Subsidy Advice Unit Report on the proposed Transformation and Network Investment subsidy to the Post Office Limited

Referred by the Department for Business and Trade

15 July 2025

Subsidy Advice Unit

Part of the Competition and Markets Authority

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1. The Referral

1.1 On 28 May 2025, the Department for Business and Trade (DBT) requested a report from the Subsidy Advice Unit (the SAU)[1] in relation to a proposed Transformation and Network Investment subsidy (the Subsidy) to Post Office Limited (POL) under section 52 of the Subsidy Control Act 2022 (the Act).[2]

1.2 This report evaluates DBT's assessment of compliance (the Assessment) of the Subsidy with the requirements of Chapters 1 and 2 of Part 2 of the Act.[3] It is based on the information and evidence included in the Assessment.

1.3 This report is provided as non-binding advice to DBT. It does not consider whether the Subsidy should be given, or directly assess whether it complies with the subsidy control requirements.

Summary

1.4 The Assessment uses the four-step structure 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).

1.5 In our view, DBT has considered in detail certain aspects of the compliance of the Subsidy with the subsidy control principles. In particular, the Assessment clearly describes and evidences the specific policy objectives of the Subsidy, demonstrates that DBT has considered other ways of achieving its policy objectives and evidences why a subsidy is the most appropriate option.

1.6 We note, however, that the Subsidy is one of seven[4] which have been referred to the SAU in relation to financial assistance to POL since October 2023. In our view, DBT should consider the impact of this broader landscape of financial support on the assessment of this and other subsidies to POL, for example in relation to considerations of proportionality. More specifically in relation to this referral, the wider purpose of the Subsidy, such as the continued delivery of a SPEI service, overlaps with the purpose of other

[1] The SAU is part of the Competition and Markets Authority.
[2] Referral of the proposed Transformation and Network Investment subsidy to Post Office Limited by the Department for Business and Trade - GOV.UK.
[3] 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.
[4] Post Office Restructuring Subsidy, Post Office IT Interim Funding, Post Office Review Compensation Subsidy, Post Office Remediation Unit and Horizon IT Inquiry Subsidy, Post Office Future Technology Portfolio 2025 to 2026 and Post Office Network Subsidy.

subsidies provided to POL. This creates some specific issues for the Assessment. In particular, the Assessment should:

(a) explain how the transformation and network investment funding in this Subsidy will remedy the stated inequality, as opposed to funding the continued operation of the POL network (Principle A);

(b) include and refer to evidence that the Subsidy does not reimburse costs already funded through other subsidies (Principle D);

(c) take into account other subsidies given to POL for similar purposes within the timeframe of the Subsidy, and potential future funding requirements for the same and/or similar activities (Principle B);

(d) in carrying out the balancing exercise, exclude the benefits of activities that have already been completed or commenced before this Subsidy has been agreed, or that have been funded under a modification to a previous subsidy (Principle G).

1.7 We have also identified the following additional areas for improvement. The Assessment should:

(a) include more detailed information relating to design features contained within the funding agreement between DBT and POL and then explain more systematically how these features minimise potential distortions to competition (Principle F);

(b) consider the potential impact of the Subsidy on competition beyond sustaining POL's presence, given that the Subsidy might improve POL's competitive position in some activities, and consider in more detail the extent of potential distortions in each of the relevant markets in which POL operates and for which it will receive this Subsidy (Principle F); and

(c) better explain why this Subsidy is not a subsidy for restructuring an ailing or insolvent enterprise and why some aspects of the proposed Subsidy are not a SPEI subsidy (Other Requirements of the Act).

1.8 We discuss these areas below, along with other issues, for consideration by DBT in finalising its Assessment.

The referred Subsidy

1.9 POL was constituted under the 2000 and 2011 Postal Services Acts and is a public non-financial corporation, which is wholly owned by the Secretary of State for Business and Trade as sole shareholder. Through POL, the UK government ensures the provision of a network of Post Office branches, delivering essential services to customers across the UK.

1.10 DBT is proposing to award POL a grant of up to £117.95 million to fund transformation activities and network investment in the financial year 2025/26:[5]

(a) £107.95 million to support POL's Transformation Plan,[6] for the delivery of cost-saving and transformational activities. This will include:

(i) re-designing the organisation to remove workforce costs from the business;

(ii) transitioning a certain number of Directly Managed Branches to a fully franchised model;

(iii) cash automation, purchasing of cash handling equipment, investment in POL's Access to Cash commitments under Banking Framework 4;[7]

(iv) strategy review planning and delivery costs relating to transformation activities; and

(v) automating mail services and improving the supply chain for essential mails and cash services.

(b) £10 million for network investment to fund costs associated with POL's licence-to-operate and non-discretionary investment needs, which are related to the delivery of the Post Office network and its services. DBT describes this part of the Subsidy as 'to ensure that the branch network is fit-for-purpose,… to transform POL's technologies and data capabilities,… to sustain its commercial offer,… and to deliver a new operating model.'

1.11 The proposed Subsidy is part of wider support that the government has provided to POL (see paragraph 1.6). The Assessment states that there is no duplication of funding between this Subsidy and previous subsidies.

1.12 DBT is separately making a modification to the network investment subsidy awarded in 2021 for financial years 2022 – 2025[8] (2021 Network Investment

[5] Funding for further years of POL's Transformation Plan and network investment has been provided as part of the Spending Review 2025.

[6] The Transformation Plan aims to 'move POL onto a more sustainable and robust financial and operational footing.' Its objectives are to: 'deliver a business that is financially independent that can continue to serve its community in the long-term with the vital services needed; create a sustainable, fair and attractive proposition for postmasters, that reflects their vital role in delivering POL services; deliver an efficient operating model in the centre and the network, that reduces and stabilises the funding requirement from government.'

[7] Banking Framework 4 is the latest iteration of a five-year partnership between POL and UK banks and building societies to provide face-to-face banking services to consumers and businesses through local Post Office branches, Post Office Corporate – Banking Framework 4.

[8] Scheme SC10161 - Search for UK subsidies - GOV.UK - Public user search subsidy scheme details page. This investment funding relates to the period 2022 - 2025 and was awarded on 18 March 2021.

subsidy) for the amount of £46.25 million and extending its term, so that this uplift can be spent by POL on investment into financial year 2025/26. While this modification funding is not part of this referral, it will be used to partly fund the activities that are considered under this referral.

1.13 DBT explained that the Subsidy is a Subsidy of Particular Interest because it exceeds £10 million.

2. The SAU's Evaluation

2.1 This section sets out our evaluation of the Assessment, following the four-step 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

2.2 Under Step 1, public authorities should consider compliance of a subsidy with:

(a) Principle A: Subsidies should pursue a specific policy objective in order to remedy an identified market failure or 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.[9]

Policy objectives

2.3 The Assessment states that the Subsidy has a dual objective, namely:

(a) Policy Objective A: transformation funding: delivering transformational measures set out in paragraph 1.10(a) above. This funding will improve efficiency and deliver better outcomes for customers, postmasters and government. The Assessment further explains that these activities seek to reduce costs and improve efficiency, therefore enabling POL to deliver a higher quality of service for customers, provide a more attractive proposition to postmasters, and enabling a reduced requirement for funding from government to deliver the SPEI; and

(b) Policy Objective B: network investment: through the activities outlined in paragraph 1.10(b), this investment provides POL with essential network investment required to cover costs associated with its licence-to-operate requirements and non-discretionary investment needs, which are related to the delivery of the POL network and the services the POL delivers across this network. The Assessment further explains that this funding enables POL to carry out the maintenance of systems, property and infrastructure that supports the network of at least 11,500 branches to function effectively.

[9] See Statutory Guidance, paragraphs 3.33–3.58 and the SAU Guidance, paragraphs 4.7–4.11 for further detail.

Whilst this investment does not fund operational delivery of SPEI services, it indirectly ensures that the SPEI access criteria[10] can continue to be met.

2.4 In our view, the Assessment clearly describes and evidences the specific policy objectives of the Subsidy.

Equity Objective

2.5 Equity objectives seek to reduce unequal or unfair outcomes between different groups in society or geographic areas.[11]

2.6 The Assessment states that the Subsidy will address an equity concern by addressing inequalities faced by certain communities and groups within the UK which are particularly dependent on, and value, the services provided through the Post Office network.

2.7 The Assessment explains that the Post Office network plays an important role in providing a range of services to rural communities[12], small and medium-sized enterprises, and for groups such as older customers and those customers who are digitally excluded.

2.8 The Assessment explains it is unlikely that any competitor would provide the same coverage as POL, and that should POL be unable to deliver its services across its network, specific communities and groups would find it more difficult to access the range of services offered by POL.

2.9 The Assessment provides supporting statistics to show how the lack of ability to provide the services identified in paragraph 2.7 would have a disproportionate impact on vulnerable groups.

2.10 The Assessment explains that the Subsidy will not directly reduce the inequality of service access, as it does not directly fund SPEI delivery, but that instead transformation activities will lead to efficiency and better outcomes that will reduce long-term SPEI costs, and that the network investment will support the Post Office network and delivery of its services.

2.11 In our view, the Assessment explains and evidences the inequalities that continuing to operate the POL network seeks to address. However, the Assessment should explain how the transformation and network investment funding in this Subsidy will remedy the stated inequality (as opposed to

[10] This is considered to be the minimum number of branches that DBT requires POL to maintain in order to function effectively and ensure that there is an adequate geographic spread of locations.
[11] Statutory Guidance, paragraphs 3.51–3.55.
[12] These services include: access to postal services; basic cash and banking facilities; payment facilities for public utility services; and services provided on behalf of central and local government.

funding the continued operation of the POL network), in line with the Statutory Guidance.[13]

Appropriateness

2.12 Public authorities must determine whether a subsidy is the most appropriate instrument for achieving the policy objective. As part of this, they should consider other ways of addressing the market failure or equity issue.[14]

2.13 The Assessment sets out several alternative options that were considered by DBT, including: (i) the capacity of POL to self-fund; and (ii) the use of loans.

2.14 The Assessment explains that self-funding in this case would not be possible as POL's overall finances have deteriorated over time, and while future savings can be made, the timescale for realising those savings would be too long to reduce this Subsidy.

2.15 The Assessment explains that POL taking out a loan on commercial terms from either the government or from an external party are not appropriate options, noting that that it is unlikely that POL will be able to meet loan repayments from either its commercial operations, or from transformation activities, which are not expected to generate a sufficient return in the near term.

2.16 In our view, the Assessment demonstrates that DBT has considered other ways of achieving its policy objectives and explains and evidences why a subsidy was the most appropriate option.

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

2.17 Under Step 2, public authorities should consider compliance of a subsidy with:

(a) Principle C: Subsidies should be designed to bring about a change of economic behaviour of the beneficiary. That change should be something that would not happen without the subsidy and be conducive to achieving its specific policy objective; and

(b) Principle D: Subsidies should not normally compensate for the costs the beneficiary would have funded in the absence of any subsidy.[15]

[13] Statutory Guidance, paragraph 3.53.
[14] Statutory Guidance, paragraphs 3.56–3.58.
[15] See Statutory Guidance, paragraphs 3.59–3.73 and the SAU Guidance, paragraphs 4.12–4.14 for further detail.

Counterfactual

2.18 In assessing the counterfactual, public authorities should consider what would likely happen in the future – over both the long and short term – if no subsidy were awarded (the 'do nothing' scenario).[16]

2.19 The Assessment sets out a counterfactual scenario where, in the absence of the Subsidy, POL would, in the short term:

(a) pause much of its planned transformational activities that seek to reduce future running costs and improve operational efficiencies, meaning that reductions in POL's high-cost base would not materialise; and

(b) potentially cease any network investment spending that it was not legally obliged to undertake, which would negatively impact customer service in its branches.

2.20 The Assessment also explains that, in the long-term, there would be:

(a) a sustained deterioration in POL's trading performance, driven by an increasingly high-cost base and declining revenues;

(b) an increased need for external funding from the DBT Secretary of State, as POL's sole shareholder, given the cost of delivering SPEI across POL's uncommercial Post Office network would grow; and

(c) a combined decline of income for POL and remuneration for postmasters that will lead to an unattractive and unviable proposition for hosts to open new or replacement branches, increasing the likelihood of branch closures, and therefore a long-term impact on access to SPEI services. The Assessment explains how this reduction in service would disproportionately affect the places and groups identified by the equity objective.

2.21 The Assessment considers two alternatives to the counterfactual scenario: (a) further divestments of POL's assets; and (b) changing the policy that commits POL to maintain around 11,500 branches.[17] However, the Assessment explains how both scenarios would be unfeasible and impractical, especially in the short term.

2.22 In our view, the Assessment describes what would likely happen if the Subsidy was not awarded. In particular, it explains why, in the counterfactual scenario, the activities funded under the Subsidy would not take place, and provides a high-level explanation of the short and long-term impact. It also considers

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[16] Statutory Guidance, paragraphs 3.62–3.64.
[17] As part of the Assessment, DBT provided information outlining how changes in the branch structure could still meet the SPEI obligations and address the market failures.

other potential counterfactual scenarios and explains why DBT does not consider these alternative scenarios to be credible.

2.23 However, in our view, the Assessment could include more information supporting the statement that, in the counterfactual, there would be a long-term impact on access to SPEI services. For example, it could explain the impact on SPEI provision from any changes to POL's branch structure.

Changes in economic behaviour of the beneficiary and additionality

2.24 Subsidies must bring about something that would not have occurred without the subsidy.[18] They 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 ('additionality').[19]

2.25 The Assessment explains that the Subsidy is designed to enable POL to carry out the first phase of transformation activities and investments, which will reduce POL's costs and increase its operational efficiency. As a result, over time, POL will become less reliant on government subsidies to support costs associated with the uncommercial Post Office network, thereby improving postmasters' remuneration (see paragraph 2.20(c)) and reducing risks to network stability and SPEI delivery. These activities will directly achieve the policy objectives of the Subsidy.

2.26 The Assessment indicates that some activities within the 'first phase of transformation activity and essential investment' have already started, and money has already been spent. It states that these activities are set to continue as part of the Transformation Plan.[20]

2.27 The Assessment notes that the Subsidy covers costs that POL cannot self-fund, primarily due to its declining financial position and trading losses. Additionally, the Assessment notes that POL has incurred unforeseen costs relating to the Horizon Inquiry and Remediation Unit. It explains that the Network Subsidy[21] does not fully reflect the true underlying cost of sustaining uncommercial branches, therefore compelling POL to self-fund the balance of SPEI delivery costs. Safeguards imposed on POL by DBT include ringfencing funding to ensure it is spent solely on the permitted purpose, and a monthly

[18] Statutory Guidance, paragraph 3.66.
[19] Statutory Guidance, paragraphs 3.65–3.69.
[20] For example, DBT explained that Phases 1a and 1b relating to organisational design are not in scope of the referred Subsidy, as these activities are complete and the related costs have been covered by making a modification to the 2021 Network Investment subsidy and thus are not being funded by this Subsidy. DBT subsequently clarified that only the incomplete and unspent elements of some activities are in scope of this Subsidy.
[21] See the SAU's report relating to the Network Subsidy: Post Office Network Subsidy. The Assessment describes the purpose of the Network Subsidy is to cover a significant part of POL's costs of running its uncommercial network, in line with SPEI requirements.

reimbursement process tied to actual costs, enabling scrutiny to confirm that spending aligns with POL's Annual Business Plan.

2.28 In our view, the Assessment provides an explanation of how the Subsidy would change the beneficiary's economic behaviour and how the Subsidy brings about changes that would not have occurred absent the Subsidy.

2.29 However, the Assessment should include and refer to evidence that the Subsidy does not reimburse costs already spent and funded through other subsidies (eg on the first phase of transformation activity and essential investment). Further, it could consider explaining the extent to which some of the Subsidy might compensate POL for operating costs that could be considered as 'business as usual.'

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

2.30 Under Step 3, public authorities should consider compliance of a subsidy with:

(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.[22]

Proportionality

2.31 The Assessment states that the Subsidy is limited to costs associated with the transformation and network investment activities. UK Government Investments (UKGI) analysed POL's methodology used in designing its Transformation Plan and concluded it was adequate, appropriate and realistically achievable. UKGI also analysed the methodology for estimating the level of spend and concluded that the cost projections were reasonable and sufficiently evidenced at the interim business case stage.

2.32 The Subsidy amount was determined through engagement between DBT's investment committee and POL. Following scrutiny of the justification business case, the investment committee approved a lower subsidy amount, which it felt was the minimum necessary to deliver the relevant activities. The Assessment also explains that funding for the network investment to meet the minimum licence-to-operate requirements has been forecasted by POL on a minimum

[22] See Statutory Guidance paragraphs 3.74–3.110 and the SAU Guidance, paragraphs 4.15–4.19 for further detail.

spend basis only: therefore it is the minimum necessary to achieve the policy objectives.

2.33 The Assessment sets out the regular monitoring and evaluation processes that are in place (including monthly and quarterly reporting processes, and inclusion in the Government Major Projects Portfolio) and notes that the Subsidy is only paid if POL fulfils pre-agreed conditions in addition to the existing terms of the funding agreement between DBT and POL dated December 2024. These include the design mechanisms described in paragraph 2.37.

2.34 The Assessment notes that the Subsidy will be time limited to one year (financial year 2025/26), but as it is supporting POL's multi-year Transformation Plan (see paragraph 1.10(a)), further funding will be required in the future.

2.35 In our view, the Assessment demonstrates how aspects of the Subsidy design contribute to demonstrating compliance with Principle B.

2.36 However, in considering whether the amount of the subsidy is both proportionate and limited to the minimum necessary, the Assessment should take into account other subsidies given to POL for similar purposes within the timeframe of the Subsidy,[23] and potential future funding requirements for the same and/or similar activities.

Design of subsidy to minimise negative effects on competition and investment

2.37 The Assessment states that the Subsidy has been designed to minimise distortion. It details certain subsidy design elements, such as ringfencing, subsidy duration and payment through reimbursement mechanisms, and briefly explains how these design elements may limit any potential negative effects 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 (i.e. a direct grant) has a higher potential to distort competition.

2.38 The Assessment explains that, due to the nature of the services involved, it is not appropriate to broaden the set of subsidy recipients in this case and reduce market distortion in this way, because no other market participants are capable of delivering the policy objectives.

2.39 In our view, the Assessment explains how some of the features of the Subsidy are designed to minimise any negative effects on competition and investment within the United Kingdom. However, the Assessment should include more

[23] See Statutory Guidance paragraph 3.93.

detailed information relating to design features contained within the funding agreement between DBT and POL and then explain more systematically how these features minimise potential distortions to competition. For instance, it could explain whether the funding agreement includes subsidy design features that would help enforce performance criteria (such as clawback provisions).

Assessment of effects on competition or investment

2.40 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. The Assessment identifies the relevant commercial markets as: (i) mails; (ii) banking; (iii) government services; and (iv) bill payment markets.

2.41 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.

2.42 The Assessment states that the Subsidy has the potential to distort competition within these markets as government will be funding costs that POL would otherwise not have been able to fund, and competitors would need to self-fund any equivalent spend, therefore giving POL a competitive advantage. It also states that while there may be distortions in some of the relevant markets where POL has competitors, negative impacts will be limited where they do not have competitors.

2.43 The Assessment states that the Subsidy may distort competition by providing POL with investment to reduce costs and increase revenue, which is expected to improve its efficiency and maintain POL's presence in the relevant markets. The Assessment explains that by maintaining POL's position in the market, the Subsidy could reduce the possibility that competitors could seize a greater share of the market, in particular with respect to the mails market.

2.44 The Assessment explains how distortions may be limited in certain markets, in particular for banking and cash where competitors all serve slightly different markets and offer services in a different way, and for letters where the market size is declining so it is unlikely there would be new entrants.

2.45 The Assessment states that distortions are 'expected to be minimal' as POL provides a unique service in each of the relevant markets and competitors are unlikely to expand in a similar way to POL due to some aspects of the business being uncommercial. Further, the Assessment states that, while there is a potential for distortion as competitors would have to self-fund the costs covered by the Subsidy, a key differentiating factor is that competitors can utilise their profits for investment activity where POL has previously had to self-fund some of its uncommercial network.

2.46 In our view, the Assessment considers some of the likely effects on competition and investment, in particular, that potential distortions are more likely to occur in markets and geographic areas where POL has competitors, as sustaining POL's presence in those markets could impact competitors. However, it should consider the potential impact on competition beyond sustaining POL's presence, given that the Subsidy might improve POL's competitive position in some activities by reducing cost, increasing revenue and achieving efficiencies, particularly in markets where POL has strong competition or is changing/improving its commercial offering.

2.47 It should also consider in more detail the extent of potential distortions in each of the relevant markets in which POL operates and for which it will receive the Subsidy; for example, the extent of overlap with alternative providers and the degree to which competitors could be impacted. In this context, it could consider potential impacts at a more granular level for relevant markets and geographic areas in which impacts are likely to be more significant (for example, in cash and in banking services and in geographic areas with stronger competitors), rather than considering competitors to POL's overall geographic coverage.

Step 4: Carrying out the balancing exercise

2.48 Under step 4 (Principle G), public authorities should establish that the benefits of the subsidy (in relation to the specific policy objective) outweigh its negative effects, in particular negative effects on competition or investment within the United Kingdom and on international trade or investment.[24]

2.49 The Assessment discusses the benefits of the Subsidy. It explains that the Subsidy will allow POL to deliver direct cost-savings from the organisation design, Directly Managed Branches and Cash and Mails Automation projects, and generate savings for postmasters. Network investment will deliver direct benefits of covering costs associated with its licence-to-operate requirements and non-discretionary investment needs. The Assessment further explains that the Subsidy will bring about indirect benefits such as increased postmaster remuneration, reduced cost to government of delivering SPEI requirements and a range of operational and customer benefits. Wider indirect impacts will include facilitating Royal Mail to deliver regulated services, enabling banks to provide access to cash across the UK, continuing provision of government

[24] See Statutory Guidance, paragraphs 3.111–3.119 and the SAU Guidance, paragraphs 4.20–4.22 for further detail.

‘face to face’ services, and delivery of social value and commercial benefits to consumers and businesses.

2.50 The Assessment then discusses potential negative effects of the Subsidy including the expected negative effects on competition or investment in the UK, considered under Step 3 (see paragraphs 2.40 to 2.45). The Assessment describes these effects as ‘minimal’, and ‘limited’ to the parts of the network where competitors to POL operate, and explains that many of the sectors in which POL operates are declining and therefore unlikely to attract new entrants.

2.51 The Assessment states that POL does not trade internationally, and so any negative effects would likely only be felt within domestic markets. It notes that the Subsidy could affect inward investment to the UK by competitors in markets where POL has a strong presence, but notes that inward investment would be unlikely as most postal services around the world are nationalised or require regular subsidies. The Assessment then concludes that the benefits of the Subsidy outweigh the negatives.

2.52 In our view, the Assessment clearly sets out the positive effects of the Subsidy in relation to the policy objectives, its geographic impacts, as well as potential negative impacts, and conducts a balancing exercise between them in line with the Statutory Guidance. The Assessment should, however, exclude the benefits of activities that have already been completed or commenced before the Subsidy has been agreed, or that have been funded under a modification to a previous subsidy. The Assessment could also split its evaluation of the balancing test between the transformation and network investment activities (see paragraph 2.3) to improve clarity.

Other Requirements of the Act

2.53 This step in the Assessment relates to the requirements and prohibitions set out in Chapter 2 of Part 2 of the Act, where these are applicable.[25]

Restructuring

2.54 The Assessment states that the Subsidy is not a restructuring subsidy and does not engage section 20 of the Act. The Assessment explains that the counterfactual is not that POL is or will become ailing or insolvent, as defined in section 24 of the Act, but rather that the absence of the Subsidy will result in

[25] The Statutory Guidance explains at paragraph 5.2 that before giving a subsidy a public authority must ensure that it is not prohibited and meets any specific conditions for particular subsidies.

a sustained long-term deterioration in POL's trading performance and a likely increase in the cost to government for maintaining the SPEI.

2.55 The Assessment explains that the UK Government has successively funded costs associated with making POL more efficient for the purpose of improving efficiencies and consumer outcomes and ensuring delivery of the SPEI. It considers that the Subsidy is consistent with the UK Government approach to allowing what it describes as its investment requirements since Post Office split from Royal Mail in 2012. DBT does not see the Subsidy as a departure from the intention of previous investment funding, as other subsidies have been provided to undertake transformation activities. For instance, the Transformation Plan which was implemented from 2012 to 2018 had the objective to improve efficiency and accessibility for SPEI users through POL branch reconfiguration and to reduce the costs incurred by POL in providing the SPEI.

2.56 The Assessment indicates that DBT has considered whether the section 20 prohibition applies and provides an explanation of why it does not.

2.57 In our view, the Assessment should better explain why the Subsidy is not a subsidy for restructuring an ailing or insolvent enterprise. [26] In order to do so, it could:

(a) consider and explain whether POL remains an ailing or insolvent enterprise following POL's restructuring plan (as modified in 2023); [27] and

(b) further explain why DBT considers the transformation and network investment activities funded by the Subsidy do not constitute restructuring support; for instance, by explaining how continued investment in the transformation of POL differs to restructuring.

Services of public economic interest

2.58 The Assessment states that the Subsidy does not engage section 29 of the Act, as the Subsidy does not directly fund the operational costs of running POL's uncommercial network of Post Offices, and therefore is not for the provision of SPEI services. Nonetheless, DBT provided a review of the criteria set out under section 29 of the Act 'for added reassurance.'

2.59 In our view, the Assessment should better explain why some aspects of the proposed Subsidy are not a SPEI subsidy. For example, DBT could explain

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[26] Paragraph 5.36 of the Statutory Guidance explains there is no wider prohibition against giving subsidies that are not rescue or restructuring subsidies to ailing or insolvent enterprises.

[27] For a reference to the restructuring plan, see the SAU's [report in relation to the proposed restructuring subsidy to POL] dated 29 November 2023 and [Report on the proposed Subsidy to Post Office Limited (Remediation Unit and Horizon IT Inquiry)] dated 26 March 2025.

more clearly why the categories of costs funded by this Subsidy are different in type from the categories of costs directly funded by POL's Network Subsidy.

15 July 2025