

# **Subsidy Advice Unit Report on the proposed subsidy to Post Office Limited for Interim IT Funding**

**Referred by Department for Business and Trade**

**07 December 2023**

**Subsidy Advice Unit**

---

Part of the Competition and Markets Authority

© Crown copyright 2023

You may reuse this information (not including logos) free of charge in any format or medium, under the terms of the Open Government Licence.

To view this licence, visit [www.nationalarchives.gov.uk/doc/open-government-licence/](http://www.nationalarchives.gov.uk/doc/open-government-licence/) or write to the Information Policy Team, The National Archives, Kew, London TW9 4DU, or email: [psi@nationalarchives.gsi.gov.uk](mailto:psi@nationalarchives.gsi.gov.uk).

# CONTENTS

<b>1. Introduction .....</b>	<b>3</b>
The referred subsidy .....	3
SAU referral process .....	5
<b>2. Summary of the SAU's observations.....</b>	<b>6</b>
<b>3. The SAU's Evaluation .....</b>	<b>7</b>
Step 1: Identifying the policy objective, ensuring it addresses a market failure or equity concern, and determining whether a subsidy is the right tool to use ....	7
Step 2: Ensuring that the subsidy is designed to create the right incentives for the beneficiary and bring about a change .....	9
Step 3: Considering the distortive impacts that the subsidy may have and keeping them as low as possible .....	12
Step 4: Carrying out the balancing exercise .....	15
Other Requirements of the Act .....	17

# 1. Introduction

- 1.1 This report is an evaluation prepared by the Subsidy Advice Unit (SAU), part of the Competition and Markets Authority, under section 59 of the Subsidy Control Act 2022 (the Act).
- 1.2 The SAU has evaluated the Department for Business and Trade's (DBT) Assessment of Compliance of its proposed subsidy to Post Office Limited (POL) for Interim IT Funding, with the requirements of Chapters 1 and 2 of Part 2 of the Act (the Assessment).<sup>1</sup>
- 1.3 This report is based on the information provided to the SAU by DBT in its Assessment and evidence submitted relevant to that Assessment.
- 1.4 This report is provided as non-binding advice to DBT. The purpose of the SAU's report is not to make a recommendation on whether the subsidy should be given, or directly assess whether it complies with the subsidy control requirements. DBT is ultimately responsible for granting the subsidy, based on its own assessment, having the benefit of the SAU's evaluation.
- 1.5 A summary of our observations is set out at section 2 of this report.

## The referred subsidy

- 1.6 POL is a public non-financial corporation, which is wholly-owned by the Secretary of State for Business and Trade. Through POL, the UK government ensures the provision of a network of Post Office branches delivering essential services to customers across the UK. DBT consider POL to be a provider of Services of Public Economic Interest (SPEI), and it is supported to provide these by an annual subsidy award.<sup>2</sup>
- 1.7 DBT explained that, to ensure that all citizens have access to essential services, UK government requires POL to maintain a network of at least 11,500 branches, and to adhere to geographic access criteria to ensure a national spread of Post Offices across the UK and to maintain access in particular areas, such as rural and urban deprived areas. These essential services include access to postal services, universal access to basic cash and banking facilities, access to payment

---

<sup>1</sup> Chapter 1 of Part 2 of the Act requires a public authority to consider the subsidy control principles and energy and environment principles before deciding to give a subsidy. The public authority must not award the subsidy unless it is of the view that it is consistent with those principles. Chapter 2 of Part 2 of the Act prohibits the giving of certain kinds of subsidies and, in relation to certain other categories of subsidy creates a number of requirements with which public authorities must comply.

<sup>2</sup> POL is provided with an annual 'Post Office Subsidy Award' (currently £50 million). SPEIs are essential services provided to the public that would not be provided, or would not be provided on the terms required, by an enterprise under normal market conditions (see [Statutory Guidance](#) chapter 6). Separately, in addition to the annual subsidy award, the UK government has also periodically provided 'Post Office Investment Funding' (worth £185 million between 2022/23 and 2024/25).

facilities for public utility services, and also provision of services on behalf of central and local government.

- 1.8 In July 2021, POL prepared a restructuring plan to address POL's liabilities connected with its Horizon IT system or workers' rights legislation. This plan was modified in 2023 to cover the increase in costs associated with the Post Office Horizon IT Inquiry and the operation of the Remediation Unit, and other costs and activities associated with addressing the Horizon and Employment Liabilities more broadly, for the financial years 2023/24 to the end of the 2024/25.<sup>3</sup>
- 1.9 Under this referred subsidy, DBT is proposing to award POL a grant of up to £122.7 million, which includes £19.7 million contingency, to enable the company to continue to invest in its IT systems. This proposed subsidy for Interim IT Funding is not a part of the restructuring plan.
- 1.10 Specifically, this subsidy will provide interim funding that will contribute towards enabling POL to make investments to maintain the current IT platform (Horizon). At the same time, POL will continue the development and piloting of elements of the New Branch IT System (NBIT) that will ultimately replace Horizon. In 2021 POL established the Strategic Platform Modernisation Programme (SPMP), which includes the roll out of NBIT. This rollout was originally intended to be completed by March 2024.
- 1.11 The Assessment explains that Horizon is POL's core IT platform and interface used by postmasters and trading partners around the UK.<sup>4</sup> The current Horizon system ensures that POL can deliver four main functions:
- (a) Serving customers and taking payments (point of sale).
  - (b) Branch management and accounting, including stock and cash management functions.
  - (c) Communication and information. The system allows users to receive messages from POL, and to access product guides and training materials.
  - (d) Integrating in-branch activity with enterprise services. Horizon enables a range of back-office processes; for example, where customers undertake activities such as paying a household bill or withdrawing cash from a personal bank account in a post office branch, Horizon is the back-end

---

<sup>3</sup> Within this restructuring plan, DBT has proposed to award POL a grant to cover the costs of acting as a core participant in the Post Office Horizon IT Inquiry and operating its Remediation Unit. The SAU has recently published a report on this proposed subsidy, see [Referral of the proposed subsidy to Post Office Limited by the Department for Business and Trade - GOV.UK \(www.gov.uk\)](#)

<sup>4</sup> The Assessment states that the system supports around 7 million transactions every working day, across some 25,000 counters in over 11,500 UK branches.

system that allows the branch to correctly communicate and settle the customer's accounts, ensuring the financial integrity of the transaction.

- 1.12 DBT explained that the government considers it important that POL has a reliable IT system and is therefore proposing to provide additional financial support through this subsidy in addition to the annual subsidy award. It said that further support was necessary as, since 2021, the complexity of developing a fit-for-purpose, futureproof IT system has escalated, resulting in increased costs and a lengthening timeline. DBT said that the subsidy will be ringfenced for the purposes outlined above and may not be used for supporting other activities undertaken by POL.
- 1.13 The grant funding will cover the period to the end of the 2024/25 financial year. Grant payments will be released quarterly and will be subject to regular reporting from POL.

### **SAU referral process**

- 1.14 On 20 October 2023, DBT requested a report from the SAU in relation to the proposed POL IT Interim Funding subsidy (the subsidy).
- 1.15 DBT explained<sup>5</sup> that the subsidy is a Subsidy of Particular Interest because its value exceeds £10 million.
- 1.16 The SAU notified DBT on 26 October 2023 that it would prepare and publish a report within 30 working days (ie on or before 7 December 2023).<sup>6</sup> The SAU published details of the referral on 26 October 2023.<sup>7</sup>

---

<sup>5</sup> In the information provided under section 52(2) of the Act

<sup>6</sup> Sections 53(1) and 53(2) of the Act.

<sup>7</sup> [Referral of the proposed subsidy Post Office IT Interim Funding by the Department for Business and Trade - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/news/referral-of-the-proposed-subsidy-post-office-it-interim-funding-by-the-department-for-business-and-trade)

## 2. Summary of the SAU's observations

- 2.1 The Assessment is drafted in line with the four-step process described in the Statutory Guidance for the United Kingdom Subsidy Control Regime (the [Statutory Guidance](#)) and as reflected in the SAU's Guidance on the operation of the subsidy control functions of the Subsidy Advice Unit (the [SAU Guidance](#)).
- 2.2 Overall, we consider that DBT has engaged well with the subsidy control principles and has undertaken an assessment which considers the subsidy's compliance with the principles in line with the Statutory Guidance. We consider that the overall nature and purpose of the subsidy could be clarified. For example, the Assessment could be strengthened by providing clarity on the interim nature of the funding. It could also distinguish more clearly how the subsidy is additional to existing UK government funding to POL, and what additional outputs the funding will deliver, including its specific contribution to the delivery of NBIT.
- 2.3 Our main observations on the Assessment are:
- In relation to Principle A, our view is that it describes a clear policy objective and explains why the subsidy is considered the most appropriate response. The equity objective is well set out and explained. However, the Assessment could be improved by explaining clearly how the equity benefits delivered by POL's activities arise from this subsidy in particular (ie in relation to Horizon and NBIT).
  - In relation to Principle B, although the Assessment considers compliance against the Statutory Guidance, it does not explicitly draw a conclusion explaining that the subsidy is proportionate to the policy objective.
  - In relation to Principle F, the Assessment provides a reasonable explanation of how the subsidy could impact competition (although we note that in indirectly supporting the delivery of the SPEI it is intended to facilitate activities that would not be commercially viable). However, it could be improved by identifying, and explaining, some further potential distortions.
- 2.4 Our report is advisory only and does not directly assess whether the Post Office IT Interim Funding subsidy complies with the subsidy control requirements. The report does not constitute a recommendation on whether the subsidy should be implemented by DBT. We have not considered it necessary to provide any advice about how the proposed scheme may be modified to ensure compliance with the subsidy control requirements.<sup>8</sup>

---

<sup>8</sup> Section 59(3)(b) of the Act.

### 3. The SAU's Evaluation

3.1 This section sets out our evaluation of the Assessment, following the four-step framework structure used by DBT.

#### **Step 1: Identifying the policy objective, ensuring it addresses a market failure or equity concern, and determining whether a subsidy is the right tool to use**

3.2 The first step involves an evaluation of the Assessment against:

- (a) Principle A: Subsidies should pursue a specific policy objective in order to (a) remedy an identified market failure or (b) address an equity rationale (such as local or regional disadvantage, social difficulties or distributional concerns); and
- (b) Principle E: Subsidies should be an appropriate policy instrument for achieving their specific policy objective and that objective cannot be achieved through other, less distortive, means.<sup>9</sup>

#### **Policy objectives**

3.3 The Assessment sets out that the policy objective is to enable POL to maintain its current IT platform (Horizon) while undertaking work to continue the development and rollout of the NBIT system, which will replace Horizon (see paragraph 1.10 to 1.12). The new system is intended, when implemented, to allow for a reduction in the costs and time required to make ongoing developments of the system, reductions in transaction time and errors, and a reduction on the IT cost of opening new branches.

3.4 While this support for POL's IT systems does not directly deliver the SPEI, DBT told us that this subsidy will allow POL to continue to deliver those services, and thereby address equity objectives.

3.5 In our view the Assessment sets out clearly the policy objectives of the subsidy.

#### **Equity objective**

3.6 The Statutory Guidance sets out that equity objectives seek to reduce unequal or unfair outcomes between different groups in society or geographic areas.<sup>10</sup>

---

<sup>9</sup> Further information about the Principles A and E can be found in the [Statutory Guidance](#) (paragraphs 3.18 to 3.42) and the [SAU Guidance](#) (paragraphs 4.7 to 4.11).

<sup>10</sup> [Statutory Guidance](#), paragraphs 3.35 to 3.39.



- 3.7 The Assessment explains the equity objectives for the subsidy in the context of the government's wider policy objective for postal services (see paragraphs 1.6 and 1.7). This is for all UK citizens to be able to access:
- (a) postal services;
  - (b) basic cash and banking facilities;
  - (c) payment facilities for public utility services; and
  - (d) services provided on behalf of central and local government.
- 3.8 POL has assessed that Horizon needs replacing due to its age (having been piloted in the 1990s) and ongoing challenges associated with the system, which are the subject of the Post Office Horizon IT Inquiry.<sup>11</sup>
- 3.9 The Assessment states that the delivery of a new IT system is a priority for the company over the current spending period. It also says that maintaining Horizon while NBIT is developed and rolled out is also essential to the ongoing viability of the Post Office network.
- 3.10 The Assessment indicates and provides supporting statistics to show that the lack of ability to provide the services identified in paragraph 3.7 would have a disproportionate impact on groups such as:
- (a) the elderly;
  - (b) individuals receiving government support such as pensions or universal credit;
  - (c) disabled people;
  - (d) residents of rural communities or deprived urban areas; and
  - (e) small to medium sized enterprises who rely on the Post Office to access mail and banking services.
- 3.11 Our view is that the equity objective is well set out and explained. However, the Assessment could be improved by explaining clearly how the equity benefits delivered by POL's activities arise from this subsidy in particular (ie in relation to Horizon and NBIT). Similarly, the Assessment would be strengthened if, given its bridging nature, it was consistent in clearly distinguishing references to interim funding to maintain Horizon and to enable progress towards a long-term IT solution, from the delivery of the final NBIT system and delivery of all the SPEI.

---

<sup>11</sup> An independent public statutory Inquiry, see [Homepage | Post Office Horizon IT Inquiry \(postofficehorizoninquiry.org.uk\)](https://www.postofficehorizoninquiry.org.uk)

## **Consideration of alternative policy options and why the Post Office Interim IT Funding subsidy is the most appropriate and least distortive instrument**

- 3.12 In order to comply with Principle E, public authorities should consider why the decision to give a subsidy is the most appropriate instrument for addressing the identified policy objective, and why other means are not appropriate for achieving the identified policy objective.<sup>12</sup>
- 3.13 The Assessment explains that POL taking out a loan on a commercial basis from the government or from an external party were not appropriate options, as the burden of paying the loan capital and interest would likely increase the need for future subsidy, such a loan would have a direct impact on public finances and could have long lasting negative impacts on POL.
- 3.14 In terms of self-funding, although POL has made a trading profit in recent years, the Assessment concludes that self-funding would not be possible as these funds are insufficient to support the infrastructure of a project of this scale and complexity.
- 3.15 The Assessment says that cost reductions, or the sale of any assets, would either not provide sufficient funds for these IT projects or would be incompatible with the equity objectives and public service obligations.
- 3.16 Overall, our view is that DBT has provided a reasonable assessment against Principle E.

## **Step 2: Ensuring that the subsidy is designed to create the right incentives for the beneficiary and bring about a change**

- 3.17 The second step involves an evaluation of the assessment against:
- (a) Principle C: First, subsidies should be designed to bring about a change of economic behaviour of the beneficiary. Second, that change, in relation to a subsidy, should be conducive to achieving its specific policy objective, and something that would not happen without the subsidy; and
  - (b) Principle D: Subsidies should not normally compensate for the costs the beneficiary would have funded in the absence of any subsidy.<sup>13</sup>

---

<sup>12</sup> [Statutory Guidance](#), paragraphs 3.40 to 3.41.

<sup>13</sup> Further information about the Principles C and D can be found in the [Statutory Guidance](#) (paragraphs 3.43 to 3.57) and the [SAU Guidance](#) (paragraphs 4.12 to 4.14).

## Counterfactual assessment

- 3.18 In assessing the counterfactual, the Statutory Guidance explains that public authorities should assess any change against a baseline of what would happen in the absence of the subsidy (the ‘do nothing’ scenario’).<sup>14</sup> This baseline would not necessarily be the current ‘as is’ situation (the ‘status quo’) but what would likely happen in the future – over both the long and short term – if no subsidy were awarded.
- 3.19 The Assessment defines the counterfactual scenario as one in which POL would stop all investment in Horizon where feasible to do so, and further work on a replacement for Horizon would cease as soon as practicable.
- 3.20 The Assessment explains that the cost of maintaining the IT system is high and rising. It notes that maintenance of POL’s current IT system is reliant on a third party, which creates a risk of potential third-party departure. The Assessment notes that any negative impact on the operation of the IT system would have consequences for POL’s service delivery, representing a constraint on POL’s ability to operate and adapt its services – including the SPEI – to customers’ evolving needs. The Assessment explains that material increases in cost would also negatively impact POL’s trading performance and could lead to a less stable and less secure POL network.
- 3.21 In our view, the Assessment adequately explains that in the counterfactual scenario, the policy objective could not be achieved by POL without placing the effective operation of the SPEI at risk. It also considers alternative counterfactual scenarios and explains why DBT did not consider them to be credible. Given the potentially significant effects arising from the counterfactual scenario, further evidence supporting the underlying assumptions and the risk of third-party departure would have been helpful.

## Changes in economic behaviour of the beneficiary

- 3.22 The Statutory Guidance sets out that subsidies must bring about something that would not have occurred without the subsidy.<sup>15</sup> In demonstrating this, public authorities should consider the likely change or additional net benefit.
- 3.23 The Assessment explains that this subsidy changes the economic behaviour of POL in that it enables POL to maintain Horizon and continue the development and rollout of NBIT.
- 3.24 We are of the view that the Assessment clearly describes the change of economic behaviour which would occur if the subsidy were provided, and the risks that would

---

<sup>14</sup> [Statutory Guidance](#), paragraphs 3.46 to 3.47.

<sup>15</sup> [Statutory Guidance](#), paragraph 3.50.

be avoided in doing so. The detailed breakdown of how the subsidy will support the maintenance of Horizon and development of the rollout of NBIT is set out in the supporting evidence, rather than in the Assessment itself. The Assessment would be strengthened by including more discussion at this level of granularity.

- 3.25 The supporting evidence indicates that as of September 2023, approximately half of the total subsidy value relates to previously incurred expenditure arising from the implementation of the SPMP (from April 2023 to September 2023). The Assessment could be strengthened by explaining why support for previously incurred expenditure is being offered, and setting out careful consideration of how the beneficiary's incentive to change its economic behaviour might be affected (ie showing the subsidy brings about the change that would not have occurred without the subsidy).

### **Additionality assessment**

- 3.26 According to the Statutory Guidance, 'additionality' means that subsidies should not be used to finance a project or activity that the beneficiary would have undertaken in a similar form, manner, and timeframe without the subsidy.<sup>16</sup>
- 3.27 The Assessment explains that the subsidy will allow for additional benefits that would not otherwise be achieved in the counterfactual scenario, in particular the delivery of a clear plan for progress towards implementing NBIT. The Assessment notes that the subsidy itself will not deliver the benefits of the new system, but it will contribute towards these benefits by enabling POL to continue SPMP activity so that they can be realised in the longer-term.
- 3.28 The Assessment notes that the subsidy does not compensate for costs that the company would have likely funded in the absence of the subsidy. It explains that despite reinvesting trading profits into the Post Office network and its wider infrastructure, this alone is not sufficient to support an infrastructure programme of this scale.
- 3.29 As noted at paragraph 3.19, the Assessment explains that, without the subsidy, POL would stop all investment in Horizon where feasible to do so and further work on a replacement for Horizon would cease as soon as practicable. The implication is that Horizon would not be maintained to levels necessary to ensure adequate support for the SPEI, and the benefits arising from the development of NBIT would be lost.
- 3.30 The subsidy, in part, funds certain investments required to maintain the Horizon system, which would not be funded in the counterfactual as a result of affordability constraints facing POL. Since POL needs the Horizon infrastructure to be

---

<sup>16</sup> [Statutory Guidance](#), paragraphs 3.49 to 3.53.

operative to run its business, there would likely be some investment in this in the counterfactual, however it would likely be very limited given the constrained funding position the business would face. We consider that the Assessment would have been strengthened by more clearly distinguishing between baseline maintenance costs required to ensure the Horizon system remains operational, and those that fall within the 'additionality' category.

3.31 In the round, we consider that, the Assessment satisfactorily demonstrates that the subsidy does not finance a project or activity that would have been undertaken in a similar form, manner and timeframe without the proposed subsidy. However, we note that the Assessment would be strengthened if it incorporated the comments as set out at paragraph 3.30.

### **Step 3: Considering the distortive impacts that the subsidy may have and keeping them as low as possible**

3.32 The third step involves an evaluation of the Assessment against:

- (a) Principle B: Subsidies should be proportionate to their specific policy objective and limited to what is necessary to achieve it; and
- (b) Principle F: Subsidies should be designed to achieve their specific policy objective while minimising any negative effects on competition or investment within the United Kingdom.<sup>17</sup>

#### **Proportionality**

3.33 The Assessment sets out alternative interventions considered and why these would not be suitable to achieve the policy objective. It also describes the extent that POL has self-funded these costs to date, as well as identifying and implementing cost reductions, both of which it states are no longer viable options and, consequently, new funding is required.

3.34 The Assessment states that the subsidy is time limited, however further funding for NBIT may be considered during the Spending Review period. It details further elements of the subsidy design which are intended to limit the intervention to only that which is necessary to achieve the policy objective. These include ongoing oversight into the development of NBIT, monitoring and evaluation updates against KPIs (including monitoring spend against forecasts given the subsidy could be paid in advance rather than in arrears of expenditure), and ringfencing

---

<sup>17</sup> Further information about the Principles B and F can be found in the [Statutory Guidance](#) (paragraphs 3.58 to 3.93) and the [SAU Guidance](#) (paragraphs 4.15 to 4.19).

the funding to existing and future IT systems only with specific criteria in place (with any change requiring approval from DBT).

- 3.35 It states that the subsidy amount is based on financial forecasts, on which financial due diligence was undertaken by independent consultants to provide external assurance.
- 3.36 In our view, although the Assessment considers compliance against the Statutory Guidance and covers how it is limited to what is necessary, it does not explicitly draw a conclusion explaining that the subsidy is proportionate to the policy objective. The Assessment would be strengthened by including this, explaining in particular how the subsidy alone is proportionate to its policy objective, and how the subsidy contributes more widely to helping maintain the SPEI and the wider benefits that it ensures.

### **Design of subsidy to minimise negative effects on competition and investment**

- 3.37 The Assessment states that POL does not trade internationally, and so any potential negative effects of the subsidy would likely only be felt within domestic markets.
- 3.38 The Assessment identifies relevant commercial markets that POL operates in, including: (a) mails, (b) banking, (c) government services and (d) bill payment markets.
- 3.39 The Assessment details certain subsidy design elements (see paragraph 3.34) and explains how they may limit any potential impacts on competition. It also explains why a direct grant is the most effective option to achieve the policy objective, whilst recognising that a subsidy of this type (direct grant) has a higher potential to distort competition. It explains that other methods of funding have already taken place and are no longer feasible (such as self-funding and cost reductions), and it also discounts commercial and subsidised loans as the burden of repaying the loan capital and interest will likely increase the need for future subsidy. We consider that DBT's approach to this part of its Assessment is consistent with the Statutory Guidance.

### **Assessment of effects on competition or investment**

- 3.40 The Assessment identifies and provides information about the relevant markets in which POL is commercially active, including identifying relevant competitors and, for certain markets, the market shares and trends. It captures most of the key areas where competition distortions may occur. Given that the problems the funding is seeking to address are unique to POL, it concludes that it is unlikely the subsidy will put POL at a significant advantage compared to its competitors, and

that the impact on competition in the relevant markets compared to their current state would be negligible.

- 3.41 The Assessment explains that the subsidy has the potential to distort competition, as it provides funding for the Horizon IT system, which is used within commercial aspects of POL's business. The Assessment states that the counterfactual (see paragraphs 3.18 to 3.21) would potentially benefit competitors in the commercial markets in which POL is active. In those markets, the absence of POL could allow competitors to increase their market share.
- 3.42 DBT states in the Assessment that it does not believe funding these costs would confer a competitive advantage to POL, as the IT system is already outdated and so is constraining its ability to operate commercially and adapt to customers' needs. The Assessment also considers the potential positive impacts on competition of the continued existence of POL as a competitor, especially in certain markets where there are a limited number of competitors.
- 3.43 In our view, the Assessment could be improved by considering whether a new IT system would provide greater functionality, whether that could improve POL's competitiveness in the relevant markets, and how this could impact both current and future competitors. It should also consider if these impacts result from the subsidy alone, or if they are impacts from the eventual full roll out of NBIT (which is not expected as a deliverable from this subsidy).
- 3.44 The Assessment also recognises that implementing a new IT system would lead to efficiency and cost savings for POL in the long term. This could reduce the operating costs of POL, which in turn could provide it with a competitive advantage. DBT said it did not believe funding for the NBIT system would confer a competitive advantage to POL as a result of this subsidy alone, as any deployment of NBIT would only be to a small number of branches in the relevant period. In our view, the Assessment could be improved by considering the significance of any potential competitive advantage, and whether this arises from the subsidy alone or as a result of the wider roll out of NBIT.
- 3.45 We note that the subsidy, in part, is intended to fund certain investments required to maintain the Horizon IT system. As set out in the Statutory Guidance, subsidies which cover a beneficiary's day-to-day costs (as opposed to initial investment or set up costs) are considered more likely to impact competition.<sup>18</sup> The Assessment could be improved by considering if the nature of the costs being funded could be characterised to be of this nature, and if so whether this might create any further impact on competition.

---

<sup>18</sup> See [Statutory Guidance](#) (paragraphs 16.21 to 16.22).

3.46 In our view, the Assessment considers some potential distortions on competition and explains its conclusions that it does not expect the subsidy will confer a competitive advantage. The Assessment could be improved by identifying and explaining further potential distortions, as set out above. It could also consider how a greater market share, the number and closeness of competitors, and the type of costs being funded could impact the significance of any potential distortions.

#### **Step 4: Carrying out the balancing exercise**

3.47 The fourth step involves an evaluation of the assessment against subsidy control Principle G: subsidies' beneficial effects (in terms of achieving their specific policy objective) should outweigh any negative effects, including in particular negative effects on: (a) competition or investment within the United Kingdom; (b) international trade or investment.<sup>19</sup>

3.48 DBT have set out that the subsidy provides investment to maintain the Horizon IT system and to undertake work to continue to develop and roll out the NBIT system. The Assessment identifies the main direct benefit as providing a sufficiently robust IT system to POL branches to enable them to continue to provide the SPEI in line with government access criteria.

3.49 It then highlights the indirect benefits that arise from the investment, including:

- (a) Enabling POL to continue to deliver its commitment to provide the SPEI across the UK, thereby ensuring reasonable equity of access for UK consumers to these services and addressing the inequity whereby vulnerable customers who rely on these services, and rural and deprived areas are disproportionately affected.
- (b) Continuation of POL branches as an anchor for the high street, helping to support postmasters' retail businesses, generating footfall that benefits other local retailers and allowing people to continue to transact in cash at a time when banks are closing their branches.
- (c) Continuation of the POL network as an enabler for small businesses by allowing them, regardless of their location, to access national and international markets from close to where they are based.
- (d) Royal Mail being able to deliver the regulated Universal Service Obligation.
- (e) Banks being able to ensure reasonable access to cash across the UK.
- (f) Government being able to provide 'face to face' services.

---

<sup>19</sup> See [Statutory Guidance](#) (paragraphs 3.96 to 3.98) and [SAU Guidance](#) (paragraphs 4.20 to 4.22) for further detail.



(g) Protection of the annual social value of the Post Office at £3.8 billion to consumers and almost £1 billion to businesses.

(h) Benefit to the, mainly small, businesses which host a Post Office.

3.50 The Assessment sets out some anticipated negative impacts on competition and investment, including:

(a) a distorting effect on competition for commercial products and services offered by competitors; and

(b) an indirect effect on competition by enabling the continued delivery of all POL services. It identifies that if POL could no longer provide some of its services, competitors could benefit by seizing a greater share of the market and so the subsidy affects both existing competitors and potential new entrants.

3.51 The Assessment does not seek to quantify the negative effects on competition and investment. The Assessment sets out factors which limit the potential effects on competition and investment in the balancing exercise. It sets out that any negative competitive effects would only occur within parts of the network where alternatives to POL are available, and in relation to aspects of service provision where alternatives to POL are available.<sup>20</sup> The Assessment also sets out that the subsidy should not have any negative or geographic distributional effects. As set out in paragraph 3.37, the Assessment states that POL does not trade internationally, and so any potential negative effects of the subsidy would likely only be felt within domestic markets.

3.52 The Assessment provides some quantification of the social value of the POL network, to consider the benefits of the subsidy in a wider context. Evidence provided alongside the Assessment compares this overall social value of the POL network in comparison to the total level of support provided. While useful, the Assessment could be improved by, for the purposes of the balancing exercise, evaluating and comparing the benefits and costs arising directly from the subsidy (rather than the whole POL network).

3.53 The Assessment conducts its balancing exercise based on the qualitative benefits and negative effects set out above. In our view the Assessment could be improved by more clearly setting out the benefits which arise directly from the subsidy and differentiating these from the wider benefits linked to the provision of the SPEI.

---

<sup>20</sup> For example, in some rural areas it is unlikely that some services provided by POL could be offered on a commercial basis.

## **Other Requirements of the Act**

- 3.54 This step in the evaluation relates to the requirements and prohibitions set out in Chapter 2 of Part 2 of the Act, where these are applicable. DBT informed us that none of these requirements and prohibitions apply.