



National Audit Office

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