

RESTRICTED - POLICY

Post Office Network – Funding Commitments**Issue**

The desire to take POL off the table as an issue for the Government's response to Hooper by making a commitment to maintain the current size of the network in that statement. HMT consider this to be a new funding commitment: the Chancellor will therefore need to agree any text to that effect. The relevant section of the oral statement is highlighted at Annex A.

Current Funding Commitment

As SoS DTI, Alastair Darling announced in May 2007 funding of up to £1.7bn for POL to to secure a network of around 11,500 branches to March 2011. Beyond 2011, he acknowledged that there would be 'a need for ongoing subsidy'. However, there have been no commitments to specific sums or to Government taking responsibility for maintaining a specific size of network. The minimum access criteria established in May 2007 could be met with a network of around 7,500 branches.

The size of the network is also not within our control. Sub post offices are private businesses: subpostmasters take their own view on whether to continue their business or close down. We need to ensure that any statements next week do not give the impression that there will be no further changes to the exact location of individual Post Offices: that will never be the case. And we also need to protect against putting ourselves in a one-way negotiation with POL where they are able to demand any level of subsidy to deliver our commitment to maintain the size of the network.

What will it cost?

POL has not yet developed its 2011-2016 commercial plan, therefore we do not have any reliable figures on how much it would be cost to attempt to maintain the network at the current size over this period. We will not therefore be in a position to give HMT any certainty about the funding required to deliver the proposed commitment before the Hooper announcement.

As a rough ballpark, the current annual subsidy is £150m: this is the best working assumption on the subsidy required to maintain 11,500 branches. However, if POL is not able to arrest the decline in customer numbers (5m fewer people use the network each week than 5 years ago) and develop profitable new revenue streams, the subsidy requirement could increase. On the other hand, if we were prepared to provide funding to reduce POL's cost base (through converting Post Offices to the new variable cost model - Post Office Essentials) the subsidy requirement would decrease over time.

Handling

The question for the Chancellor today is therefore not whether he is prepared to provide a specified level of funding to support the future of the network, but whether he is prepared to commit to maintain a network of around 11,500 outlets and have a subsequent negotiation about how much that would cost and how much up front funding HMT would be prepared to provide to reduce POL's cost base. From a BERR financial perspective we could not accept a commitment to a certain network size without full HMT cover.

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We understand that the Chancellor will be briefed to agree that the statement should include warm words about our desire to see 'a sustainable network', rather than any commitment to a specific network size.

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ANNEX A - Post Office Network: current oral statement wording

I said at the start of my statement that I would come back to the post office network. The future of the post office network, as distinct from Royal Mail, was not the part of the Review's terms of reference. But the Review recognised the importance of the network as an access point for the universal postal service and, given the Post Office's social obligations, has recommended that the network should retain its present status and operation in public ownership. I can say that the Government agrees wholeheartedly. The national network of Post Offices plays a vital social and economic role, binding our communities together. I wish to reassure [the House][my Lords] that any future strategic partnership arrangements within Royal Mail will not affect the post office network which will remain 100% owned by the Government. The Post Office is a social service which we will protect.

The decision by my Rt Hon Friend the Secretary of State for Work and Pensions to award the POCA contract to the Post Office was a major step forward in the Government's ambition to stabilise and defend the network. We aim to promote broad financial inclusion in these difficult economic times by maintaining the geographical breadth of Post Office branches and exploiting the Post Office network's range of financial services. For example, my Rt Hon Friend the Chancellor announced in his Pre Budget Report to Parliament that the new Saving Gateway, for which legislative proposals are currently being considered in [this House/the other place] will be available through the Post Office.

We will now work with the Post Office, and colleagues across Government, to consider how to enhance further the viability of the branches in our communities. I am delighted that the Business and Enterprise Committee has agreed to act as a Task Force to examine what further services the Post Office could provide, particularly in the spheres of Government and financial services. The Government is determined that there should continue to be a network of around 11,500 branches for the foreseeable future: a network larger than all the UK's bank and building societies put together. We will continue to work together across Government to secure that future, and particularly to further financial inclusion in a period of unprecedented turmoil amongst the nation's banks.