



**STANDING COMMITTEE  
OF  
TYNWALD COURT  
OFFICIAL REPORT**

**RECORTYS OIKOIL  
BING VEAYN TINVAAL**

**PROCEEDINGS  
DAALTYN**

**PUBLIC ACCOUNTS**

**POST OFFICE SERVICES IN DOUGLAS AND RAMSEY**

**HANSARD**

**Douglas, Tuesday, 25th November 2014**

**PP2014/0166**

**PAC-PO, No. 1**

*All published Official Reports can be found on the Tynwald website:*

[www.tynwald.org.im/business/hansard](http://www.tynwald.org.im/business/hansard)

**Members Present:**

*Chairman:* Mr A L Cannan MHK  
Mr D M W Butt MLC  
Mrs B J Cannell MHK  
Mr M R Coleman MHK

*Clerk:*

Mr J D C King

Mr C G Corkish MBE MLC *declared an interest and took no part in the proceedings.*

**Contents**

Procedural.....	3
EVIDENCE OF Hon. G Cregeen MHK, Chairman and Mr M Kelly, Chief Executive, Isle of Man Post Office .....	3
<i>The Committee adjourned at 3.43 p.m.</i> .....	25

## Standing Committee of Tynwald on Public Accounts

### Post Office Services in Douglas and Ramsey

*The Committee sat in public at 2.30 p.m.  
in the Legislative Council Chamber,  
Legislative Buildings, Douglas*

[MR CANNAN *in the Chair*]

#### Procedural

**The Chairman (Mr Cannan):** Welcome to this public sitting of the Public Accounts Committee.

I am Alfred Cannan, Chair of the Committee. The other Members with me are Mrs Brenda Cannell MHK; Mr Dudley Butt MLC; and Mr Michael Coleman MLC. The fifth Member of the Committee is Mr Geoffrey Corkish MLC. As a former chairman of the Post Office he has declared  
5 an interest in these proceedings and is taking no part in this investigation.

Please turn your mobile phones off. They need to be off, not just silent, because otherwise they interfere with our recording equipment. Also, for the purposes of *Hansard*, I shall be making sure that we do not have more than one person speaking at once. This applies to the  
10 Committee and to witnesses.

The Public Accounts Committee has a remit to consider any financial matter relating to a Government Department or statutory body as it may seem fit to the Committee; also to consider such matters as the Committee may think fit, in order to scrutinise the efficiency and the effectiveness of the implementation of Government policy.

15 On Monday, 17th November 2014, the Isle of Man Post Office announced changes to the delivery of postal services in Douglas and Ramsey. This announcement was the subject of an urgent Question in Tynwald on Wednesday 19th November 2014. Yesterday the Public Accounts Committee decided it would like to invite the Chairman and that the Chief Executive of the Post Office to give oral evidence on the subject of this announcement.

#### EVIDENCE OF

**Hon. G Cregeen MHK, Chairman and  
Mr M Kelly, Chief Executive,  
Isle of Man Post Office**

20 **Q1. The Chairman:** Gentlemen, welcome, and can I thank you for coming at such short notice on this matter of public importance.

For the record, could I ask you to state your name and job title?

25 **Mr Cregeen:** Graham Cregeen MHK, Chairman of Isle of Man Post Office.

**Mr Kelly:** Michael Kelly, Chief Executive, Isle of Man Post Office.

**Q2. The Chairman:** Would you like to make any opening statement?

30 **Mr Cregeen:** Yes, thank you.

The conversion to sub-post office status has been a difficult decision, and one that has the full support of the Post Office Board and the Council of Ministers.

35 First of all, it is vital that we make it clear that postal services will continue both in Ramsey and, of course, in Douglas. Not only will they continue but they will also be at the same level and quality of service that they are now in both locations. There will be the same number of postal counters and opening times will actually be extended. The postal counters will be located just yards away from where they are now.

40 You may ask why any change is necessary. The answer is simple – money – taxpayers' money. I am sorry to say that the two main post offices in Ramsey and Douglas lose a lot of money every year, approximately £10,000 every week. No business can continue indefinitely in that way. As we have seen in the banking sector this would mean inevitable closure. This position is not new and it has been a continuing battle that we have fought for some time.

45 We have found a way to keep the postal services going in Ramsey and Douglas, whilst still preserving the services across the rest of the network. I can assure you that in these tough economic times it has been anything but an easy decision to do this. We are changing the post offices into *sub-post* offices. Both Ramsey and Douglas offices need to go through this conversion to preserve the services.

50 I am disappointed by the confusion which followed last week's announcement and for any alarm this confusion has caused. There were headlines about post offices shutting and many people clearly thought this meant the end of postal services in Ramsey and Douglas and staff being left without employment. Nothing could be further from the truth. The public will still have the same level and range of services at both as before, opening hours will be extended by half an hour each day and the amount of floor space dedicated to post office services will remain the same. What is changing for customers is where they will be able to access postal services; these are moving a few yards down the road.

55 We would all love things to say the way they are, but we cannot afford it. The problem we are facing here on the Island are common problems being faced by post offices throughout the world. This change means that in the challenging situation we have found a way forward to safeguard the future and maintain the high quality of our postal services across the Island. We can do this without becoming a further burden on the already overstretched public purse.

60 Preserving the Ramsey and Douglas postal service has demanded the involvement of a partner. I am pleased that Mannin Retail will be operating both offices; they understand what we all want from our local post offices, because they already operate five of them in other parts of the Island. They know what are communities expect, and that is outstanding service. They will operate both Ramsey and Douglas using a service model which is tried and tested and familiar across the Island. The two branches will not be a convenience store with a post office in the corner, but a post office with other retail services.

65 I do not believe this is just about buildings; it is about people, including our hard-working post office employees, who are impacted directly by this change and who are a priority to us during this transition. We have been intentionally very careful in how we have communicated our decisions to each of them. I have heard criticism of how we announced this news to the public, but I believe that we chose the correct route in informing our affected staff first and face-to-face. We are speaking regularly to them and their representatives.

75 I cannot, of course, comment on the industrial situations but I can state that we have been assured by Mannin Retail that everyone affected will be offered a role in the new sub-post office. Mannin Retail is key to retaining their expertise, which has never been in question. It

should be remembered that we have a long-term responsibility for our 400 employees and the wider community.

Thank you.

80

**The Chairman:** Thank you. Mr Kelly, do you wish to add anything to that?

**Mr Kelly:** No, Chairman.

85

**Q3. The Chairman:** Thank you.

Can I start by asking you, Mr Kelly, is this a done deal? In other words has a contract been signed with Mannin Retail Ltd?

90

**Mr Kelly:** We have agreed with Mannin Retail the basis of their tender submission. That agreement was subject to Treasury concurrence and Council of Ministers concurrence but we have not yet put signature on contract.

95

**Q4. The Chairman:** Right. So just to be clear, there is no formal contract with Mannin Retail as it stands today and is that contract due to be signed at a scheduled point in the future?

**Mr Kelly:** The draft contract was part of the tender documentation so it is substantially agreed. We have not got a date for signing it yet and I would need to take legal advice, Mr Chairman, on the actual status of the agreement between ourselves and Mannin Retail that I have not been able to do because of the urgency of this hearing, today.

100

**Q5. The Chairman:** That is fine, I do understand. For you and the Chairman you have come at very short notice for which we are grateful. I am sure you will understand this is a matter of public interest.

So I just want to be clear then, that in theory this decision is reversible?

105

**Mr Cregeen:** We would have to take legal advice; there may be an implied contract so it is legal advice which we will have to sort, if there were any changes.

**Q6. The Chairman:** Okay, but nothing yet has been signed.

110

Can I just move on to my next question, then. Why has this process taken place behind closed doors and why has there been either no open expressions of interest in terms of providers who could possibly combine provision of post office and other services and why has there been no open tender process or procurement process that has been followed?

115

**Mr Cregeen:** The Post Office Board back in 2013 had made a decision of looking to convert into sub-post offices. On taking my position in March 2014, the Post Office Board had intended to go out for open expressions of interest.

120

On a meeting with the Chief Minister and the Treasury Minister on 1st May, when we were discussing the proposals, we were advised that what the Council of Ministers would require is certainty for our staff, and we were advised that the open tender procurement route would not give that certainty because it would leave the sword of Damocles holding over our staff for a long period of time and that is why the decision was made to go with the process we have.

125

**Q7. The Chairman:** So again, let me just be clear on that. You are saying to the Committee this afternoon that the Post Office's intention was that this should be an open and transparent process and that following advice from the Council of Ministers, it then became a closed process?

130 **Mr Cregeen:** After discussions with the Chief Minister and the Treasury Minister.

135 **Q8. The Chairman:** So following those discussions then, the Chief Minister and the Treasury Minister suggested to you and requested of you that you follow a closed process to protect staff interest. The Post Office's view was this should be an open process. What was the reaction of the Board to that discussion that had taken place between the Chief Minister and the Treasury Minister?

**Mr Cregeen:** The discussions were regarding the impact on the staff.

140 As we have seen throughout the UK when they have made announcements that Crown Offices will be closing, there has been a considerable period of time where even the unions have criticised the staff for not knowing what was going to happen to their posts and the position was that they would like to see the Post Office come back with a defined programme of how the conversions were going to be – what cost savings were done and who was actually going to take over.

145 **Q9. The Chairman:** Were these formal meetings with the Council of Ministers and the Chief Minister and the Treasury Minister or informal meetings?

150 **Mr Cregeen:** It was a meeting with myself, Mr Kelly, the Treasury Minister and the Chief Minister.

**Q10. The Chairman:** So was the meeting minuted or not?

**Mr Cregeen:** The meeting was not minuted.

155 **The Chairman:** It was not minuted. But following that –

**Mr Cregeen:** There were notes made.

160 **The Chairman:** Following that you and the Chief Executive, Mr Kelly, were of the understanding that the view from both men was that this should be a closed process.

Just in terms of that, and I know Mrs Cannell wants to come in here... in fact, Mrs Cannell, you ask away.

165 **Q11. Mrs Cannell:** My first question is why did you listen to the Chief Minister and the Treasury Minister?

**Mr Cregeen:** The argument that was put forward for changing the tack was that we would be going to the Council of Ministers with a full proposal.

170 When you consider the comments regarding how the staff would be impacted regarding any news that went out, that is why we went back to the Post Office Board and explained the situation and we went through the process that we did.

When the process was agreed with and that Mannin Retail had actually won the tender process, it then went to Treasury for concurrence and then finally onto Council of Ministers who agreed the way forward.

175 **Q12. Mrs Cannell:** Okay. So first of all we have a meeting, a private meeting where no minutes were taken – and I hope you will accept that when you say, 'notes were taken' there is no status in law for notes, notes were vilified at a public inquiry quite a number of years ago. Minutes are recognised, notes are not, so they are useless.

180 Why on earth as a Board did you not wait for a direction from the Council of Ministers to go  
down this road? Bearing in mind that any kind of impact on the staff – if you had of gone out to  
open tender, part of that open tender would or could have been a requirement that staff be  
given the opportunity to operate and work and transfer over into the successful tenderer – so  
why did you not wait for a direction from the Council of Ministers?

185 **Mr Cregeen:** There were actually criteria set out prior to my joining the Post Office for the  
conversion and what the criteria for any tender should be.

That was including having the ability to have premises in close proximity to where they are  
now.

190 **Q13. Mrs Cannell:** Okay, that is fine. I am just trying to get my head around why the decision  
that was taken by the Board, originally in 2013, which you had then inherited in 2014, which was  
to go for open tender, why on earth that was not honoured? And what was it in particular that  
impelled you to listen to just two Ministers out of the Cabinet of nine and then go back and  
persuade the Board to go down that route?

195 I would like to hear from Mr Kelly, please.

**Mr Kelly:** Thank you.

200 The meeting with the two Ministers was really around finding guidance to the Chairman and  
myself about this project.

The Chairman has talked about the impact on staff, it was actually wider than that the  
concern that was expressed. It was around the uncertainty created for all stakeholders, so that is  
directly affected employees, customers and political members, who the advice was that  
certainty over how the future service would be provided overtook the need for total  
transparency, I believe.

205 The Board debated long and hard whether to follow that advice. You are correct, it was not a  
direction; it was advice to the business.

210 **Q14. Mrs Cannell:** Okay. If I may Chairman, on the one hand you said you wanted to be fair  
and you wanted to save staff any hardship, but surely you did not achieve that did you?

215 The Chairman... and let me finish... the Chairman said that they wanted to inform staff  
beforehand, but we have here a copy of your press release on 17th November, where you  
announced to the world that the Crown Post Offices were going to close and there was going to  
be a relocation and then in a letter or an e-mail sent to all Members of Tynwald on 18th  
November, the day after, you say that, 'We are having face-to-face staff briefings today with our  
staff.' So the staff and everybody else had to learn the day before their future prospects. Surely  
that is not dealing well with your staff, is it?

220 **Mr Cregeen:** I think you are misinterpreting what we have there. What we said is we actually  
spoke to the Crown Office staff on the Monday evening and the rest of the staff were postal  
briefings in the morning for postal staff. So the Crown Office staff were briefed on the Monday.

**Mrs Cannell:** Well, Monday 17th November, the day of your press release.

225 **Mr Cregeen:** They were briefed before the press releases went out.

**Q15. Mrs Cannell:** Right. Well what time were they briefed? You said Monday evening; this is  
embargoed until 7.00 p.m.

230 **Mr Cregeen:** 5.30 p.m.

**Q16. Mr Chairman:** Okay, I just want to ... thank you very much, Mrs Cannell. (**Mrs Cannell:** Thank you.)

235 I am going to come back to elements around the staffing aspect. But just to try and wrap up on this closed tender process, I can understand that clearly some guidance... or you feel some guidance was given from two very senior Ministers which may have impacted on the Council of Ministers future decision-making. But I would put it to you now, Mr Kelly, and indeed to the Chairman, that really on reflection your initial direction was probably right.

240 If you look back now, having seen what has happened in the last 10 days or so, do you agree with me that your initial thinking in terms of an open process would have been the right way to go?

**Mr Cregeen:** I think what we have is that whichever way it would have gone, people would not have been happy – as we have seen in the UK when they have announced it, staff have been 245 upset. The way that it has been dealt with, staff are upset, whichever you way you would have gone. In hindsight you could have said it would have felt better going through that process and unfortunately we had to choose one way or the other.

**Q17. The Chairman:** Well you did, but you initially were going to go with an open process, 250 you have told the Committee this afternoon. (**Mr Cregeen:** Yes.) You changed your mind following a meeting with the Treasury Minister and the Chief Minister; you changed your opinion on that. With hindsight – my question is very simple – with hindsight, Mr Kelly, do you think that it would have been better, given that there is going to be a lot of consternation around these decisions anyway, but with hindsight would it not have been better to go with an 255 open process?

**Mr Kelly:** I cannot say honestly I think it would have been better; it would have been different.

260 But the Chairman is correct that there have been examples in the UK where there has been huge trade union reaction to change processes taking too long.

I am not sure there is a correct route for this; it is a very difficult situation for all the staff directly affected. Although we cannot understand the pain they are going through, we do appreciate their personal difficulty.

265 **Q18. Mrs Cannell:** Mr Chairman, if I can.

Whilst you empathise and sympathise with the staff, surely the right process would have been to have had discussions with the union to say, 'Look here, we are losing this amount of money, these two Crown Offices are losing about half a million a year. We have to do something radical, we are thinking of going out to open tender and closing down the two Crown Offices and 270 going for sub-post offices.' An open discussion and negotiations with them, that is the correct route, do you not agree with that?

**Mr Kelly:** Those discussions would have taken place if we had gone down the other 275 procurement route, yes.

**Q19. Mrs Cannell:** Yes, if you had gone down the other procurement route. But surely in any kind of... To be open, transparent and get public acceptability and workers' acceptability you have to start by talking first to express what the problems are, to see whether or not a solution can be found in house, before you start then looking to go out and place these places in 280 supermarkets or convenience stores, surely?

**Mr Cregeen:** I think if you look across how Government has dealt with matters, say at the Department of Infrastructure at the airport, there have been comments for a long time

285 regarding the restructure of the airport, it must go back four years and the staff at the airport  
have been in limbo for a considerable amount of time wondering whether they would have a  
job. I think if you had spoken to those people they may have a different opinion – whichever way  
you would have gone with it, all these affected staff, it is a very difficult time for them.

290 **Q20. Mrs Cannell:** But surely every member of staff at the moment who is employed by  
Government is worrying about their job and their future job prospects because of our financial  
situation at the moment, but at least those people in that job still have a job.

295 **Mr Cregeen:** I think once a group of workers have been singled out, as in at the airport or in  
the Post Office, it is more focused on them rather than –

**Mrs Cannell:** Yes, it does not answer my question, though.

300 **Mr Cregeen:** It is rather than being... everybody is very much aware of the economic climate  
and worrying now about their positions. Once somebody's job title has actually been raised, the  
concerns for that person is a lot higher than it would have been if it is a general call across  
everybody.

**Mrs Cannell:** That still does not provide an explanation or an excuse for the way in which you  
have approached this.

305 Mr Chairman, are we going to move on to the money side of things?

310 **Q21. The Chairman:** I just want to, I think, wrap up the issue around the process that was  
followed. I wonder, Mr Kelly, whether you could try and concisely tell us how then... given that  
you have decided to go through this closed process, briefly how you decided to then take things  
forward in terms of looking at options for the alternative service delivery and who was going to  
provide that for you?

**Mr Kelly:** Yes. Thank you, for that opportunity, Mr Chairman.

315 As my Chairman said earlier, immediately prior to him being appointed to the Post Office the  
then board were considering this matter. The first thing they did was they agreed a set of criteria  
which they would judge any applicant, be it under whichever process it ultimately turned out to  
be, for the future and possibly for the appointment. A number of factors were taken into  
consideration and I will happily supply you that full list of criteria outside of this hearing.

320 One was location, they were very concerned about where the postal services would be  
offered from and they set very tight criteria around that. They wanted vast experience about  
appointing agents to operate that Post Office so they know the types of people and business  
they need, they realised the importance of these two outlets in the two main towns on the  
Island so they set a criteria around the robustness of the business which was going to take, or  
potentially be awarded the appointments. Unfortunately they were looking for businesses of  
325 standing which would be a partner for the long-term so – no detriment to anybody running a  
corner shop – but potentially a small operator would not have satisfied that criteria.

This set of criteria was built up to the final one which said what the potential applicant would  
do in terms of commitment to the staff we had working in the outlets at the moment. So that  
was all agreed in advance, and that was going to be in place no matter what procurement route  
we adopted.

330 When the board heeded the political advice on the coming up with a full picture for when  
this was announced and we went down what was a restricted competitive tender, we spent a lot  
of time looking at potential applicants who would be suitable to match the criteria and be able  
to fulfil the obligations we would require.

335 Nine well-established Island businesses were contacted to see if they would be interested in participating in the tender. Five expressed an interest and ultimately only one bid was received and that was for Mannin Retail. But we went through a process of talking to, as I say, nine businesses and then that reduced down to the final bid that we got. That was run under a very structured tender exercise – the expressions of interest that went out were under NDA and the full procurement documentation.

340

**Q22. The Chairman:** The issue I have here is that when you consider the criteria you have just listed – location, experience of running post offices, robustness of the business, partner for the longer term, not a small operator, commitment to the staff – just in terms of the top five of those six criteria there, Mannin Retail or Spa, given that you wanted it within a central location, were probably the only business who were going to fit the bill. There does not seem to me – knowing the two locations that we have got – that there was going to be any other provider who could have met the criteria that you have just outlined.

345

**Mr Kelly:** I do not believe that to be the case because there were five businesses which expressed an interest in at least looking at the tender documentation, if not completing it. So from the initial discussions they clearly felt that they were able to do that.

350

**Q23. Mrs Cannell:** Mr Chairman, did the other four fulfil the criteria of the board?

355

**Mr Kelly:** May I?

**Mr Cregeen:** Yes.

**Mr Kelly:** We do not know the answer to that because they did not submit bids. From an external view of the businesses we thought they had a good chance of, but until they submitted a bid we would not be able to take an assessment on that.

360

**Q24. Mrs Cannell:** Why do you think that they did not submit a bid then?

365

**Mr Kelly:** I cannot answer that.

**Q25. The Chairman:** Can I just ask why – and I am not clear on this – clearly you wanted to protect the staff, but at any point did it occur to you that the best way forward here was to try and engage with the staff in the local Crown Offices to establish whether they felt there was a way forward in terms of either revenue raising or cost saving that could apply to save these highly popular and central Crown Offices?

370

**Mr Cregeen:** If I can just answer that question.

**Mr Kelly:** We have got some figures here from the retail network dating back to 2004-05 to date: 2004-05 the retail loss was £1,075,000; 2005-06 – £1,026,000; 2006-07 – £948,000; 2007-08 – £949,000. If we are going through those figures we have tried to reduce the deficit in the retail network up until 2013-14 which has got it down to £764,400.

375

So measures have been taken across the network to try and reduce the deficit. It would have been a nice position to be in to be saying to the staff, 'How would you like to run a sub-post office in a central Douglas location?' But I do not think you would be able to make a profitable organisation in a central Douglas location just by the Post Office. That is why it has gone off into the private sector. And it goes along with the Agenda for Change; all this is actually giving it alternative service delivery. All the services will be there it is just an alternative means of delivering.

380

385

**Q26. The Chairman:** So basically you felt that the staff were not going to be able to offer the Post Office anything else than had already been achieved over the previous six or seven years?

390 **Mr Cregeen:** I think if you look across the retail network about sub-post offices, most of them are running alongside what has possibly been a family business for many years, and they have some sort of convenience offering with them. The difficulty that you would have in the Douglas location would be to find a business model that would fit alongside that, which would be sustainable.

395 We know the difficult economic trading conditions that supermarkets are trading in and the high price of property rents in Douglas, and when you look at it as an individual whose family used to have a shop, to look at running a private shop there must be very difficult.

**Q27. The Chairman:** Did you consider at all, Mr Kelly, the option of bringing a business in to the Post Offices?

405 **Mr Kelly:** We advertised the operations as an outsourcing exercise. We were not specific about the locations, so it could have been that one of the tenderers could have proposed that they wanted to use one of our buildings for this, we were silent on that, we had an open mind on that. As long as it fit within the general area of the town centre that was as much of a criteria as we set.

**Q28. The Chairman:** So it was not something though that you were prepared to suggest as an option or even discuss with the five expressions of interest or even with the preferred bidder, Mannin Retail?

**Mr Kelly:** We would have been prepared to if any of them had come back to us and wanted to explore that option, yes.

415 **Q29. Mrs Cannell:** But... sorry, Mr Chairman, how would they have known it was an option if you never mooted it?

420 **Mr Kelly:** The tender documents made it clear that the current properties would be an option that we would consider if somebody wanted to operate the post offices from those outlets or locations, I beg your pardon.

**Q30. Mrs Cannell:** Can I just ask, Mr Chairman, at the end of the day what is this going to save for the Post Office? What money is it going to bring in for the Post Office?

425 **Mr Cregeen:** The reason why we have done this, as well, is this will save over £300,000 in the first year, rising to about £350,000 in 2016.

**Mr Butt:** Can I follow on from that?

430 **The Chairman:** Yes.

**Q31. Mr Butt:** Thank you.

435 Can I just ask the question, you have said these two branches have lost money for some years now, you have absorbed those costs – you have reduced them actually over the years, but you have absorbed them. What has suddenly happens to the Post Office finances to make you have to make this decision this year, what is the change?

440 **Mr Cregeen:** From discussions I understand that going back many years the two offices involved, it has been discussed that they should actually look to changing the trading model for those, over tens of years it has always been looked at, at trying to change that model. So it is not all of a sudden. This has been talked about, from what I understand, for many years.

445 **Q32. Mr Butt:** But what has happened to your finances as the Post Office? Have you lost money this year more than last year?

**Mr Cregeen:** Yes.

**Mr Butt:** What are the factors that have made this happen?

450 **Mr Cregeen:** Well when you look across... With the different trading conditions we have and lots of our transactions have been through the Department of Health and Social Security and now Treasury regarding benefits. When some of the benefit models changed to direct debit, which they were trying to encourage, that has affected the number of transactions we do, and it is similarly when it was mooted that all transactions were looking to be transferred into direct  
455 debits into the bank. It puts a huge pressure on actually having to do something to ensure the model that we have got to keep sub-post offices are there. The MiCard which is coming in shortly is a means that has been brought in in response to the changes from the Department.

460 **Q33. Mr Butt:** So the action of one Government Department is actually affecting your business as in effect another part of Government?

**Mr Cregeen:** It has, yes.

465 **Q34. Mr Butt:** Do I take it now that if you make these changes that you will no longer have a Post Office run by the Isle of Man Post Office? They are all going to be run by the private sector, in effect?

470 **Mr Cregeen:** No we will still have a Post Office run by us which will be at Spring Valley. (**Mr Butt:** Spring Valley.) So the headquarters will have an office run by us.

**Q35. Mr Butt:** Is there anything in the Post Office Act which allows you to actually dispense with these Crown Offices in Ramsey and in Douglas?

475 **Mr Kelly:** Anything – I am sorry could you...?

**Mr Butt:** In any Post Office Acts which are like... I would presume you must have some statutory obligation to provide a Crown Post Office on the Isle of Man.

480 **Mr Kelly:** I do not believe the Act is that specific. We are required to provide services to the Island but it is not specific about method of delivery.

**Q36. Mr Butt:** Right. Could you check that for us, please? I would be grateful for that.

485 **Mr Cregeen:** Can I just clarify. The only difference I understand between a Crown Office and sub-post offices is that the Crown Offices are directly employed staff. So it is not about the service provision there, it is only about the staff that are directly employed by us.

**Q37. Mr Butt:** Okay, in terms of staff then, how many people actually are employed in Ramsey and how many people employed in Douglas at the moment?

490 **Mr Cregeen:** Eight and ... I think it is... There are part-time and full-time so...

**Mr Kelly:** There are 23 directly employed across the two sites and then there are two support personnel sitting across the top of those.

495 **Q38. Mr Butt:** Right, and how many people will Mannin Retail be employing?

**Mr Kelly:** Mannin Retail have given us the undertaking that anybody that wants to go over and work for them they will be offered a job under Mannin Retail's terms and conditions.

500 **Q39. Mr Butt:** Yes, but your press release says they will have the opportunity to apply for a position, it does not mean they will get it does it? I presume they are going to save money by reducing the numbers, is that right?

505 **Mr Kelly:** No, they have committed as part of their tender process that the amount of people behind tills at post offices will be the same, and they will match resource requirements to customer needs to the times that customers turn up They were quite specific on that.

Whether there are people that choose to go over to work for them, that becomes a personal choice for everybody.

510 **Q40. Mr Butt:** Okay. Can I ask then how payments will be made to Mannin Retail – do they pay you or do you pay them, what is actually the deal?

515 **Mr Kelly:** The sub-post office network is basically an outsourcing operation. We pay the agent, although it is not an agent in the strict legal term, we pay the service provider on a per transaction basis to provide the services on our behalf.

So Social Security Division will pay us to distribute a pension benefit, we will pay a sub-post office to do that on our behalf.

520 **Q41. Mr Butt:** So there is no payment from them to you then?

**Mr Kelly:** No.

**Q42. Mr Butt:** So you have lost those costs?

525 **Mr Kelly:** Yes.

**Q43. Mr Butt:** Right.

Just a question on particularly the Ramsey Post Office – that was recently converted from the police station; I presume at some expense. Do you know what that expense was?

530 **Mr Kelly:** I can give you general numbers: I am happy to write to the Committee with the full detail on that.

535 The refurbishment costs were in the region of £40,000 and that was in the summer of 2011. Part of the benefit of moving was we managed to reduce the rent we were paying for property and by the time the move takes place sometime in the first quarter, spring of 2015, we will more than have recovered those costs of refurbishment through the reduction in rent.

But I will happily write with the detail of those figures.

**Q44. Mr Butt:** Thank you.

540 But you refurbished Ramsey Post Office when you knew, from your previous evidence, that you were losing money there for some years. So why was the model not changed then, rather than refurbishing another building yet again? Why was the model not changed at that stage?

**Mr Kelly:** When is the time right on all of these decisions? The Chairman started to talk about the pressures facing the Post Office in general. Would it be worth just describing the wider picture on that for the Committee? (**Mr Butt:** Yes.)

The postal world is changing. Anybody that has read our annual reports for the last three, four, five years will see we have been flagging this up. Postal volumes are declining somewhere in the region of 7% per annum. Again, I can supply detail of this to the Committee. Retail transactions are declining at a lesser rate, but within the region of transactions. Benefit payments are reducing 5%, 6%, 7% per annum year on year as people's habits change. That is putting pressure on the business in its entirety. A 7% reduction in transaction levels means that we have to find the best part of £1 million new revenue every year just to stand still.

555 So this is the type of pressure that the Post Office has been facing for... 10 years. It is trying to reinvent itself year on year and find new products and services, which is the greatest challenge we find, because the Board and the management of the Post Office are committed to keeping services in the community and post offices in the community and postal deliveries to a six-day week level, but the world is changing and it becomes a greater challenge year on year.

560 **Mr Cregeen:** And I think if you look across at postal in the UK, especially Royal Mail, because of the universal service agreement, other courier companies get access into the Royal Mail system at a reduced cost. I was only looking this morning at the news items that were coming out, that some rural areas in the UK are feeling threatened that they will not be able to continue their six-day-week service. It may be every other day that some of these areas will be serviced by a postal delivery.

565 So the Post Office is under extreme pressure and our profits for next year are forecast to fall yet again, so we are trying to mitigate as many of these measures and we can do.

**Q45. Mr Butt:** Just one more.

570 Can I ask how your relationship with Government is – how much you pay Government or they pay you, how does that work?

**Mr Cregeen:** The Government pays us for the transactions through the Post Offices and we get vouchers –

575

**Q46. Mr Butt:** The lump sum that is paid every year, how much is that?

**Mr Kelly:** As part of the overall rebalancing of the national budget that has been going on for several years, we have been directed that we pay an annual dividend to Treasury of £2 million. That was after some discussion with the Board and the motivation behind that was to try to allow the Post Office to trade through the current economic conditions, rather than treated as a department where it would be facing strict scrutiny over its budgets year on year.

580 It was felt that the dividend target was a means to let it trade up and continue to grow and expand to find new products and services, rather than treating it as a straight department with close scrutiny over its budget and expenditure.

585

**Q47. Mr Butt:** So without that £2 million payment, you would probably be more profitable and maybe able to continue?

590 **Mr Kelly:** We made £1.97 million last year before the dividend so we nearly got there last year with a small amount to be taken from our reserves.

This year the trading is more difficult than it has been and there has been some knock-on effects from other Government policies, as you identified.

595 The way governments interact with the citizen and the way other providers interact with the citizen is changing, the Post Office is not immune to that. We have to change as well... we cannot be... there is no guarantee that the next generation of benefit recipients will want to collect it in cash over the post office counter.

600 **Q48. Mr Butt:** How many years has that arrangement been in place, the lump sum of £2 million?

**Mr Kelly:** We are in the third trading year of it. It was a three-year agreement.

605 **Q49. Mr Butt:** Before that was it a percentage that you paid?

**Mr Kelly:** Yes it was 45% or 50% of actual profit.

**Mr Butt:** Okay, thank you.

610 **The Chairman:** Mr Coleman.

**Q50. Mr Coleman:** Thank you, Chairman.  
Can I ask how long this agreement is with Mannin Retail?

615 **Mr Kelly:** I have not got the draft contract with me, but it was for a... I understand it was for an initial five-year spell.

620 **Q51. Mr Coleman:** When you received the tender was there anyone independent there when it was opened, received the response?

**Mr Kelly:** We have a professional procurement person working for us, a qualified person. That person led the tender process. They and a senior member of the Post Office management team were responsible for opening the tender and evaluating it and then it was evaluated by a panel.

625 **Q52. Mr Coleman:** I am just used to the situation where we received tenders in the Water Authority and there was a member of Treasury there when they were opened, just to tick all the boxes really. Anyway, that does not matter.

630 **Mr Kelly:** This person is a former Treasury employee.

**Q53. Mr Coleman:** Yes, so could the guy who carries the post be a former Treasury employee. (**Mr Kelly:** True.) Okay.

635 Your tender document, what sort of terms did you specify for how the staff at the Post Office would be treated by the new organisation, the tenderer?

640 **Mr Kelly:** We did not go into specifics because we know, or we understand, that one of the issues is around rate of pay. The board felt that they wanted to know what sort of undertaking the tenderers would give to taking staff over, they believed that would be a matter for them and their new employer to discuss privately. So if it comes to the situation where staff are made redundant from the Post Office because of this there will be the agreed redundancy payments that we have in place and then it will be a new contract of employment with the new employer.

645 **Q54. Mr Coleman:** Of course, Mannin Retail having five of these sub-post offices available have got staff who are trained on the services and could be readily moved in.

I suppose the thing that concerns me is not all sub-post offices have all services and certainly the one in Regent Street has services which are not done generally. One that I can think of is MoneyGram. So where do we go for MoneyGram? Is this going to be included in that one?

650 **Mr Kelly:** Absolutely.

All of the Post Office services provided in the two branches will be provided by the new service provider. The only thing which we will not be selling will be some of the trinkets, the collectables that are sold in the side shop. All of our postal products and all of our Isle of Man Post collectables, so that is first day covers and stamps and coins, will be sold at both outlets.

655

**Q55. Mr Coleman:** Okay.

If I were to postulate would you say that the majority of your savings are actually going to come from the staff earning less? In other words, if you could tell me what the comparative hourly rates were for instance.

660

**Mr Cregeen:** Unfortunately we have not got the average pay for our staff. We can provide that to the Committee if that is what you wish.

665 **Mr Kelly:** But, yes. It will be in staff costs and accommodation costs and on the other side of that coin there will be other retail income which will help to support the overall package.

**Q56. Mr Coleman:** But essentially it is the staff which are going to be paying for this.

670 **Mr Cregeen:** As we have with other sub-post offices, I think if you look at the one in the Co-op, what the Co-op is doing is that it has got two sides of its business and that assists its trading. And yes, unfortunately, it will be in terms and conditions. We have seen this in the Department of Infrastructure trying to re-negotiate as well.

675 **Q57. Mr Coleman:** Again I would postulate that possibly the hourly rates are going to be substantially different, *substantially*, maybe to £9 per hour from £16 per hour.

**Mr Kelly:** Possibly.

**Mr Coleman:** That sort of magnitude.

680

**Mr Cregeen:** We will forward the rates of pay that the staff are on, if that will assist.

685 **Q58. Mr Coleman:** And how did you actually phrase it in the tender document about looking at the staff. Did you give them a figure to say, 'Of these people we want you to take this many on' or did you just say... or let me put it this way – be dramatic, 'Throw them to the wolves!'

**Mr Cregeen:** Mannin Retail have said that they would wish to take on all our staff.

**Mr Coleman:** At their rates.

690

**Mr Cregeen:** Yes.

**Mrs Cannell:** Mr Chairman, if I could just...

695 **The Chairman:** Sorry, just hold on... I will come back to you, Mr Coleman

**Mr Coleman:** No, I have finished.

**The Chairman:** Okay.

Mrs Cannell, I appreciate you have got to go.

700

**Q59. Mrs Cannell:** Yes, I have got to go, Mr Chairman, thank you.

Just going back to the number of staff, we were told that there are 23 full-time and two part time.

705

**Mr Kelly:** No, 23 staff employed at two sites directly, that is a mixture of full and part time and then two support staff which cover both sites.

710

**Q60. Mrs Cannell:** Okay. Well that brings the figure to 25 staff across the two... okay. But in your press release and your information to everybody you are only looking to relocate or make an opportunity for relocation for 19 staff so that leaves 6 that are not being considered, what is the future for them?

715

**Mr Cregeen:** I think the two staff that Mike was referring to will stay in charge of the whole network and the other posts are retirements, positions that have not been filled. *(Interjection by Mr Kelly)* So it is posts... if I say it is 23 posts and that is only 19 staff that would be affected.

**Q61. Mrs Cannell:** Okay. I take it that each staff member has some sort of contract of employment with the Post Office.

720

**Mr Kelly:** Yes.

**Q62. Mrs Cannell:** So what you are proposing? How does that fit in with your contractual obligation for your employees?

725

**Mr Kelly:** When it comes to the final resolution any staff member who has not either been redeployed or accepted voluntary redundancy can potentially be made compulsorily redundant and so they would be given their contractual notice period as part of that exiting arrangement.

730

**Q63. Mrs Cannell:** So you are offering as another alternative then, voluntary redundancy?

**Mr Kelly:** We have a redundancy agreement with the trade unions which includes a number of steps and we have said to the trade unions and to the staff affected that we will honour the terms of that agreement, that we will work through those stages in the lead up to this transfer.

735

**Q64. Mrs Cannell:** Okay. Have you budgeted for that?

**Mr Kelly:** Yes we have.

740

**Q65. Mrs Cannell:** Because you have budgeted for £300,000 savings. I am just wondering whether or not you have added in there the potential for redundancy pay outs?

745

**Mr Kelly:** Those are the actual savings. The redundancy payments will... It will take a period of time to recover those full savings because of the redundancy payments that need to be made and the Board have recognised that, and that was all supplied as the information to Council.

**Q66. Mrs Cannell:** Okay, now what happens to those employees, their pension? Because the Post Office has its own separate pension.

**Mr Cregeen:** The Post Office has a fully funded scheme and a provision has been made in the pension scheme for this position.

750

**Mr Kelly:** It would depend on the individual's decisions and the individual circumstances what will happen to the individual's pension entitlement as part of that scheme. There are a series of scheme rules which will come into play depending on the scheme.

755

**Q67. Mrs Cannell:** Suppose they wished to and they left, they were leaving, and were not being offered or were unsuccessful at interview to get transferred and therefore were coming out without a job, would they be able to claim their pension when they leave the Post Office?

760

**Mr Kelly:** It would depend on their circumstances – age being one factor amongst that.

**Q68. Mrs Cannell:** Right. But of course it is stand alone, self-paying, they still would not be able to draw their pension rights out?

765

**Mr Kelly:** You cannot say in general terms what their entitlement would be. It really depends on their personal circumstances.

**Q69. Mrs Cannell:** But these are the sorts of things that you ought to, and should have discussed with the union.

770

**Mr Kelly:** That would be discussed with the staff.

**Q70. Mrs Cannell:** Because the union are...they do sit on the pension board, don't they?

775

**Mr Kelly:** There is a defined scheme which is administered by a group of trustees and these people will be treated and handled in accordance with that scheme and their entitlements under that scheme.

**Q71. Mrs Cannell:** But one of those trustees is Mr Pullinger, isn't it?

780

**Mr Cregeen:** It is, yes.

**Q72. Mrs Cannell:** Yes. Have you... Just finally, Mr Chairman, if I can. We have a copy of the letter from Mr Pullinger sent to the Chairman and also a covering letter to each member of Tynwald from him. Have you responded to Mr Pullinger yet?

785

**Mr Cregeen:** We are responding to him.

**Q73. Mrs Cannell:** Have you considered a deferment?

790

**Mr Cregeen:** I have discussed the issue with Mr Pullinger and I spoke to Mr Pullinger on the Monday evening after our discussions and I did ask him to see if there is any assistance that he could give us through his connections with Royal Mail. Because, as I stated before, Royal Mail increased the charge of our flight to the Isle of Man by £170,000, we are also trying to access into the UK, we are being treated differently so I have asked for his assistance to see whether he can help both the Post Office and his members in trying to improve the services that we can provide.

795

**Q74. Mrs Cannell:** Okay. And if in fact he is in a position... which I agree with you having met Mr Pullinger many years ago, if he is able to assist and bring down costs for you and make

800 dealing with the UK a little bit fairer than it currently is, have you agreed to a deferment on this decision? Bearing in mind nothing has been signed yet.

**Mr Cregeen:** No, we have not agreed a deferment.

805 **Q75. Mrs Cannell:** You have not agreed a deferment. So you are asking for his help to bring costs down –

**Mr Cregeen:** We have 400...

810 **Mrs Cannell:** But you are giving him nothing.

**Mr Cregeen:** We have 400 employees and as stated before, we have a responsibility to 400 staff and the community to try and provide services. When you are seeing services being lost throughout the UK, it is not just a case of the one individual part, this affects the whole of the post office service in the Isle of Man and the Crown Offices are at a cost.

815 Now...

**Q76. Mrs Cannell:** I am sorry, Mr Chairman, you are not answering my question. I have to go now. What I am really trying to get down to the bottom of is *will* you consider a deferment?

820

**Mr Cregeen:** If the conditions are right.

**Q77. Mrs Cannell:** And those conditions would be what?

825

**Mr Cregeen:** I do not know what Mr Pullinger is going to come up with.

If it is just a case of we need to talk this about for another six months, we are continuing to lose that money. If we take a year, two years, we will continue to lose that amount of money and not only with our profits falling to possibly £1.4 million, and that has taken into account this £300,000 saving. We could be left next year with a position we could have to withdraw £1 million from reserves to make up the £2 million dividend required by Treasury.

830

**Q78. Mrs Cannell:** But the reserves are looking quite healthy, aren't they?

835 **Mr Cregeen:** It does not take long – as you have seen with Government reserves at the moment – it has not taken long to get to the position that they are now.

**Q79. Mrs Cannell:** No, but the Post Office reserves have actually grown considerably in the last 12 months, haven't they?

840

**Mr Cregeen:** Actuarial.

**Mr Kelly:** I would need to get my finance director to write you an explanation for that because there are technical reasons beyond trading reasons for that.

845

**Mrs Cannell:** Well we have got a copy of your Report, but I will leave it in the capable hands now of the Committee.

Thank you.

850 **Q80. The Chairman:** Thank you, very much.

855 This is a ridiculous situation, isn't it? Where we have Treasury demanding £2 million from the Post Office whether or not it actually makes that amount of money. This year for the 52 weeks ended 30th March 2014, the profit available... the total profit for the period was £1.97 million, and yet £2 million was paid across to Treasury. And you are talking that next year you are going to be making £1.4 million and Treasury are still going to demand £2 million.

That is just completely unsustainable, isn't it?

860 **Mr Cregeen:** And unfortunately it flies in the face of what Mrs Cannell said, that the reserves are plentiful and could absorb this. Unfortunately they cannot.

865 **Q81. The Chairman:** Irrespective of that – and Mrs Cannell was I think on a slightly different tack to this – why would we get into a situation where you sign, presumably some sort of agreement with Treasury, to provide them with a fixed £2 million a year? Is this an agreement with them and for how long is this agreement?

**Mr Cregeen:** I think, as Mike said, this was a three-year agreement and this was the...

870 **Mr Kelly:** Agreement may be the wrong word to use. I am trying to use my words carefully because I am not sure it is a direction, either, but it was effectively imposed on us.

But I believe it is a better solution than having severe budget cuts imposed on us, because we are a commercial arm of Government and we have to trade commercially.

It is my view and it is the Board's view that we have to try to trade out of our current position rather than become a drain on the public purse any more than –

875 **Q82. The Chairman:** But you were not a drain.

The point where Government was taking 50% of your profit, that surely cannot be necessarily regarded as a drain. Surely I would have thought that is a pretty reasonable situation for a Statutory Board, particularly in the position of the Post Office, for the Treasury to take 50%.

880 But to move to a situation where you suddenly have a fixed amount put on the Post Office seems to me to be daft with falling and dropping profits, so I am not sure how you can say that... What I am trying to get my head around here is the part that the Treasury has insisted the Post Office play in rebalancing.

885 **Mr Cregeen:** And it is difficult because, as we said earlier, we are getting hit both sides because of the Government cutbacks and lack of transactions and the commitment to give the £2 million. It is coming into that perfect storm that we are having difficult times.

890 But we need to trade out of this and I think from our figures before, the Crown Office network is two post offices losing £500,000. This will make a saving of £300,000. It is small in the comparison of the overall Government savings but it is playing its part in the savings that we require.

895 **Q83. The Chairman:** Would you have closed down these Crown Offices if you were not required to give this contribution, this £2 million contribution, if say the contribution to the Isle of Man Government was £1 million instead of £2 million and you had made £970,000 profit?

900 **Mr Cregeen:** I think we may come under a lot more scrutiny from the Public Accounts Committee if we continue to trade at a loss from these sub-post offices. It is a difficult situation. We could look across all of Government and yes, back in before 2007, things were a lot rosier and people did not make the decisions that they should have done, then. Unfortunately we are in the position now where we are coming to the crunch where difficult decisions are having to be made.

**Q84. The Chairman:** Okay.

Just to quickly clarify something on the reserves.

905 I have seen your financial performance as outlined in your business review. You say the reserves... it says the net assets of the Post Office are £17.5 million represented by reserves of £17.5 million. Mr Kelly, can you just clarify what, when you say 'reserves' are you talking about financial reserves of assets or...?

910 **Mr Kelly:** It is a combination of factors, Chairman.

There will be as the core assets, buildings, our vehicles, things like that. There will be a reserve against items like property revaluations and then there will be actual cash reserves which are to keep the business running on a day-to-day basis and cash in the bank for investment in the future.

915

**Q85. The Chairman:** Okay.

But you are in a very healthy position at the Post Office at the moment... financially.

**Mr Kelly:** We are trading on a sound footing at the moment, yes.

920

**Q86. The Chairman:** And you have got substantial reserves.

**Mr Kelly:** But not all are accessible and distributable.

925 **Q87. The Chairman:** No, but you still have cash at the bank and in hand of £11.7 million at the end of 2014, is that correct?

**Mr Kelly:** Cash in the bank at the end of the year is not necessarily the same as reserves.

930 We operate and pay benefits for Social Security Division. A lot of our cash on hand will be potentially cash in advance for payments being made around the time of the year end so it is...

**The Chairman:** Okay, so we need some clarification around that point.

Mr Coleman.

935 **Q88. Mr Coleman:** Mine is a very simple question. Do you have to pay anything else to Government other than the £2 million?

**Mr Cregeen:** I do not think there is.

940 **Mr Kelly:** Nothing materially.

**Q89. Mr Coleman:** You do not use funds from the consolidated loans fund where you have to pay interest on it or anything like that?

945 **Mr Kelly:** No.

**Mr Coleman:** Okay.

950 **Mr Cregeen:** And we are looking at further challenges because the Department of Infrastructure, I understand, are actually looking at doing away with tax discs and following the UK model. We actually carry out those transactions for the Department of Infrastructure, at the moment, if they go towards an online... like they do in the UK, that will affect I think it is eight staff. (**Mr Kelly:** Yes.) That is eight staff who are undertaking that position and the amount we

955 are paid for that. So in the next year we could be finding ourselves in a similar situation that the actions of the Department of Infrastructure could affect the profit of the Post Office Authority.

**Q90. Mr Butt:** Could I ask one more question? A final question from me.

960 The view of the man and woman in the street is that when you go into Regent Street or Ramsey there is always a queue of people there, it is busy, busy, busy. Why are those two places making a loss when it is always packed?

**Mr Cregeen:** Low value transactions.

965 You could have somebody going in through there and buying two stamps and it is that sort of transaction that we...

**Mr Kelly:** The Chairman is exactly right.

970 Our transactions are low value, declining volume. On the other side of the coin they tend to be cash-based so they have a high processing cost because cash is expensive to handle and we have a high labour cost, which was identified earlier. And it does not stack up in this day and age. This is why the successful post office retail outlet model is sitting it alongside an alternate business activity.

975 The sub-post office in Ballasalla is probably the best example we can find on the Island, not because it is the Chairman's constituency, because it is sitting in with a... (**Mr Cregeen:** Pharmacy.) pharmacy and a general store and a post office and it creates critical mass of activity.

**Q91. Mr Butt:** Is that why the Onchan Post Office is closing, because it is not a retail shop, it is just a post office?

**Mr Kelly:** I do not believe so.

980 **Mr Cregeen:** I think the person operating that has probably thought that they do not wish to continue anymore.

985 **Q92. Mr Butt:** Would you perhaps in that case, and this is a separate issue, but say to them you will do a similar tender process as you did with Mannin Retail to keep the shop in the middle of Onchan open?

990 **Mr Cregeen:** We are looking at that. It has gone out for expressions of interest for people to actually run a post office in the area. I understand there have been three expressions of people wishing to carry out there, so we are finalising.

995 **Mr Kelly:** Similar process, we advertised for applicants. The process for Regent Street and Ramsey was much more structured because it was much more complex and in greater detail. But essentially it is the same process and we go out for public expressions of interest. Contradictory, I am afraid.

1000 **Q363. Mr Butt:** To sum up then, the two branches you are closing down at the moment, the reason they are failing is because it is low value transactions going through, but very busy in terms of quantity of people going through.

**Mr Kelly:** Well, the level is high.

**Mr Butt:** And the staff costs override that.

1005 **Mr Kelly:** Yes. The transactions are declining, because people are now not having their benefits paid in cash they are going to a bank account.

**Mr Butt:** On like vehicle licences, etc.

1010 **Mr Kelly:** Yes. They are low value, low commission and essentially our direct operations are fixed cost, whereas the sub-post office model is essentially totally variable costs, so we only pay for the transactions that happen.

1015 **Mr Cregeen:** Can I just clarify one point. Because I know there has been some confusion over the last week is that these are conversions to sub-post offices. Unfortunately some people have understood closing as there will be no service. There will be a service, it is just to try and make that clear that there will be a post office in the vicinity.

1020 **Q94. Mr Coleman:** Under the terms of the agreement with Mannin Retail is the Post Office going to maintain any quality assurance for the people that they are serving and how will you be doing that? (**Mr Kelly:** Absolutely.)

You are still going to be getting your transaction fees irrespective of whether it has taken ten minutes or five minutes.

1025 **Mr Kelly:** No, we will be monitoring service levels. It is a change of management style, because at the moment it is direct management of personnel, this will be around changing to contract management so we will be managing in contract with Mannin.

1030 Mannin Retail have mystery shoppers in place around their existing retail operations and we will be seeing reports from that and there will be contract management in place to ensure quality of service is maintained.

**Mr Coleman:** Thank you.

1035 **Q95. The Chairman:** Just a couple of points to finish. You said, going back to the £2 million, that deal was put in place with Treasury or Treasury brought that forward to allow you to 'trade-up'. What exactly do you mean by that, Mr Kelly?

1040 **Mr Kelly:** We are a commercially focused organisation. We are trading in a fully competitive environment. The only activity I think we have which we are not facing competition on is our posties walking around the street popping letters through letter boxes. Everything else we do is in a fully competitive market.

1045 It is to allow us...The reason for the fixed dividend as opposed to budget constraint, which Departments have been facing over the last years, was to give us the ability to trade and to grow our products and services and to combat the falls we have been facing in our traditional services.

It is to create a right environment as opposed to an environment of budget constraint.

**Q96. Mr Butt:** So if you wanted to say, increase your staff to do a new project, you would be free to do so, not restricted by head-count or other budget –

1050 **Mr Kelly:** That type of activity, yes.

**Mr Butt:** I see, right.

1055 **Q97. The Chairman:** Okay, and just one final point.

In your business review you mention the words 'local community' and 'community' about three or four times and clearly it is an important aspect to you, but where exactly does the community if you like, the sense of community, the fact that the Post Office is providing community services sit overall in terms of policy as far as the Post Office is concerned?

1060

**Mr Kelly:** As part of the discussion over the future of the retail network and part of the build up to this decision, there was a point of crisis last year when Social Security Division felt that they were going to potentially move away from the Post Office as a distributor of cash for benefits. That would have been catastrophic on the post service. That would have made most of the post offices around the Island unviable for the operators to continue with.

1065

Fortunately, that position has changed and we now have a card distribution system coming in in the New Year which will be operated through the post offices, which will keep footfall going into the post offices. The board of the Post Office have agreed a retail strategy which says as long as the Post Office has support of the key Government transactions, which are benefit payments and vehicle and driving licence transactions, the policy of the Post Office will be to keep post offices in the community where ever commercially viable. Now, we talked about Onchan standing down, if we were unable to find a replacement in Onchan that would be commercial pressure outside of our control.

1070

The Post Office has no policy to start to reduce its network in the community from the number of outlets it has at the moment and that is what it sees as its social obligation in that area.

1075

**Mr Cregeen:** I think what we are trying to say is, and it came through with some of the bank closures, is that by people going into the post offices, drawing their pensions and benefits, it actually keeps money circulating throughout those communities who do not have a bank, who otherwise would go online, and that is a priority because it keeps the rest of the local stores in the community open, because they have got that availability to go in and get their cash. So I think that is vitally important for us to realise.

1080

It is about being able to support the wider community by having services there for the public. The means of service provision is one thing, but I think what we need to do, as long as we can keep the services there, it does provide the community with the services they require.

1085

**Q98. The Chairman:** Do you think, finally then, that there is a disparity between the board's view and the executive's view of the Post Office and its function and its commerciality versus the public's view that these central Crown Offices are a valuable part of the community? And the fact that they will have difficulty understanding that, despite the fact that the Post Office made £1.9 million last year, that they are still going to have to shut down those Crown Offices, albeit relocate them, to be fair to you?

1090

Do you think the Post Office has lost its way slightly in terms of understanding its role both within the community and do you think the community has lost its way in terms of understanding what exactly its Post Office – because it is the people's Post Office – is actually trying to do and achieve?

1095

**Mr Cregeen:** And I think if we go back a number of years when we did not have the competition in the parcels provision across the letter network, you are now seeing letters posted by TNT, other networks coming in that have been collected in the UK and are not actually posted with a Royal Mail stamp. So those are all issues that have changed over the years.

1100

I am very much aware of what the Post Office is in the community and that is what we are trying to preserve.

1105

I think anybody who lives in a rural community outside Douglas and Ramsey, they are used to that type of service where they can go in, they know the postmaster/mistress in those post offices and they are very happy with the service that is provided.

1110 This is just an alternative means of service provision which will help protect all of the network because that is what we are trying to do. We are trying to make savings across the whole of the business and it is not just again about frontlines staff, we are losing managerial staff as well.

1115 The Board's focus has been to try and ensure that communities, like mine in Ballasalla and yourselves in Kirk Michael, are still served with a sub-post office. And I very rarely hear complaints about the service quality in sub-post offices. I do not know whether the Committee has had any complaints regarding the sub-post offices... that is the difference that we have.

**The Chairman:** Okay.

Gentlemen, I would like to thank you very much for your time this afternoon, for coming in at short notice to deal with the questions that we have from the Public Accounts Committee.

1120 Clearly there are still some questions that we will have as a result of today's meeting. We will just need to sit back and review some of the statements that have been made and we will follow those up in due course.

But for the moment, thank you very much, and the meeting is now closed.

*The Committee adjourned at 3.43 p.m.*