EXPLANATORY MEMORANDUM TO

THE POST OFFICE NETWORK SUBSIDY SCHEME (AMENDMENT) ORDER 2011

2011 No. 98

1. This explanatory memorandum has been prepared by the Department for Business, Innovation and Skills (BIS) and is laid before Parliament by Command of Her Majesty.

This memorandum contains information for the Joint Committee on Statutory Instruments.

2. Purpose of the instrument

This Order (the "Amendment Order") amends the Post Office Network Subsidy Scheme Order 2007 (SI 2007/962) (the "2007 Order") which enables the payment of subsidy by the Secretary of State to Post Office Limited (POL) 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. The Amendment Order increases the annual cap on subsidy which can be paid to Post Office Limited under the scheme from £160m to £500m.

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

3.1 None

4. Legislative Context

4.1 This Amendment Order and the 2007 Order it amends are made under Section 103 of the Postal Services Act 2000. This 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. The current subsidy scheme is used for the making of such payments.

5. Territorial Extent and Application

5.1 This instrument applies to all of the United Kingdom.

6. European Convention on Human Rights

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

In my view the provisions of the Post Office Network Subsidy Scheme (Amendment) Order 2010 are compatible with the Convention rights.

7. Policy background

7.1 The Post Office has been loss making since 2000. Over the last decade the number of customer visits has fallen at an accelerating rate, from around 28 million customers per week in 2000, to just under 20 million in 2010. The number of post office branches has declined from almost 20,000 in 1996/97 to around 11,500 now. Between 2003 and 2009, 5,000 branches, or 28% of the network were shut under closure programmes. However, those closures have led, in turn, to further falls in customer numbers and revenue and failed to put the network on a more sustainable footing.

7.2 The Post Office faces challenges because many services which were traditionally delivered by the post office network are now also available online. People can now choose to have their pensions or benefits paid directly into a bank account, to renew their vehicle tax online, or to pay their bills by direct debit rather than visiting their local post office. In particular, Post Office Ltd's revenue from Government services fell sharply from £576 million in 2004/05, to £167 million in 2009/10 mainly due to direct payment of benefits, and increased online substitution. Overall in the last decade Post Office Ltd revenues have fallen from £1,444m (2000/01 adjusted for inflation) to £1,031m in 2009/10 – a fall of £413m.

7.3 The Post Office is still however highly valued and remains a focal point for many communities throughout the country. According to research conducted in 2009, the public places a social value of at least £2.3bn per year on the Post Office network. Irrespective of wealth or location, people value and use post offices - nearly 98% of the population will visit a post office at least once a year to access the broad range of products and services available. 40% of the over-55s use the Post Office weekly, and well over 60% of 16-34 year olds visit a branch at least once a month. Around 3.5 million people signed petitions against previous closure programmes.

7.4 On 27 October the Government announced that it would commit £1.34bn of funding to the Post Office over the four years of the Spending Review period 2011/12 to 2014/15. The profile of spending is £180m/£410m/£415m and £330m: increasing the level of subsidy that the Government can pay to Post Office Ltd to £500m allows for contingency in case of changes to the tax treatment of the subsidy. This funding will be conditional on receipt of the necessary parliamentary and state aid approvals.

7.5 This funding will ensure that the Post Office network will remain at its current size of around 11,500 branches and will continue to meet the Access Criteria. Five criteria apply at the national level:

1. **99%** of the UK population will be within three miles of their nearest post office outlet;

2. **90%** of the population to be within one mile of their nearest post office outlet;

3. **99%** of the total population in deprived urban areas across the UK will be within one mile of their nearest post office outlet;

4. **95%** of the total urban population across the UK to be within one mile of their nearest post office outlet;

5. **95%** of the total rural population across the UK to be within three miles of their nearest post office outlet.

In addition, the following criterion applies at a local level to ensure a minimum level of access for customers living in remote rural areas

95% of the population of every postcode district to be within six miles of their nearest post office outlet.

7.6 Post Office Limited currently exceeds each of these access criteria at a national level. Postcomm currently publishes an Annual Report on the Post Office Network and the Postal Services Bill 2010 includes provisions requiring a Post Office company to report on the post office network each year.

7.7 The Government has also published a policy statement *Securing the Post Office Network in the Digital Age*, which sets out its plans to support the modernisation of the post office and the development of new revenues to help ensure a sustainable and vibrant future for the network.

7.8 The Department does not intend to consolidate the 2007 Order

8. Consultation outcome

8.1 There has been no consultation

9. Guidance

9.1 No guidance was necessary for the 2007 Order and none is necessary for this instrument.

10. Impact

10.1 There is no impact on business, charities or voluntary bodies.

10.2 There is no impact on the public sector.

10.3 An Impact Assessment has not been prepared for this instrument.

11. Regulating small business

11.1 The legislation does not apply to small business.

12. Monitoring & review

12.1 BIS regularly monitors Post Office Limited's financial performance.

13. Contact

Sarah Barraclough at BIS tel: 020 7215 0893 or
e-mail: sarah.barraclough@bis.gsi.gov.uk with any queries regarding the instrument.