be affected by the proposals – whether as a result of their branch being proposed to close, being a significant receiver of migrating customers, or as a potential core to operate Outreach services.

**7** All of this activity took place prior to the start of the local public consultation. After this, and just before the start of the local consultation, Post Office Ltd sent each branch proposed for closure or Outreach, information packs which included:

- posters providing information on the proposed closure/Outreach;
- letters for customers on the proposals;
- information leaflets on the closure proposal;
- information leaflets on Postwatch;
- a poster drawing attention to the closures in seven languages and Welsh language materials where appropriate; and
- a map showing local alternative branches.

Post Office Ltd sent all branches that were not proposed for closure or Outreach, a poster informing customers that the status of the particular branch was not to be changed.

**8** From one week (later 10 days) before the start of the public consultation, Post Office Ltd advised MPs of the proposed closures and Outreaches in their constituencies. For the start of the local public consultation, Post Office Ltd sent stakeholders an Area Plan booklet, which included some generic information on the Network Change Programme, information on Postwatch, explanation of different types of Outreach services, and detailed information on which branches were planned for closure, replacement by Outreach, and retention. They also sent a copy of the Branch Access Reports which set out information on two alternative offices for each branch facing closure, including: transportation options, disabled access, parking facilities, and whether there was an ATM nearby. In some cases, the Reports also listed additional alternative branches near the proposed closure or Outreach. This booklet was also made available on Post Office Ltd's website from the first day of the public consultation.

**9** Post Office Ltd had a target of responding to 90 per cent of the consultation correspondence – in terms of an acknowledgement rather than a discussion of the points raised – within ten days. This target was based on its experiences during the Urban Reinvention Programme, but when it became apparent that the volume of correspondence being received was far greater than in that programme (it had planned a volume twice that of Urban Reinvention, but the actual volume was nearly three times), this target was revised to 80 per cent. Overall, Post Office Ltd responded to 87.5 per cent of correspondence within 10 days, with the target being met in all but five of the 42 areas, and performance in individual areas ranging from 64 per cent in East 1 (London SE/E 2), to 98 per cent in Scotland (North East, Tayside and Fife area).

**10** Post Office Ltd received some 190,000 responses, attended 836 meetings with MPs, 407 meetings with local authorities, and 426 other public meetings. The consultation responses received by Post Office Ltd included letters, emails, petitions, CD-ROMs, and drawings from schoolchildren. In addition, there were notes made by the Post Office Ltd regional teams at the many public meetings which they attended. In exceptional circumstances (e.g. in circumstances where customers were unable – for reasons of disability or illiteracy – to provide a written response), comments received by the customer helpline were fed into the process.

**11** Once a submission was received and logged, the staff in Post Office Ltd's Watford administration office read and summarised the arguments made therein. These were collated in a Summary Sheet for each proposed closure and the sheets were then filed with the actual correspondence. The Network Development Manager for the relevant area then visited the Watford office and reviewed all the summary sheets and the submissions. Depending on the amount of correspondence, the Network Development Manager would usually spend two to four days going through all the submissions and evidence. The maximum time spent was by the Network Development Manager for London who spent 10 days.

**12** Following on from this, the Network Development Manager made their decision on each of the proposed closures and Outreaches, and prepared a Decision Document which set out the decision for each branch, together with the justification for that decision. As part of the decision process, the Programme Director, or her appointee, would read through all these, to ensure that they agreed with the rationales.

**13** A final pre-decision discussion took place with Postwatch enabling any last debates to take place between Post Office Ltd and Postwatch with regard to any branch in the plan. In the event of continued disagreement, Postwatch then chose to escalate various decisions to the escalation process. Often, the escalation was merely to obtain Post Office Ltd guarantees on such things as providing information to customers about alternative offices, and undertakings to increase staffing or access at certain alternative branches. However, in some cases, the full extent of the escalation process was utilised.