

**Department for
Business, Energy
& Industrial Strategy****Rt Hon Kwasi Kwarteng MP**
Secretary of State
Department for Business, Energy &
Industrial Strategy
1 Victoria Street
London
SW1H 0ETTim Parker, Chair and Nick Read, Chief Executive Officer
Post Office Limited
Finsbury Dials
20 Finsbury Street
LondonT **GRO**
E [enquiries:](#) **GRO**
W www.gov.uk

11 March 2022

Dear Tim and Nick,

FUNDING FOR POST OFFICE LIMITED FOR THE NEXT SPENDING REVIEW PERIOD

I am writing to confirm the funding that the Government will provide to Post Office Limited (POL) over the coming Spending Review (SR) period, from April 2022 to March 2025.

Since the Chancellor concluded the Spending Review in October, you and your team have worked with me and my officials to consider the outcome for POL. I would like to thank you for your collaborative engagement.

I believe that the outcome outlined in this letter both respects the Spending Review settlement that was agreed in October, but also provides the Post Office with the support it needs for the SR period.

We continue to share an aspiration to see POL prosper, to right the wrongs of the past and to serve communities across the UK.

Post Office funding for 2022-25

I can therefore confirm that my Department will provide £335m over the coming three-year SR period. This will include £150m subsidy and £185m investment spending. The table below sets out how this funding will be allocated over the SR period:

2022/23		2023/24		2024/25	
Investment (CDEL)	Subsidy (RDEL)	Investment (CDEL)	Subsidy (RDEL)	Investment (CDEL)	Subsidy (RDEL)
£75m	£50m	£90m	£50m	£20m	£50m

We will engage with you on your spending plans over the SR period to confirm whether the full amount of funding set out above is required each year. In addition to this funding, we are pursuing a potential £10m saving (compared to your forecast projections) that could be achieved by fixing the rate of your working capital facility with the Department, which I support.

I recognise that this settlement is lower than you requested and it will require the Post Office to find savings within its plans for the period. However, based on the findings from Interpath, I believe this is a reasonable settlement and will enable you to deliver your plans. It is for the Board to determine how the company will operate within the settlement.

Conditions

Network. I can confirm that our core requirements of the Post Office network will remain for the coming Period, including a requirement that POL provide 11,500 branches and adhere to the Access Criteria. Finally, I expect you to extend the offer of compensated exits, or provide an alternative appropriate solution, for the Hard to Place branches.

Strategic Platform Modernisation (SPM). I can also confirm that we expect the SPM project to replace the Horizon system to proceed. I am sure you agree that proceeding with this replacement is critical to resetting the relationship with postmasters and ensuring that the Post Office is prepared for the future. We will expect to review progress on the SPM project at key points.

Post Office Insurance. We have previously discussed the possibility of the company selling the Post Office Insurance (POI) business. I recognise the uncertainty and risk in agreeing to pursue a sale at this stage. Any sale should be rigorously assessed and represent value for money. The Board must seriously consider this option and the additional funding set out in this letter is conditional on POL exploring the sale of POI during the Period.

Legal costs. As you are aware, a significant proportion of funding relating to the current financial year has been withheld by the Department due to concerns around the quantum of and control environment for legal costs. I am pleased to acknowledge that some progress has been made in both areas, with the appointment of a new, experienced Director for the Historical Matters Unit particularly encouraging. However, legal costs remain concerningly high and there is scope to do more on controls, forecasting and legal provider challenge.

We have taken steps to release the withheld payments for 2021/22, subject to a continuing commitment from you and your senior team to achieve further savings and improved, sustained control of legal costs. My officials will continue to work with your team to achieve this, and I would be grateful for monthly updates from the company on progress.

Supportive measures

I recognise the challenges that come with maintaining the post office network and so to support you to be able to meet these requirements I intend to make three changes:

- 1. Change reporting requirements on network numbers from monthly to year-end measurement.** In recognition of the costs associated with managing churn in the network, this change will enable you to manage churn more flexibly across each year. I expect POL to manage this flexibility appropriately and ensure the network is managed in a way that achieves the 11,500 branch number not just around the year end.
- 2. Relax the requirement that POL endeavours to replace closing branches with full-service branches.** This requirement was introduced when we made changes to the branch definition in April 2021. Making this change will provide greater freedom for you to introduce lighter formats as branches close.
- 3. I understand Post Office has also engaged with officials around hedging future interest rates.** I am supportive of this approach and my officials are actively working with HMT officials to develop potential options to facilitate this.

Future policy framework for the Post Office

Finally, I recognise the need to consider the policy framework in the context of the changes to the wider environment and the new challenges you face, on top of Covid-19 and ongoing work

to resolve historical matters. It is crucial that we develop a sustainable, long-term approach for the network, and I look forward to working with you on this review.

I understand that you and your team will now need to work at pace to finalise POL's Annual Report and Accounts by 31 March 2022. My officials stand ready to support you with this process and will also work with you on the Funding Agreement that will be required to enact the funding outcome I have set out in this letter.

Yours sincerely,

A large, bold, black signature that reads "GRO" is enclosed within a dashed rectangular border.

RT HON KWASI KWARTENG MP
Secretary of State for Business, Energy and Industrial Strategy