EXPLANATORY MEMORANDUM TO

THE POST OFFICE NETWORK SUBSIDY SCHEME ORDER

2007 No. [XXXX]

1. This explanatory memorandum has been prepared by the Department of Trade and Industry and is laid before Parliament by Command of Her Majesty.

2. Description

This Order enables the payment of subsidy by the Secretary of State to Post Office Limited towards the costs of providing a national network of public post offices and lays down criteria to which the Secretary of State will have regard in making subsidy payments.

3. Matters of special interest to the Joint Committee on Statutory Instruments

None

4. Legislative Background

Section 103 of the Postal Services Act 2000 allows the Secretary of State to make a scheme for payments for the purpose of assisting in the provision of public post offices or assisting in the provision of services to be provided from public post offices. Where the payments are made for services, they must ultimately assist in the provision of public post offices. This Scheme is intended to be used for the making of such payments.

5. Extent

This instrument applies to all of the United Kingdom.

6. European Convention on Human Rights

The Parliamentary Under-Secretary of State for Employment Relations and Postal Services has made the following statement regarding Human Rights:

In my view the provisions of the Post Office Network Subsidy Scheme Order 2007 are compatible with the Convention rights.

7. Policy background

7.1 To preserve access to postal services on a nationwide basis it is necessary to pay the costs incurred in maintaining that provision where there is no commercial rationale for doing so.

7.2 On 14 December 2006, DTI made an announcement about the future of the post office network, while simultaneously launching a national public consultation on its proposals. The consultation ends on 8 March 2007, following which DTI will announce its final decisions.

7.3 The Government's principal proposals are aimed at maintaining reasonable accessibility to a national network of post offices and to help the company make the necessary changes to transform the network and put it on a stable footing for the future. This involves investment until 2011 of up to £1.7bn including the continuation of the Social Network Payment (described below) at or about current levels. The Government is also proposing to introduce new access criteria for the national network which include protection for vulnerable consumers in deprived urban areas and rural and remote areas.

7.4 The Social Network Payment is the facility by which Government funds the costs of maintaining non-commercial branches that would close but for their full costs being reimbursed to Post Office Limited. Following the recommendation of the Cabinet Office's Performance and Innovation Unit (PIU) report of June 2000, Government directed POL to prevent all avoidable closures of post offices in rural areas[1] and from 2003/04, made available a subsidy known as the Social Network Payment to help cover the costs to POL of keeping open these non-commercial branches.

7.5 In recent years, the required payments have been at an annual level of approximately £150 million. Historically, the Social Network Payment has been provided from reserves on Royal Mail's balance sheet, over which the Government retains control. However, those reserves are proposed to be put to other uses, and since alternative sources of funding such as equity or debt are unsuitable for the provision of a subsidy, a Scheme under section 103 of the Postal Services Act 2000 was therefore appropriate.

7.6 As a result of people choosing to access services in different ways such as online, direct debit and text messaging, the number of customers served by the post office per week has fallen by some 4 million customers in the last two years. POL has posted significant losses in each year since 2000/2001 and is forecast to make a loss of around £4m each week in the current financial year. No more than 4,000 branches constitute a purely commercial network for POL and, given the continued losses, in the absence of funding from Government, it is likely that POL would close a large part of the network which currently numbers 14,263 branches. In recognition of the important social role that post offices play in communities across the country, the Government has proposed the access criteria and financial investment to prevent such a situation and to ensure continued access to a national network.

[1] Rural defined as a settlement with less than 10,000 inhabitants. Direction dated November 2000.

7.7 It is intended that the Social Network Payment is extended to cover urban areas rather than purely rural as is currently the case. The proposed access criteria currently the subject of national consultation will ensure a national network and this extension of the Social Network Payment will provide POL with the required funding to meet the criteria. These criteria, detailed below, set a national standard with additional layers to safeguard deprived urban and rural areas and, to safeguard remote areas, at postcode district level.

Proposed Access Criteria

7.8 Nationally 99% of the population will be within 3 miles and 90% within 1 mile of their nearest branch.
In urban areas 95% of the population will be within 1 mile of their nearest branch.
In deprived urban areas 99% of the population will be within 1 mile of their nearest branch.
In rural areas 95% of the population will be within 3 miles of their nearest branch.
In postcode districts[2] 95% of the population will be within 6 miles of their nearest branch.

7.9 In maintaining these levels of access, POL will consider the introduction of new Outreach locations to provide access to services at a level that is more reflective of the usage and can be provided more cost effectively.

7.10 The access criteria and the plans for the long-term direction of the post office network remain the subject of consultation. This is appropriate for a proposed policy in a subject area that engenders significant public interest, media attention and political debate. Meanwhile, the losses incurred by Post Office Limited in providing the current post office network require that some funding be provided prior to the end of its financial year at the end of March 2007.

7.11 Two factors make it appropriate that the instrument is laid prior to the closure of the consultation. First, Post Office Limited requires funding to be provided under the Scheme by the end of March 2007. Secondly, the Scheme has been drafted in such a way as to ensure that it will operate appropriately whatever the final outcome of the consultation.

[2] A postcode district is the first part of the postcode e.g. SL9. There are 2,795 nationwide of which 38 do not currently meet this criterion. These 38 will continue to be exempt but we will not allow any further postcode districts to be exempt nor will we allow any permanent closures in the 38 exempt postcode districts.

8. Impact

8.1 A Regulatory Impact Assessment has not been prepared for this instrument as it has no impact on business, charities or voluntary bodies.

8.2 There is no impact on the public sector.

9. Contact

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