

WALES CO-OPERATIVE CENTRE REPORT RURAL RETAIL SERVICES – A STUDY

Background

1. In *Putting Wales First: A Partnership for the People of Wales* the Welsh Assembly Government said:

We will take measures to protect post offices, shops and other businesses that supply vital services to our rural communities, promoted through a specialist unit in the Wales Co-operative Centre. We will increase funding provision for rates relief in order to help keep such outlets in business. We will investigate ways to allow many more shops and post offices to receive 100% rates relief. We will also look at how the Assembly can assist co-operative ventures aimed at keeping rural retail outlets open.

2. Following discussions with the Wales Co-operative Centre the Welsh Assembly Government commissioned a study from the Centre to provide an evidence based assessment of the problems facing rural retail stores and Post Offices and to recommend solutions.

Current Action on Rural Retail and Post offices

3. As part of Rural Community Action – Gweithredu Cymunedau Gwledig The Welsh Assembly Government is providing £0.75m over the next three years for specialist rural retail advisory services and pump priming grants for rural stores to increase ‘footfall’. Grants will be subject to the *de minimus* State Aids rules. It is proposed that the Welsh Development Agency will deliver these measures as part of a package of rural regeneration measures.
4. Post Offices are not a devolved function. The lead lies with the Department of Trade and Industry. In October 2001 DTI set up a Rural Capital Start-Up Scheme and this week has announced further funding of £450m to underpin the continued provision of rural post offices and maintain front line services in local communities. The fund will be administered by Post Office Ltd under contract to the UK Government and the Wales share of the fund will be in the region of £49m over the next three years.
5. In addition the Welsh Assembly Government has set up a Post Offices Development Fund. This will make £2.5 million available over the next three years targeted at retaining and developing Post Offices in the most deprived and isolated parts of Wales. The scheme will fund activities aimed at improving and expanding the PO sales area, modernising the retail business and improving access and/or the external appearance of the building.

Rural Rate Relief

6. The Rural Rate Relief Scheme was introduced in 1998. It was available to the sole post office or general store in a qualifying rural settlement with a Rateable Value of £5,000 or less, who automatically qualify for 50% mandatory relief. Local authorities could then top up the mandatory relief with a further 50% discretionary relief. Whilst not eligible for mandatory relief, discretionary relief was also available to businesses with a RV up to £10,000. To qualify for relief the shop or post office has to be the sole shop: this is set in primary legislation.
7. A qualifying rural settlement is an area which has a population of 3,000 or less. Local authorities have to define and keep lists of the rural settlements in their authority. For the purposes of Rural Rate Relief most of Wales has been defined as rural.
8. In September 2000, the Assembly Cabinet issued the consultation paper "*Simplifying the System: Local Government Finance in Wales*" which amongst other things sought views on rate relief. It recognised that rate relief could play a part in helping to regenerate rural communities and it sought views on extending the scope of the rural rate relief scheme to include other types of rural businesses such as village pubs and petrol stations, particularly where they provided other services such as cashpoints. It also sought views on the RV thresholds and rates of relief.
9. Following responses to the consultation, in April 2002 the Assembly used its powers to make legislation to extend the scope of the Rural Rate Relief scheme. The Non Domestic Rating (Rural Rate Relief) (Wales) Order 2002 came into force on 1 April 2002.
10. The new legislation extended the scheme as follows:-
 - It increased the RV thresholds for 50% mandatory relief for sole post offices or general stores from £5,000 to £6,000. So that many more rural businesses would qualify for mandatory rate relief. Local authorities still have discretion to top up the mandatory relief with up to a further 50% discretionary relief.
 - It extended the scheme to rural pubs and petrol stations with a RV of £9,000 or less. They now qualify for an automatic 50% mandatory relief, RV thresholds for discretionary relief to businesses that supply a vital role to the community have been increased to £12,000.

Further Review of Business Rates

11. The Assembly has already used its powers to make legislation to extend the Rural Rate Relief scheme. We estimated that by extending the scheme over 25,000 additional businesses would benefit in Wales. By increasing the RV threshold for shops and post offices means that many more

businesses will benefit in Wales and by setting the RV thresholds at £9,000 for pubs and petrol stations compared to £6,000 for shops and post offices means that many more petrol stations (and pubs) would qualify for RRR. Rural residents are more dependent on their cars for travel and garages may also provide other facilities in an area where these are not otherwise provided. Extending the Rural Rate Relief scheme will play an important part in our drive to regenerate the rural economy.

12. The Assembly pays for the cost of all mandatory rate relief and pays for 75% of any discretionary relief allowed by the local authority. However in addition to extending the parameters of the Rural Rate Relief Scheme, the Assembly also increased the proportion that it funds local authority's discretionary relief. For Rural Rate Relief it increased this from 75% to 90%, to further encourage local authorities to give more discretionary relief to rural businesses.
13. In addition to extending the Rural Rate Relief Scheme, in the policy statement from the Welsh Assembly Government "Freedom and Responsibility in local Government " we have given our commitment to introduce measures to reduce the rates burden on all small businesses throughout Wales. We will therefore be working closely with local government and business on developing the detail and shape of any rate relief scheme for all small businesses. We will be looking to do this when the UK Government brings forward the necessary primary legislation in the forthcoming Local Government Bill.

Conclusion

14. A copy of the report and its recommendations is attached.

**Rural Policy Division
December 2002**

Rural Retail Services – A Study

The Wales Co-operative Centre

January 2002

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1. Executive Summary

- 1.1 Wales experienced the greatest (with the east of England) rate of decline of rural post offices in the year to March 2001 yet still retains the highest density of post offices per 10,000 households in the United Kingdom.
- 1.2 Wales has experienced the biggest decline in post offices of any of the four home Countries over the past six years.
- 1.3 All the indications are that the pressure on rural post offices in Wales will continue with 21.3% having fewer than 100 customers per week.
- 1.4 Powys and Ceredigion have the lowest percentage (70% - 80%) of people living within 2kms of a post office and Powys has the highest percentage (3% - 5%) living more than 4kms from a post office.
- 1.5 The post office network is one of the most comprehensive in the UK and offer the opportunity for exciting new 'footfall' initiatives which will bring both new community benefit and underpin the commercial viability of rural post offices.
- 1.5 At present the Post Office is bound by UK Government rules which determine its ability to shape the rural network. This is something that might be given further consideration in Wales in the overall context of supporting rural retail services.
- 1.6 Community Councils are well placed to play an important part in the development and implementation of a strategy to support rural retail outlets. However specific attention needs to be given to what that role should properly be and what level of resources and capacity building would be required to enable Community Councils to undertake such a role.
- 1.7 Support for rural retail services in the future is inextricably linked to the need for detailed and expert retailing advice and support that does not exist to the degree required in the public sector. It is therefore critical that there is a greater engagement between the private and public sectors in developing and implementing the future support strategies.
- 1.8 It is clear that retail outlets and their owners and workers are key parts of rural communities often being regarded as the focus for community identity. However, there needs to be a recognition of the different role the public sector should be playing in delivering commercial retail activity and providing community services. There should also be specific support for individuals involved in retailing activity who play and have the potential to play a greater part in community regeneration initiatives.

- 1.9 There is a lack of information available in Wales which comprehensively maps the spread of rural services and accurately displays the equity, or inequity, of access to these services.
- 1.10 The clustering of services is a key factor in the future of rural retail services both in the context of services under one roof and by linking individual outlets to achieve economies of scale. However, there needs to be a proper recognition that successful 'footfall' initiatives in one area will have a consequential effect in another.
- 1.11 The current coverage of retail support services in Wales is patchy and only able to provide support to a certain level. However, it is not thought cost effective or efficient to make resources available to develop a fully comprehensive retail support service located in the public sector in Wales. In any event a good deal of the expertise required is in the private sector and regarded as important for gaining commercial advantage. A single point of access though is thought to be a sensible approach, a point of access which must be located in an agency or organisation which has the capacity to work strategically across the whole of rural Wales.
- 1.12 The current application of business rate relief is the cause of some confusion. This situation should improve with the implementation of new guidelines in April 2002. There may well be merit in considering enhanced provision of relief in the context of initiatives which fall within an agreed rural retail services development strategy.

2. Background

- 2.1 In *'Putting People First: A Partnership for the People of Wales'* – a joint statement by the Leaders of the Labour and Liberal Parties in the Welsh Assembly, there was a commitment to establish a specialist unit in the Wales Co-operative Centre to tackle the problems faced by rural post offices and other retail outlets.

As a first step in establishing any such specialist unit it was agreed between the Rural Policy Division of the Welsh Assembly and the Wales Co-operative Centre that it would be appropriate to establish the current position of retail services in rural Wales, what nature of support they currently receive and what might be required in the future.

It was subsequently agreed that the Welsh Assembly and the WDA would jointly commission a study to be undertaken by the Wales Co-operative Centre.

This report sets out the findings of the work the Wales Co-operative Centre and makes a series of recommendations.

2.2 *Aim*

The study has the following overall aim:

to scope the feasibility of tackling the problems of rural post offices and other rural retail outlets, including local shops, garages and public houses.

2.3 *Objectives*

The feasibility study has the following more specific objectives:

- to identify the needs of rural communities in respect of small retail outlets;
- to identify the key factors in successful sustainable rural post offices and other retail outlets and identify examples of best practice both in and outside Wales;
- to establish the current position of co-operative and community ownership in rural Wales;
- to identify the potential for maintaining and improving rural services such as post offices and shops, garages and public houses, specifically in the context of financially viable businesses;
- to identify existing support structures and mechanisms for rural retail outlets;

- to identify potential links with other bodies who can provide support or delivery services and can facilitate access to services in rural areas;
- to identify a range of options for the establishment of a specialist unit dedicated to the support of small rural retail outlets, specifically in the context of existing provision.

2.4 *Our Approach:*

- **Literature search** – a range of material is available on the issue of rural retail outlets. By far the majority of this addresses the issue from an English or more specifically an English regional perspective. Where Wales is included it is only as a small part of the study or initiative.
- **Direct interviews** - with private and public sector representatives
- **Survey of 600 rural community councils** – which aimed to secure an overview of the numbers of Community councils which had experienced retail outlet closures and their responses.
- **Case studies** – case studies have been produced of varied responses to the challenge of securing the future of rural retail outlets;
- **Looking at examples of retail support initiatives** in rural areas outside Wales and consider the relevance of experience from within urban areas;
- **Assessing the potential impact** of specific intervention measures.

This report addresses issues relating to shops, pubs and post offices. It does not tackle issues around the future of sales of vehicular fuel in rural Wales.

3. The future of rural post offices in Wales

3.1 The decline in numbers of sub post offices in rural Wales has been largely responsible for bringing the issue of the future of retail services in rural Wales to a head.

At the end of September 2001 there were 1386 post office outlets in Wales. Of these 968 were classified as rural outlets and 418 urban. This represents a fall of 5, all them rural, post office outlets over the June 2001 to September 2001 quarter. The Post Office defines a rural post office as any outlet in a town or village or hamlet with a population of less than 10,000.

In the year to March 2001 Wales and the East of England experienced the rural post office highest closure rate with both areas losing 6% of their stock against an average of 4.7%

3.2 In its first Annual Report on the state of the Network Postcomm, the postal services regulatory body, supported by a detailed report produced by Environmental Resources Management in association with MORI, presented valuable statistics on the current state of the rural network in Wales.

Region	Rural post offices March 2000	Rural post offices end March 2001	Change Net loss	Change % loss
SW England	1,268	1,220	48	4
SE England	1,065	1,013	52	5
London*	14	13	1	7
W Midlands	618	587	31	5
E England	1,042	982	60	6
E Midlands	866	824	42	5
NW England	576	548	28	5
Yorkshire	767	727	40	5
NE England	340	336	4	1
Scotland	1,288	1231	57	4
Wales	1,029	968	61	6
N Ireland	421	404	17	4
Total UK	9,294	8,853	441	4.7

Source: Postcomm report 2001 / Consignia

* London has too few 'rural' post offices to provide a statistically sound comparator to the other regions of the UK.

- 3.3 There are two very important sets of comparative statistics which need to be taken into account when considering the future of post offices in rural Wales.

First is the comparative density of post offices by Country of the UK set out in Table 2 below. England with its significant urban based population has the highest density of post offices per 10 sq. km. The figure that stands out though is that for Wales particularly when compared to Scotland which has a more broadly comparable urban / rural split to Wales than England does. Wales has close to three times the number of post offices per 10 sq km as does Scotland.

Obviously this can be explained to some extent by the ratio of land mass to population in Scotland and Wales. However when you look at the number of post offices per 10,000 households, Table 3, Wales still has a considerably greater density of post offices than Scotland and, indeed, than any of the other UK Countries.

Table 2 Post office densities by Country, 2001			
Country	Area (sq km)	No. of post offices	Post offices per 10 sq km
England	130,760	13,911	1.06
Northern Ireland	14,160	611	0.43
Scotland	78,132	1,938	0.25
Wales	20,768	1,386	0.67
Source: Postcomm report, 2001			

Table 3 Number of post offices per 10,000 households by Country, 2001			
Country	No. of post offices	No. of households	Post offices per 10,000 households
England	13,911	20,968,013	6.63
Northern Ireland	611	647,477	9.44
Scotland	1,938	2,231,580	8.64
Wales	1386	1,263,606	10.96
In Wales there is an average of 1 post office for every 912 households as against 1 post office for every 1508 households in England			
Source: ERM postcomm report, 2001			

- 3.4 The high density of post offices in Wales might well suggest that there have been fewer closures in the past in Wales than there have been in the other UK Countries. Table 4 shows that this is not the case. Wales has lost close to double the percentage of its post office outlets over the past six years as England and Northern Ireland and nearly three times as much as Scotland.

Table 4 Estimated change in number of post offices in four Countries, 1995-2001				
Country	Number of post offices		Change 1995 – 2001	
	1995	2001	Number	%
Northern Ireland	663	611	-52	-7.8
Scotland	2,035	1,938	-97	-4.8
England	15,103	13,905	-1,198	-7.9
Wales	1,614	1,398	-216	-13.4
Source: ERM Postcomm report, 2001				

In respect of the total number of post offices in Wales those classed as rural is the highest proportion at 70% of any region of the UK.

Table 5 Regional proportions of rural post offices at end March 2001	
Region	% Rural
SW England	65
SE England	47
London	1
W Midlands	40
E England	59
E Midlands	60
NW England	30
Yorkshire	47
NE England	45
Scotland	64
Wales	70
Northern Ireland	67
Total UK	50
Source: Postcomm report 2001 / Consignia	

3.5 Of the rural offices closing across the UK in the year to March 2001 56% were serving less than 70 customers a week and a further 34% less than 280. For 85% of the rural customers of closed rural offices in 2000/2001 the Post Office estimates that there was an alternative provision within 2 miles. However the Postcomm research found that 20% of single parents, elderly and those on low incomes living in areas where a post office closed in 1998/99 reported that they subsequently found it difficult to get to a post office.

In Wales the statistics for customer numbers in rural post offices are equally bleak. Table 6 below shows customer numbers across all post offices in Wales though it can be taken as read that every post office in these customer number categories is in a rural area of Wales.

Customers	No. of post offices	% of total
0 – 10	28	2
0 – 20	75	5.4
0 – 50	159	11.4
0 – 100	298	21.3

Source: Rural Transfer Advisers in Wales

- 3.6 There can be little doubt that the statistics as they have been presented by Consignia, Postcomm and the ERM/MORI survey paint a very stark picture in respect of what has happened to post offices in rural Wales, what the current situation is and what the trend is likely to be in the future. The figures for post office customer numbers coupled with the current post offices density in Wales strongly suggest a continuing pressure on the existing rural Wales post office network.
- 3.7 It is also possible looking at the spatial distribution of post offices across rural Wales to identify where the impact of future post office closures is likely to be greatest. It will be in those areas which are already most disadvantaged in respect of access to existing post office services.

Current distances from post offices for local authority areas in Wales which are predominantly rural are as follows:

- 70% - 80% of households in Powys and Ceredigion are within 2kms of a post office
 - 3% - 5% of households in Powys more than 4km from a post office
 - 1% - 3% of households in Ceredigion more than 4km from a post office.

- 80% - 85% of households in Ynys Mon, Gwynedd, Pembrokeshire and Carmarthenshire are within 2kms of a post office
 - 1% - 3% of households in Gwynedd, Pembrokeshire and Carmarthenshire more than 4km from a post office
 - 0.5% - 1% of households in Ynys Mon more than 4km from a post office.

- 85% - 95% of households in Denbighshire are within 2km of a post office

- 1% - 3% of households are more than 4km from a post office.
- 90% - 95% of households in Conwy are within 2km of a post office
 - 1% - 3% of households are more than 4km from a post office.

3.8 Postcomm also made a number of recommendations in the report with one in particular of significant importance to the future role of post offices in rural Wales. They recommended that:

‘Government departments, local authorities and the devolved administrations, when considering the best way to deliver community services, take into account the overall social benefits and value for money to be gained from the extensive Post Office Network.’

This is a theme that runs through any report on rural retail services and one which this report considers on a number of occasions. There can be no doubt, and this is supported both anecdotally and through survey materials, that rural communities identify very closely with their shops, pubs and post offices. The dilemma, however, is that this sense of community identity expressed through the presence of a shop, pub or post office is not necessary reflected in the commercial activity of that retail outlet.

The obvious and sensible conclusion that Postcomm, draws from the statistics it presents in the report and the more detailed ones in the supporting ERM/MORI report is that policies to address the issue of rural post office closures must concentrate on accessibility to post offices rather than on simple numbers of closures. This is a key point which this report returns to in the context of public policy development in Wales.

3.9 The Postcomm annual report builds on the work undertaken by the Cabinet Office’s Performance and Innovation Unit which looked the post office network and published its findings in June 2000.

In the introduction to the PIU report the Prime Minister, Tony Blair says:

‘Britain’s post offices are a vital part of the fabric of our country....post offices are more – much more – than just businesses. Especially in rural areas. The Government values the Post Office Network. We want to see it thrive.

‘But there are also challenges. The trend towards a cashless society...means the traditional work of the Post Office needs to change and respond to the service requirements of increasingly sophisticated customers in a changing world.’

The report itself identified a number of key points including:

- Post offices contribute a great deal to their communities over and above their role as a place to conduct transactions.
- The Post Office has been slow to modernise the network in the face of a rapidly changing business environment. There are opportunities to diversify into new lines of business, including:
 - A new Post Office based Universal Bank to tackle financial exclusion and other banking opportunities;
 - e-commerce
 - one-stop shops for Government information and transactions; and
 - internet learning and access
- Rural post offices should be protected. The Government should require the Post Office to maintain the rural network and to prevent any avoidable closures of rural post offices.
- This should apply – in the first instance – until 2006. The Government may need to provide financial support for a period to the rural network. There is a power in the Postal Services Bill to do this.

The report identified some key characteristics which are particularly relevant when looking at the future and role of the post office network in rural Wales.

The Post Office has the largest network of retail outlets in the United Kingdom.

Table 7 Size of retail networks in the UK, 1999	
Retail networks	Approximate number of outlets
Post offices	18,500
Spar	2,700
Lloyds TSB	2,500
Esso petrol stations	1,600
William Hill	1,500
Lloyds pharmacy	1,400
Boots	1,400
Halifax	800
Woolworth	800
Tesco	590
Sainsbury	340
Marks and Spencer	290
Source: PIU report, 2000	

It is also informative to note the relative size of the Post Office network to other networks.

Type of network	Approximate number of outlets
Places of worship	Up to 45,000
Pubs	41,800
Cash machines	28,200
Primary schools	23,100
Post offices	18,500
Banks and building societies	14,400
Petrol stations	13,700
General practitioners' surgeries	11,000
Libraries	4,900
Police stations	2,000
Benefit Agency offices and job centres	1,400
Hospitals with A&E facilities	250
Source: PIU report, 2000	

This reinforces the role of the post office as a 'Community identifier' but does nothing in respect of its commercial viability in specific rural location.

3.10 Post offices themselves are small businesses run in the main by self employed business owners. As little as 3% of the total network is owned by the Post Office itself and staffed by Post Office employees. These outlets are invariably Crown post offices in large towns and cities.

An increasing number of the outlets are run by large multiples such as Spar, Alldays and Forbuoys in their existing retail outlets.

In rural areas the post office will often also be the village shop. This only serves to compound the problem faced by a local community when the post office services are struggling.

Post offices are bought and sold as individual businesses. The Post Office itself runs a service on its website listing all the post office businesses for sale. However, a key problem in the past is the stage in the selling/exit process that the Post Office has learnt of the desire of the sub postmaster or mistress to divest themselves of the business. This problem is particularly acute in rural Wales where anecdotal evidence suggests a reluctance of existing post office owners to 'advertise' the fact that they are attempting to sell the business and where this is the case it denies the Post Office the opportunity to assist in finding a buyer or alternative solution until closure is unavoidable.

This situation has been addressed positively by the Post Office, with Wales leading the way in appointing a number of Rural Transfer Advisers. The role of these RTAs is considered in greater detail later in the report.

3.11 How the Post Office Network is financed

The way in which the network is financed is quite complex but needs to be understood when looking at the specific problems faced by rural post offices.

The main sources of income are:

- The Benefits Agency for cash payments of benefits
- Royal Mail and Parcelforce for stamp sales and handling of parcels
- Bill payment contracts with organisations such as local authorities and utilities
- Banking contracts, of which by far the most important is with Girobank
- National Savings business
- Lottery ticket sales for Camelot
- Other Government business
- Other commercial activity such as bureau de change

The payments that a sub postmaster or mistress receive falls into two categories; fixed and variable. The fixed element relates to the specific outlet and does not depend on how much business is done whereas the variable element depends on the number or value of types of transaction undertaken. Inevitably as the total payment to a sub post office increases the fixed element decreases and as one would expect it is the post offices, often part time, in small rural settlements which are those in receipt of entirely or predominantly fixed payments.

The average income for a post master in a rural post office is between £8,000 and £10,000 per year.

3.12 There is a range of different contract types which determines the way in which payments are made. These are set out below:

Contract type	Approximate number of outlets	Features
Scale payment	14,900	The fixed payment element is specific to each post office. The variable payment rates are the same for all offices. The

		contract is based on three months notice on either side
Community	2,000	Similar to the scale payment contract, but the fixed payment element is partly dependent on opening hours.
Modified	600	The contract for Branch conversions. Its terms are similar to those of the scale payment contract, but all offices have a £15,000 fixed payment element.
Company franchise	225	A new form of contract. It is a five year franchise agreement aimed at multiple retailers which requires higher standards for capital investment and service levels. Payments are made up of a variable element plus a volume related premium. The result mimics a fixed and variable payment structure.
Independent franchise	45	Similar to the company franchise contract but aimed at non-multiple retailers.
Source: PIU report, 2000 / The Post Office		

The key characteristics of the financing of the post office network in the context of this report is that rural offices are maintained through the profit making urban network. Around 90% of the urban network makes money. On the other hand the rural network loses around £25million a year. Around 60% of rural offices lose money for the network.

3.13 What services does the Post Office Network provide

Post offices provide a range of services. The largest source of business has traditionally been the payment of benefits and postal services. In respect of the fees received for processing benefits payments a major challenge is faced by the Post Office with the move to all benefit payments being made into a bank account.

Some services can only be provided by a limited number of outlets. For example in the UK as a whole only 4,000 post offices can offer an over the counter vehicle licensing service and 1,500 a passport application service. The introduction of bureaux de change services is universal to all outlets but there are only 600 in the UK which offer an on demand service.

Usually, the Post Office makes no contribution towards the cost of shop fitting and counter security. The proceeds of sale of a post office are usually seen by sub post masters and mistresses as a means of funding a pension.

3.14 It is certainly the case for rural post offices that the existence of other non post office trading activity is essential. As a result it is a

characteristic of rural post offices that they will encompass other trading activity. The contracts between the sub postmaster or mistress and the Post Office place certain restrictions on the private activity that can be undertaken:

- They cannot undertake activities which are currently being done through their post office. A good example of this is that they cannot contract with lottery operators to sell tickets if tickets are already being sold through their post office business.
- They cannot offer services which are being offered by other local post offices even if their post office does not do so.
- They cannot offer products or services which would compete with products or services being offered through the post office side of the business. A good example of this would be alternative parcel services.

3.15 Great emphasis is placed on the importance of post offices in rural areas but it is important to recognise that the rural post office network has been in gradual decline and that, as has been explained earlier, all the indicators point to continued pressure on the survival of significant numbers of rural post offices. The age of the postmaster or mistress being the most important.

The problem then faced by the Post Office is invariably finding a replacement sub postmaster or mistress. This is often the point at which a local campaign develops once it is known that a sub postmaster or mistress is leaving. It is also the circumstances in which a temporary closure can occur if an immediate succession is not secured. If no replacement sub postmaster or mistress can be found then closure may be inevitable. Reasons why successors cannot be found include:

- Uncertain future financial prospect, which mean that no-one is willing to take on the role of sub postmaster or mistress
- Changing rural demographics and lifestyles, which mean there is a smaller pool of people prepared to take on small rural sub post offices
- Loss of premises due to high property prices, which make it worth buying a sub post office and converting it to residential use.

It has been the case in the past that where a closure occurs there was very little likelihood of that sub post office reopening. The Post Office, however, has been active in taking initiatives to tackle the problem of rural post office closure. As has been mentioned earlier they have now recruited four Rural Transfer Advisers in Wales. These individuals have been successful in both avoiding temporary or permanent closures. However, the work of the RTAs in Wales is having an impact in this area.

- 3.16 Other initiatives also have the potential to mitigate the potential numbers of rural post office closures in Wales. These include clustered services and community owned structures which are looked at in greater detail later in the report.

A number of successes in Wales have been directly attributed by the Post Office to their proactive approach. An example is in Mynydd Llandegai where the post office used to be operated from the private home of a sub postmistress until December 2000 when she retired. In tendering her resignation the sub postmistress confirmed that her premises were not being made available to any future post office operation.

There was some early interest from an existing business owner in taking on the post office role though this failed to come to fruition. In discussions with the Community Council the Post office raised the possibility of using the local Memorial Hall. Having reached an in principle agreement to use the facility efforts were then made to find an applicant to act as sub post master or mistress. An individual from a neighbouring village was found and the service has now reopened initially only on a Friday between 9am and 1pm but more recently on two mornings, Tuesdays and Thursdays between 10am and noon.

Significant opportunities now exist to link these four RTAs into existing business and community support networks in Wales.

3.17 Problem of post office outlet succession / transfer

The Postcomm report concluded that there appears to be no direct relationship between the level of income generated by a rural post office and the ease of commercial transfer. Though, clearly a post office which is generating significant income will have a wider pool of people whose circumstances enable them to consider taking on the commitment. Different sub postmasters and mistresses have very different views about what is an acceptable level of post office income. There is also a lack of data about the size and nature of retail businesses that sit alongside post office services. Again this makes it difficult to determine what is viable.

The Government have, taking up the recommendations of the PIU report, set out Consignia's social responsibility in respect of its rural post office network. The recommendation that no rural post office should be closed unavoidably in the period to 2006 has now been set as a requirement. This sharply defined social obligation has led to key developments, some of which have been mentioned previously:

- The appointment of a senior manager to ensure that the Post Office Network's rural policy is geared towards avoiding closures
- A review of procedures used by the Post Office network when there is a risk of a rural outlet closing.

- The intent to set these revised procedures out in a formal code of conduct which will include:
 - Fuller consultation with groups that may be able to assist (eg local authorities, Community Councils, National Federation of Sub Postmasters or others that might exist already in Wales or be established as a result of this report)
 - Structured process of considering alternative forms of provision (eg different locations and premises)
 - That the potential for the involvement of voluntary groups should also be fully explored
 - That a review should be built in to the process should a post office be forced to close
- The creation of Rural Transfer Adviser posts
- Work to revise the standard contract to make it easier for community groups to establish and run post offices
- Abolishing the introductory fee which was set at 25% of the first year's income
- Establishment in partnership with the National Federation of Sub Postmasters of a sub postmaster and mistress trading club which is aimed at developing and improving the existing retail activity around the postal services
- Introduction of telephone help lines
- Development of a website which includes advice on how to become a sub postmaster or mistress and, as has been mentioned earlier, advertises post offices for sale.

As part of this drive within Consignia to proactively tackle closure issues there has also been an internal restructuring which has led to the establishment of a new unit, Post Office Ltd, which brings together staff from the Post Office network and Consignia units to take forward a strategic plan for new products and services and to streamline operations.

- 3.18 Taken in conjunction with the key social obligation now placed on post offices in respect of ensuring that all avoidable closures in rural areas are prevented until 2006 Consignia does appear to be faced with a strategic conundrum. How does it plan a distribution of post offices in rural areas that both meets the needs of the population and satisfies the demands of sub postmasters and mistresses when it doesn't know properly what attracts them to the business and keeps them there and is not able to close offices strategically because of constraints placed on them by Government where such closure may well be advantageous to the continuation of post office services in the area of closure. There is also the inherent danger by using the term 'avoidable' that effort will go in to defining a closure as unavoidable when it could more usefully be employed in other ways.

- 3.19 There are other current trading characteristics which cause further pressure on the rural post office network. Post Office network transaction data suggests that transaction volumes are dropping faster than the rate of decline in numbers of post offices.

Transaction volumes across post office counters continues to fall year on year with a drop of 8% in the year 2000. There will be further pressure on this downward trend as we move towards the Government's target date of 2003 for all benefits payment to be made direct into a bank account.

Many customers are still using post offices but using them less. This has an obvious detrimental effect on post office income and has further implications for the current size of the network. There is an inevitability that left to market forces the network will continue to shrink.

- 3.20 Against this background there are other pressures that need to be borne in mind:

- Alternative means of service provision in remote rural areas may have only a limited impact particularly for those who have restricted access to private transport.
- The traditional focus of analysis of the post office network gives little indication of specific community access to services or of service quality or of actual distances consumers have to travel to a post office.
- There is no agreed formula to determine the value to customers and the local community of a post office and therefore to assess whether or not it merits traditional public funding and whether the impact of addressing community needs has greatest impact via a retail based route or an alternative.
- New technology based responses are most likely not to be accessible, or simply not liked by those people who are currently the biggest users of post offices. But this is not necessarily a reason for not tackling the underlying issue here or recognising that new technology based responses may well attract a new type of customer to post offices which will assist in securing their future.

- 3.21 Other developments also have a direct impact on consideration of the issues surrounding the future of rural post offices. They are usually seen in the context of being threats though they do in turn offer opportunities. These are well documented and need not be set out in detail here. Some are specific to the post office and others are more general in nature and are having a more general but tangible effect on life in rural Wales. They include:

- Significant population and lifestyle changes in rural communities.
- Development of new technology and other service channels such ATMs, cashback, bill paying and internet trading

- Strong retail competition based on:
 - Growth in supermarkets and 'convenience stores'
 - Range and quality of goods available
 - New employment regulations such as for working hours
 - Aggressive acquisition of post offices by 'convenience stores'
 - Concentration of goods into 'convenience stores'
 - Power of multiples such as Spar and Londis
- A new regulatory framework from 26th March 2001 whereby Consignia is licensed by Postcomm to operate postal services. Though Consignia is currently the UK's designated universal service provider Postcomm has a duty to introduce competition whilst at the same time not damage provision of the universal service. This will inevitably put pressure on Consignia to 'sharpen up' its operation.

And finally to further darken the picture the use of cash, on which post offices currently place such heavy dependence, is falling at the rate of 1% per annum.

3.22 The response

The core element to the future of the existing rural post office network in Wales is the same as it is with any other rural retail service; increasing footfall. Put quite simply the more people you can get to enter your post office or shop or pub the more chance you have of making a sale and thereby deriving income. The issues around other retail outlets are set out later in this report. Post offices, however have some key advantages in this area. Two specific developments, in particular offer real opportunities; the introduction of a Universal Banking System and the development of the 'Your Guide' initiative. Both will build on the Horizon programme.

- 3.23 The Horizon programme was an ambitious and ultimately successful attempt to link all post offices into a single computerised system. At the time of writing this report there remained only three post offices in Wales not yet linked into the Horizon system. One has planning issues around the requirement to use a satellite dish, another is awaiting the training of a new sub postmaster and the third is a refusal to introduce on the part of the sub postmaster.

The Horizon system now has the potential to:

- Streamline internal Post Office procedures
- Reduce paperwork and improve efficiency and quality
- Offer customers a range of affordable electronic options for deliver across the whole network

For example by the Autumn of 2002 customers will be able to buy stamps using a debit card and an arrangement is being established

with banks via LINK to enable customers to make withdrawals and deposits of cash and cheques via post offices with on line verification from the banks.

3.24 Universal Bank

This report will not go into a great deal of detail in respect of the introduction of the Universal Banking System. It is difficult to identify areas in respect of its introduction where the Welsh Assembly or any other specifically Welsh institution will be able to develop any alternative or modified provision. Indeed it is equally difficult to see what benefit a distinct Welsh model would bring given the UK wide focus of the Banks and Consignia.

However, it is important to understand the basic concept as it has the potential to impact greatly on post office footfall which will have a direct benefit for post offices in rural Wales and pose an indirect challenge to other retail outlets. The following is an extract from the Postcomm report which explains well the current model.

‘The current model of the Universal Banking Services is a broader and more sustainable proposal. It will consist of two elements. Under the first element, the banks will make their basic bank account available at post offices. These accounts are being developed by banks following Government pressure on them not to exclude already disadvantaged people from the financial services they offer. Basic banking demands simple current accounts, suitable for those who are wary of traditional bank accounts and need help in avoiding debt. The banks will pay commercial fees to Post Office Network for the provision of counter services to their customers.

‘For those who will not use any form of mainstream bank account to receive their benefits there will be a new Post Office Card Account. This account, available only through post offices, will allow benefits claimants to access their benefits in cash at post offices using a Post Office based card instead. It will have the following features:

- credits only accepted from Government agencies and only by ACT (Automated Credit Transfer)
- cash withdrawals at post offices
- balance enquiries at post offices
- no transaction charge to customers
- account accessed by plastic card
- no interest paid on balances

‘Eleven banks have already agreed to make basic accounts accessible through post offices and to contribute jointly a total of £180million over five years to the costs of running the Post Office Card Account. These institutions between them hold 99% of current accounts in the UK. All

have now signed a Memorandum of Understanding which sets out the broad agreement. The next stage for each is negotiations with Post Office Network on the details. Post Office Network hopes at the same time to encourage more banks to use post offices for Network Banking – with access to all bank customers to their bank accounts over post office counters.'

The introduction of an Universal Banking System based on the Post Office Network and the consequential developments that the Post Office is looking to introduce will go some considerable way to meeting the identified service demands set out in Table 10 above. Others could be met through the widespread and speedy introduction of the 'Your guide' initiative.

3.25 'Your Guide'

'Your Guide' is currently a pilot project in post offices in Leicestershire and Rutland. It is being piloted in rural, urban and urban deprived post offices. It is essentially an information point where the public can gain access to information from central and local government and the voluntary and private sectors. The current pilot includes information from 30 different content providers. There are seven broad subject areas in which information is provided:

- jobs and training
- adverts and notices
- local information
- retirement
- local government services
- benefits and entitlements
- money and legal matters

There are five different channels through which information can be accessed:

- Touch screen
- Freephone with 20 helplines
- Printing of forms and fact sheets
- Leaflets
- Counter assistance

The configuration of these channels in any given post office is split into six categories ranging from A1 which has two touch screens and Freephone helplines taking up four metres of wall space to the D category which just provides an over the counter service for 'Your Guide'. Three factors are used in deciding how to categorise a post office:

- Available space
- Footfall
- Trading hours

All the indications are that the pilot has been a great success and as a result the Post Office wish to roll out the service across the UK sooner rather than later. The funding for the installation of the equipment, the training of sub postmasters and mistresses and the recruitment of 'Change Agents' who are available to familiarise customers with the new service has come jointly from the Government and Consignia.

There seems to be a significant overlap between this service and other initiatives that are currently being pursued in Wales, for example a number of local authorities are actively pursuing the introduction a local authority based information system and ELWa are looking at the provision of IT based access to learning opportunities in the community. As was displayed at the beginning of their report the Post Office Network is unrivalled in coverage in terms of retail outlets and of the other networks identified is by far the easiest to co-ordinate. The other significant advantage, of course, is that the basic communications infrastructure which would facilitate a speedy introduction of the system has already been put in place through the Horizon programme.

3.26 Capital Fund

The Government has made available a £2million fund specifically to assist in meeting the capital costs of developing or modifying sub post offices in communities where the outlet would otherwise founder. The grants will be administered by Post Office Ltd. and are specifically targeted at capital costs.

The detailed guidelines are as follows:

The scheme has been introduced to provide an additional source of funding to assist in circumstances where a rural post office branch has recently closed, or is likely to close, and where, but for the payment of a subsidy, it appears likely that the community in question would lose its post office branch permanently. The scheme is not intended to replace existing sources of grants, but provides an additional source of funding in cases where the associated set up costs cannot be met from elsewhere.

The scheme creates a fund of £2million, from which payments not exceeding £20,000 per application are available. For an application to be successful, all of the following initial criteria must be met:

- *A sub post office in a rural settlement has closed within the 18 months preceding the making of the application for a payment; or it appears that an existing sub post office in a*

rural settlement is likely to close within six months but for the making of a payment.

- *It appears that, but for the making of a payment, no replacement sub post office will be established in that settlement.*
- *The reopening of a post office in that settlement would not adversely affect other sub post offices in the vicinity.*
- *There is a suitable person willing to act as sub postmaster or mistress in respect of any proposed replacement sub post office.*
- *The settlement in question has a population of fewer than 10,000 inhabitants.*

As implied in the name of the scheme, subsidy is only available towards the costs certain defined eligible items required for the re-establishment or continued operation of the post office branch in question. Examples of eligible items are:

- *Building works and structural alterations*
- *Installation of partitions, screens, counters and store cupboards*
- *Improvements to the means of access to the premises*
- *Redecoration and making good of the premises*
- *Provision of fixtures, fittings, furniture and equipment*
- *Provision of water supply, electricity supply, telephone lines, and other services to the premises*
- *Costs of obtaining planning permission, building regulation approvals and other consents and approvals*
- *Legal costs and other professional fees*

Applicants who believe that they may qualify for a subsidy from the scheme must complete and submit an application form, the contents of which will be verified and adjudicated against the defined criteria. Successful applicants will of course be required to produce documentary evidence at various stages of the process, such as estimates, invoices, receipts etc.

Source: Post Office Ltd

If all the grants were made at the maximum grant level of £20,000 then a total of only 100 initiatives could be supported throughout the whole of the UK. If on the other hand the Welsh 'consequential' of 5% is applied as a guide to the level of support available in Wales then only £100,000 will be available which at a maximum level of £20,000 per grant would only support 5 community post office initiatives in Wales. To date three applications have been received from Wales of which one has already been approved.

The availability of this type of funding support is essential to the future of post offices where financial viability is marginal. European funds are, of course, denied to retail activity except where it is structured through a community owned initiative. This may well be appropriate in some circumstances but equally it may well not be the most appropriate structure.

The MORI/ERM survey for Postcomm asked customers what future services they would like to see.

Table 10 Services residents say they would use			
	Rural %	Urban deprived %	Closure % *
Cash machines	60	50	60
Travel info (bus/train timetables)	42	35	46
Picking up undelivered parcels	41	33	42
Ticket sales (travel / local events)	37	29	38
Paying council tax	34	36	29
Registration of births/deaths/marriages	26	24	27
Prescription collection / health info	26	22	29
Information on local facilities / services	25	20	24
Basic bank accounts	25	22	23
Information on jobs / training	24	26	26
Report crimes /lost property / pay fines	20	17	20
Central and local gov'n't forms / advice	19	15	15
Arranging CAB advice	19	23	17
Info on grants (education / housing)	15	16	15
Internet access	12	10	10
Submitting tax / VAT returns	11	5	15
Ordering / collecting library books	11	10	12
Other standard bank accounts	10	6	10
Investment / pension products	10	8	11
Internet shopping and delivery	9	7	10
Business accounts (not Girobank)	5	2	2
Source: Postcomm report 2001 / MORI/ERM survey			

* survey undertaken in communities which had experienced a post office closure

Recommendations

⇒ **That the introduction in Wales of 'Your Guide' should be implemented at the earliest opportunity.** If this is not possible at a minimum there should be sign up to the principles of 'your guide'. **That specific measures should be taken to ensure that the maximum benefit is gained in Wales from the introduction at an universal 'information point' system.** This might be achieved by the bringing together of all public agencies (such as ELWa, local authorities and the Welsh Assembly) with companies in the planning and implementation of 'Your Guide'.

- ⇒ **That the Welsh Assembly should consider topping up the capital grant scheme and that grant approvals should be dependent on satisfying the requirements this report recommends for a strategic approach to development and support of rural retail services.**

- ⇒ **In order to achieve a strategic approach to the future location of post office services in Wales the possibility of adopting a different approach to closures in Wales should be explored. This should only be on the basis of a system which permitted planned closures where the closure could be clearly shown to be within an overall strategic approach to securing postal services in a given geographical area.**

- ⇒ **All agencies and organisations with a role in supporting (which includes local authorities, community councils, WDA, ELWa, the farming unions and the private and voluntary sectors) rural communities should be actively encouraged by the Welsh Assembly to engage with Consignia through their Rural Transfer Advisers. The aim of this engagement should be to continue to seek innovative approaches to securing rural post office services in the future.**

- ⇒ **Postmasters and mistresses should be eligible to benefit from the Community Entrepreneurs proposal set out in a later recommendation.**

4. Community Council Survey

- 4.1 As part of the study a survey of 600 Community Councils in Wales was undertaken. These Councils were in local authority areas that are predominantly rural.

There were insufficient resources to do a follow up of non respondents. However, even without this 143 Community councils responded, a 24% return rate.

Population	Number of returns	% of total
0 – 500	24	16.8
501 – 1000	50	35
1001 – 2000	30	21
2001 - 3000	11	7.7
3001 +	28	19.5

- 4.2 A considerable number of the over 3000 population returns were from larger towns in predominantly rural areas such as Ruthin, Blaenau Ffestiniog and Menai Bridge.

The Councils were asked whether any retail services (shops/garages/pubs/post offices) ceased trading in the past five years. The responses are shown in table 12 below.

Population	Yes		No		>5 yrs	
	Number	% of pop. group	Number	% of pop. group	Number	% of pop. Group
0 – 500	11	46	9	37.5	4	16.5
501 – 1000	34	68	16	32	-	-
1001 – 2000	19	63	11	37	-	-
2001 – 3000	8	73	2	18	1	9
3001 +	19	68	9	32	-	-
All	91	64	47	33	5	3

- 4.3 The Councils were asked to provide narrative on the type of retail outlets that had closed and when. A clear trend emerged. The smaller the Council's population the older the closures and the more likely the closure was a basic service such as a post office or general store. The respondents with larger population bases reported closures of more specialised stores such as butchers, clothes' shops, opticians or newsagents.
- 4.4 The Councils were also asked to describe the sort of responses to closure of retail services they had made. A range of activity was identified with the following by far the most common:

- Making contact with other agencies

- Lobbying for rate relief
- Attempting to secure greater local support for use of the retail outlet
- Seeking support of local MP / AM
- Establishing action groups / calling public meetings

4.5 The Councils were asked whether they had specifically discussed/considered the issue of the future of retail services. The responses to this question are shown in Table 13 below.

	Discussed issue		No discussion		No response	
	Number	%	Number	%	Number	%
All	53	37	84	59	6	4

A very basic postal questionnaire, as this one was, might not be expected to return the highest quality information on which to make accurate judgements. However, the percentage, 59%, of Community Councils that reported they had not specifically discussed or considered the future of retail services in their area raises some important issues. First, more detailed work should be undertaken to establish what role Community Councils believe they should play, second a clear steer should be given to Community Councils as to what role they can and should be playing and consequent to this the capacity of community Councils to undertake specific activities should be addressed. The need to do this is underlined by the role that Community councils often play in campaigns for the retention of rural retail services once their demise is known.

4.6 When the responses are broken down further to show the relationship between those who have or have not discussed the issue and those who have and have not experienced a closure in the past five years a correlation appears, as one would expect, between experiencing a closure and considering the issue of the future of retail services with 77% of respondents which reported discussing the issue also having experienced a closure in past five years. On the other hand of those reporting that no discussion had take place 55% also reported a closure. This further reinforces the need to clearly set out a remit for Community Councils in respect of planning the future for rural retail services.

	Discussed issue		No discussion	
	Number	%	Number	%
Where closure reported	41	77	46	55
Where no closure reported	12	23	38	45

- 4.7 On the plus side is the direct relationship Community Councils have with the communities they represent and the key role they have played in successful initiatives in the past. There is also often an overlap between individuals who are active in initiatives to save or resurrect a retail service and those who serve on Community Councils.

On the minus side are the capacity challenges faced by Community councils in becoming actively engaged in strategy development and implementation. This is further exacerbated by the level of resources at their disposal.

Recommendation

- ⇒ **That consideration be given to identifying a clear role for Community Councils and community groups in planning the future of rural retail services in the context of overarching strategies at a local authority level. Any new roles would clearly need to be supported by local authorities and other appropriate agencies.**

- ⇒ **This role might include:**
 - **Responsibility for gauging local opinion and support for specific retail services**
 - **Acting as the focal point for any community based initiative**
 - **Engagement in the strategic approach to clustered services development recommended later in this report.**

- ⇒ **In order for Community Councils or community groups to develop their role in this way the level of resources and capacity required would have to be considered and addressed.**

5 The future of rural retail (non postal) services

5.1 It is self-evident that rural retail outlets other than post offices are also under considerable pressure. The essential reasons are not difficult to establish. They can all be grouped within the overall characteristic of lack of 'footfall', which is quite simply the term for the number of people entering a retail unit rather than the number of people making purchases or the scale of those purchases. There are again obvious reasons for this and its continuing decline. They include:

- Depopulation
- Falls in disposable incomes
- Impact of supermarket shopping opportunities
 - Cost of goods
 - Variety of goods
 - Quality of goods
 - Variety of goods
 - Shopping environment
 - Convenience

It is also very important to understand the complexities involved in retail trading. As a sector it is particularly vulnerable to external influences most notably the power of advertising and promotion which influences the consumer both in terms of purchasing choices and the specifics of the purchase, such as price and brand. It is a highly competitive sector and increasingly subject to the influences of Information and Communication Technologies.

5.2 Retail knowledge, experience and expertise are concentrated in the hands of a few and where available on the open consultant market is very expensive to access. Even where it is possible for the public sector or an independent retailer to access specialised expertise a vital ingredient is often missing – up to date collective retail experience gained over a long period of time of the specific or generic circumstances that a particular retail outlet might be expected to encounter due to geographic, social or economic circumstances. This experience and expertise is held by the multiples and is generally regarded as commercially sensitive and used as the basis for securing competitive advantage.

Consequently in depth expert retail advice is sparse in the public sector and we have only been able to identify a limited level of support and then only to a certain level of expertise. This is by no means to decry the nature of the support offered but much more an inevitable outcome of the circumstances outlined above.

5.3 A critical factor in the future of rural retail services is the role they play in the community which is incidental to their trading activities. In many senses this role characterised by anecdotal evidence and subjective analysis though there have been statistically robust surveys, not least

of which is the Postcomm ERM/MORI survey work referred to earlier in this report, which point to this incidental role. It is one where the retail outlet, or at least its existence, becomes identified as the focus for a community, its focal point for community identity.

The reasons for this are not difficult to identify. Many small rural communities have over recent years lost their traditional focus for community identity or activity; the village school, the village hall or the regular weekly religious ceremony. In these circumstances it is easy to understand why the post office or the shop become so central to community identity. Equally as important in these circumstances is the individual shop keeper or postmaster or mistress. Again they assume the mantle of community focus. It is difficult, on the one hand, to quantify the importance of their roles and on the other easy to underestimate it.

This report makes a number of recommendations that specifically relate to the role played by these key individuals and the support they should, perhaps, receive.

5.4 Mapping rural services

In undertaking this study it quickly became clear that there is a lack of detailed information in respect of the level and geographical location of retail, or indeed any other, services in rural Wales. It was well beyond the resources available to the study to even attempt to tackle this issue. It would be possible to start to put together such a 'map' through agencies and organisations such as Consignia or Health Authorities or the Police Service or private sector retail multiples but the end result would not be fully comprehensive.

5.5 In England the picture is different. The Countryside Agency which is the statutory body in England working:

- to conserve and enhance England's countryside
- to spread social and economic opportunity for the people who live there
- to help everyone, wherever they live and whatever their background, to enjoy the countryside and share in this priceless national asset

has over a number of years undertaken surveys of rural services in England culminating in the 2000 survey which was the most sophisticated and detailed one to date. In England it is now possible to see a map of the location of a wide range of rural services including:

- post offices
- banks and building societies
- cashpoints

- general stores, village shops and supermarkets
- petrol filling stations
- public houses schools
- village halls and community centres
- hospitals
- doctors' surgeries and health centres

The survey itself includes a great deal of information taken from postcoded data which enables the Countryside Agency to give almost 100% accurate data for particular services. This is underpinned by a parish questionnaire which in the 2000 survey had a response rate of 67%.

The Countryside Agency then applies geographic information system (GIS) technology to the results of both the parish survey and the post-coded information to provide an accurate assessment of the geographical availability of services to individual settlements and households. Significantly GIS is a key component used by the larger multiples (see below) when making commercial decisions on the location of convenience stores in rural areas.

- 5.6 This report has no intention of opening up the debate about whether there should be a dedicated agency supporting rural Wales in its entirety in Wales. However the level of information that is available in respect of the location of services in rural England is significantly greater than that available in Wales. If, as this report recommends, there should be a strategic approach to support for rural retail services in Wales in the future then a basic requirement for such an approach is detailed and accurate information.

Recommendation

⇒ **That the Welsh Assembly should undertake comprehensive biannual surveys of rural services along the lines of those undertaken by the Countryside Agency. The aim should be for the first survey report to be completed by the end of 2004.**

5.7 Partnership with the private sector

Whether it be a shop run by a couple who retired to rural Wales to pursue a certain lifestyle or a younger couple with children who are tenants of a rural pub or the brewery chain which owns the pub or a retailer who has contracted with a wholesaler multiple or that wholesaler they all have one thing in common they are fairly and squarely part of the private sector.

They also and always will significantly outnumber any outlets in the community owned retail sector, though there is no particular reason why a community owned retail outlet should not for many purposes be

seen as part of the private sector as it is subject to the same pressures and demands in terms of trading.

5.8 One other thing is equally clear the private sector cannot afford to abandon retailing in rural areas. The issue that remains for the private sector is how to ensure that the financial bottom line is such that retailing in rural communities in some form or another continues into the future. Notwithstanding the commercial constraints that are placed on the private sector they are increasingly recognising their social responsibilities, the part their service plays in the community and the other incidental benefits. This is all the more evident where the private sector sees an opportunity of developing its 'community', social responsibility, role whilst at the same time deriving a positive impact on the trading position.

5.9 In the main the initiatives being taken by the private sector to address trading challenges in rural communities fall into two categories:

- those that address the physical nature of the retail outlet
- and those that work with the retailers individually and collectively

Physical: These range from complete store redesigns such as Spar's 'millennium store' though to pubs making use of under utilised spaces. They invariably include new uses of spaces for non-retailing activity such as the community notice board in Spar's 'millennium store' or Unique Pubs' (a chain of pubs owned by Nomura) encouragement of community based activity taking place within the pub.

People based: Increasingly private sector multiples are recognising that they have a valuable asset in the people running the retail outlets. Some of these will inevitably be more likely than others to develop new ideas for increasing 'footfall'. Through mentoring and peer support schemes these people can be supported in their efforts and others who, for whatever reason, are not so innovative or entrepreneurial can be encouraged to become so through seeing ideas in action and most importantly their commercial benefit.

Two examples of the efforts being made by large multiples are Sainsburys and Spar. The large supermarket chain Sainsburys launched in 1998 an initiative to support rural retail outlets. Their SAVE scheme (Sainsburys Assisting Village Enterprises) has linked Sainsburys to the Post Office and the National Federation of Sub Postmasters with the aim of increasing the purchasing power of post offices and village stores. The scheme allows village shops to stock products from Sainsburys which are often available through this source cheaper than they would be through a cash and carry. Sainsburys is aiming to increase the number of village shops and post offices which can buy their goods to more than 600 by the end of 2002.

Sainsburys Group Chief Executive commented on the scheme saying, 'The viability of the rural economy is a major concern for Sainsburys.

'We are active within rural communities as a large purchaser and we also want to be involved in maintaining the services available to those communities.'

- 5.10 Spar is the biggest retailer in the world in terms of number of outlets. Spar's own surveying indicates a 96% recognition rate of the brand name and 74% of the population live within three quarters of a mile of a Spar shop. Significantly 55% of all Spar customers live within one quarter of a mile of the shop. They are the biggest chain of off licences in the UK and now are home to over 400 post offices.

The structure of Spar is interesting in the context of the relationship between individual retailers and the brand. Spar as an organisation is in effect a marketing co-operative where the members are the individual retailers and six wholesalers throughout the UK.

Retailers pay a Guild fee and it is these Guilds, based on the geographical coverage of each of the wholesalers, which make the decisions on how the marketing resources are used.

- 5.11 There are two types of contract which individual retailers enter into with Spar. The first is voluntary and informal and in these circumstances Spar, through the wholesaler, invests very little. On the other hand often quite significant investments is put into a shop on the basis of a formal contract. This investment will be based on the wholesaler's view on the financial viability of the store on a case by case basis. Spar, as with other retail multiples, employ a sophisticated modelling system to establish the viability of a store. It relies heavily on GIS (see above), includes 17 factors which determine the potential to generate turnover and crucially involves the experience of other outlets in similar locations being taken into account. This experience is, of course, never static, and as such is able to take account of changes in demography and customer purchasing behaviour.

For the individual retailer the benefits are easy to seem as they would be with any other similar multiple such as the Co-operative group, Londis or Mace:

- Spar takes responsibility for marketing leaving the shopkeeper to maintain the relationship with staff and customers.
- Finance through the wholesalers often takes a long term view which in turn means that better account can be taken of varying levels of turnover.
- Individual retailers have access to sophisticated retail support and advice.

- 5.12 Spar wholesalers, as the other multiples, actively encourage local sourcing of products. The simple commercial rationale behind this is that people relate well to local products particularly where they are fresh goods and by sourcing locally it further reinforces the place of the shop within the local community.

In preparing this report discussions were held with the deputy Managing Director of AF Blakemore and Son which is the Spar wholesaler covering Mid and North Wales. He drew attention to another important aspect of sourcing locally in that it can introduce a new product to a wider market with the local shop acting as a gateway. Just this process is occurring now with a food producer in North Wales who was supplying the local Spar shop with a quality product and as a result the wholesaler is working with the producer to increase output and distribute the product throughout all the wholesalers area.

- 5.13 This local or community focus is a strong and recurrent theme in all convenience store multiples.

As far as Spar is concerned it is most evident through its 'keep it local' campaign. Again this works at two levels, as a marketing tool for the brand and as means of directly supporting individual retailers. As has already been stated much of the commercial advantage held by multiple such as Spar is based on their experience and expertise. Critical to building this up is gaining information about customers. As part of the 'keep it local' campaign Spar produces customer questionnaires which help it build up information on customer wants and demands. The retailers are encouraged to secure completed questionnaires by being guaranteed coverage in the local press (secured through the work of Spars central marketing functions) if they get 20 questionnaires completed.

- 5.14 Having said all this the decision whether to take on a retail outlet and make consequent investment is purely a commercial one. In order to improve the chances of survival or to increase turnover Spar have developed a range of activity which are both physical and people based:

- internet trading pick up points
- the Millennium store design which includes community information points
- study tours for retailers
- national and international retailer conventions

As an indication of the number of people a Spar shop needs to get through the door the average value of a Spar shopping basket is £4

There are obvious advantages to linking independent retail outlets into the convenience store multiples. A key factor to this is the wholesaler's minimum drop (delivery) levels and whether a drop is part of convenient delivery route. The marginal costs of making a drop are small if the retail outlet is en route to an existing delivery point.

5.15 In looking strategically at the location of retail outlets in rural Wales it may well be sensible not only to look at clustering services under one roof, which is discussed later, but also at clustering within an area or along delivery routes. This might involve the provision of a central drop off and holding point for certain goods, such as fresh produce, which is expensive to store which then acts as a hub for a group of small rural retail outlets. It might also involve the public sector in pump priming the survival of small outlets through providing finance to purchase properties which are owned collectively by an organisation with a strong community focus which then enters into a supply agreement with a wholesaler for all the shops rather than just one. In this way it may well be possible to retain shops which are on the margins of viability and plug in to all the advantages of a relationship with a convenience store multiple.

5.16 We propose that efforts are made to work more closely with the private sector. This should include active consideration of providing public support for individual retailers to access private sector led support schemes. A more difficult task but one that we believe should be pursued is an attempt to co-ordinate the intended private sector initiatives with those being undertaken by the public sector.

The larger scale private sector retailers operating in the rural economy of Britain are actively developing initiatives to address the challenges posed by the need to increase 'footfall' in rural areas.

In the case of pubs this concentrates on either needing to maximise the publican's income in order that tenancy or management of rural pubs remains attractive or to ensure that something as basic as dray deliveries remains economically viable. This is the same issue as for wholesale multiples such as Spar and outlined above. A network of delivery points is necessary to make the cost of delivery economic.

Recommendation

⇒ **An advisory group made up of representatives of the private retail sector, including the post office should be established. Its remit should include the following:**

- **Consideration of the wider impact of the introduction of a range of 'footfall' measures by a retail outlet in the context of the effect they might have on other services in the immediate area and on the community in general.**

- **Brokerage of partnership solutions between a range of separate private sector service providers.**

⇒ **If such a group were to be established then it would obviously need to be very closely linked with the existing and any new rural retail support structure in Wales.**

⇒ **That consideration be given by the Welsh Assembly to providing funds to enable an initiative with the following characteristics:**

- **Purchase of retail outlets which would otherwise cease trading.**
- **Retail outlets owned by an organisation with strong community focus.**
- **Network of retail outlets contract with a convenience store multiple.**
- **Any profits derived applied in the following ways:**
 - **Contribute to future purchasers.**
 - **Investment in the business.**
 - **Investment in the community served by the owned shops.**

⇒ **As a first stage this would be best approached on a pilot basis with, perhaps, two pilots in strategic locations. The concept of clustering as a route to achieving sustainability amongst rural retail outlets should only be implemented if as a result of the evaluation of the pilots:**

- **It is established that it would result in a self sustaining network of retail outlets and**
- **No private sector led response is forthcoming.**

5.17 The most important advantage of a strong private sector influenced approach is that it should secure commercially driven responses where appropriate and achievable and therefore significantly assist in identifying those instances where other approaches were required.

5.18 Measures to increase 'footfall'

If 'footfall' is the key that unlocks a future for rural retail services then what are the specific measures that will achieve this aim? The sorts of 'footfall' initiatives now being pursued are reasonably well known. They include:

- **Information technology**
 - **Using existing buildings in the community, which may or may not be housing retail services, to offer access**

to the internet or email communications. They also offer access to internet based shopping opportunities.

- Pick up / drop off
 - Using existing buildings in the community (same applies as above) to act as a drop off or pick up point for goods purchased over the internet or by catalogue in circumstances where a presence at the delivery address is problematic.
- Non related activity
 - Using existing buildings in the community (same applies as above) as a place to meet or undertake a leisure activity. Pubs are increasingly a good example of this.
- Joint trading activity
 - Using existing retail outlet such as a shop or pub to house a second, or more, retail service such as a post office.

All these activities have a common theme in that they bring together services under one roof. They are commonly known as 'clustering', and 'tandem outlets' or 'operations' where outlet refers to the premises and operation to the delivery of services.

5.19 The most common example often quoted is the Irish pub which also houses another retail activity. A pub in Ireland might include grocery provision, a hardware store, a butcher or a post office. The concept is simple, it works and is growing in popularity in Britain and indeed in Wales.

Earlier in this report the growth in clustered services bringing together post offices with other retail outlets was identified.

Equally there is growing interest and development in and of community owned and controlled facilities that include some form of retail activity.

5.20 The Countryside Agency has done work on the joint provision of services in England producing reports on the services themselves and their costs. The reports concentrate to a large extent on the joint provision of public services but do include some retail services and the conclusions they draw are equally relevant to rural retail services.

The Countryside Agency's report, 'The joint provision of services 2000' followed up a similar 1997 report. Each report looked at the same case studies in three English Counties, Norfolk, Nottinghamshire and Cumbria. The conclusions the report draws are as follows:

- **People at the sharp end are crucial.** The local manager, proprietor or key individual must have special qualities such as

flexibility and inventiveness to keep the two or more services running. An element of 'community ownership' is also required, of people feeling part of the outlet's operation and viability.

- **Policies and attitudes of non-local stakeholders**, such as brewery chains, petrol companies, wholesaler multiples or the Post Office are very important.
- **The characteristics of the premises** used have crucial implications for success and development over time.
- **Imaginative and practical use of ICT** (Information Communication Technologies) is identified as a key characteristic of success.
- **No tandem outlet is an island.** The impact that clustering services in one set of premises in one location has on other services and other communities should not be underestimated and is considered in greater detail below. Equally tandem outlets are vulnerable to just the same pressures as single purpose outlets just less so.

The report identifies four arguments in favour of clustering services:

- Economies of scale
- Synergy
- One stop shops
- Flexibility

5.21 In a parallel report looking at the costs of joint provision some equally important conclusions were reached which need to be properly considered when looking at what support mechanisms might be developed for clustering rural retail services.

The report identified clustered services in terms of the guest and the host and points out the obvious in that for joint provision to work, it has to be attractive to both the host and the guest.

From the host's perspective where a local service provider has some spare resources (for example, space) it is frequently advantageous to allow another service provider to make use of them and that joint provision is generally an attractive option for community centres and the like.

From the guest's perspective:

- The remit of joint provision is usually to provide a service at a more local level than would otherwise be financially possible

- In most cases, the joint provision necessarily has to have low overall costs because of the small catchment population
- Jointly provided local services are usually (but not always) cheaper than the equivalent standalone provision, because joint provision entails a more efficient use of resources
- Mobile provision can be cost-effective if the priority is to deliver a minimal level of service, but it is not if the intention is for a service to operate for more than a few hours a week
- Currently, local, joint provision is usually a supplement to existing central provision. The main alternative is not to have the local service at all, depending on whether the additional costs are worth the benefits to the local population and manageable to the service provider
- Local, joint provision can, however, potentially also substitute for existing central provision, if implemented on a large scale. In such cases, the main alternative is to keep all of the service centralised and the basic financial issue is the comparative costs.
- Capital costs are usually less of an issue for the long term viability of joint provision in that they typically depend on the availability or otherwise of a pot of external money.

5.22 The cost issues that have to be addressed by the guest and host are different. For hosts accommodating the guest service might only be a small part of their overall activity and costs. It is financially attractive to them if it at least breaks even.

For guests the issue of joint provision is much more fundamental as they form the entirety of their costs. The financial attractiveness of joint provision, therefore depends on its overall financial viability and cost-effectiveness.

The basic financial equations set out in the Countryside Agency's report for hosts and guests are as follows:

Host's net surplus/deficit equals income from the guest service provider/s
 less additional costs that result from being a host

Guest's service's net costs equals charges levied by the host
 plus other costs incurred in providing the service
 less any income the service secures

5.23 The case for clustering services is well made and all the evidence points to the positive impact it can have on retaining retail services at a more local level than would otherwise be the case. It is a trend which should be encouraged and supported. It is a trend, however, which is not exclusively public sector driven. Indeed the reverse is most certainly the case with a wide range of private sector retailers developing and implementing clustered services initiatives. Therefore if the public sector is to play a role in promoting and supporting the

clustering of services it can only do so with the full involvement and engagement of the private sector.

- 5.24 Strong though the arguments for clustering services are the implications of the success of any particular initiative must be fully understood and their impact properly considered. Any initiative which increases the footfall in one retail outlet whether it is providing a single or clustered service will eventually have an effect on another service. It is this very simple law of competition that has led to some of the problems currently faced by rural retail outlets. As the supermarket chains open stores in Aberystwyth, Newtown or Cardigan and embark on sophisticated footfall initiatives then inevitably it will have a detrimental effect on footfall somewhere else. The same impact and one which is likely to have a similar effect is likely to be felt if a smaller retail outlet introduced effective footfall initiatives.

It is particularly important that the flip side of any successful public sector financed footfall initiative is fully taken into account in the process of assessing and agreeing the placing of public funds or support in any particular initiative. Clearly this is not an issue for the private sector but might well become one if there was a greater engagement of the private and public sectors in this area particularly if public sector funding was made available for private sector led initiatives.

Recommendation

⇒ **That a strategic approach to the development of clustered retail services be established based on the detailed information derived from the study that has been recommended earlier in the report. This strategic approach could be led and driven by:**

- **WDA**
- **Enhanced Community Councils**
- **Local Authorities as part of their statutory requirement to produce overarching community plans or as a result of new detailed planning guidance which required a different approach to support for rural retail development initiatives.**

⇒ **This approach would have to fully involve:**

- **The private sector**
- **The voluntary sector and the wider social economy**
- **The wider public sector**
- **Other key agencies such as the Post Office**

As planning partners and potential deliverers

- ⇒ That there should be incentives for the private sector to become actively involved in strategic clustering of retail services though the availability of pump priming capital monies. This financial support could be directly linked to any top up of the rural post office capital grant scheme as proposed earlier.
- ⇒ That the Welsh Assembly continue to recognise the need for capacity building within communities and ensure that appropriate programmes provide opportunities for owners and their employers of rural retail outlets and are aimed at building their capacity as catalysts for community activity and development. Programme would require the following elements:
- Mentoring and peer support.
 - Training
 - Exchange of best practice through:
 - Study Tours
 - Seminars/Conferences.
 - ICT and more traditional media.
 - Support to enable retailers to access existing private and public sector schemes.

5.18 Separating the distinct roles of rural retail outlets

Retail outlets in rural Wales operate within a range of commercial viability:

1. those that are thriving, profitable businesses employing people and securing a good living for their owner or tenant
2. those that operate on small margins but are sufficiently profitable to meet the particular demands of the particular owner or tenant
3. those that require specific 'footfall' initiatives in order to secure some form of future
4. those that require some form of cost of sales subsidy in order to make them sufficiently profitable to survive in one form or another
5. those that in effect require retail price subsidy in order to keep them afloat

In (1) and (2) the private sector operates comfortably. In (3) there is a role, as previously identified, for both the public and private sector to provide support which is commercially driven and leads to medium and long term sustainability. In (4) the issue is what form the subsidy should take, how it is delivered and what nature of retail unit ownership (independently owned / community owned / public sector owned) should be eligible for such public resource support. In (5) the key issue

is whether they should be supported in any way at all through public resources.

5.19 These circumstances have led us to two conclusions:

- That there needs to be 'bottom line' commercial criteria against which judgements are made on whether it is appropriate for public resources to be employed
- That as a result of the fall out from the above there should be a clear recognition that rural retail outlets provide two distinct services: a retail service and a wider community service and that these need to be decoupled in circumstances where the retail element has been deemed to fall below the commercial viability 'bottom line'

This latter conclusion has some important implications for public policy and resource allocation.

5.20 If we accept that it is not the proper role of the public sector to become the shopkeeper then it is essential, in our view, that the public sector recognises its role in ensuring that the other wider community service that the retail outlet has been providing is properly within its remit.

This part of the service includes:

- a focal point for community activity
- a key individual who can act as a catalyst for community activity
- an information point
- and something as basic as giving a community the feeling of being a community.

If the principle of decoupling the duality of role is accepted then the issue that remains is where in the public sector does responsibility for this community function properly lie.

Our view is that this activity would appear to fit very well within the responsibilities of Local Authorities. It is difficult to see how it could properly lie with agencies whose core remit is to assist in the process of increasing the GDP of Wales.

5.21 A further consequence is how you deal with the access to goods and services that will have disappeared. This is in some senses both the easiest problem in that it will inevitably involve a limited number of people (were it otherwise then the retail service would have had a better chance of survival) and the most difficult of problems as it involves access to retail services for the most marginalised in Wales' rural society, for example the old, the disabled and those without private transport.

Recommendation

⇒ That a clear priority is established by the Welsh Assembly in respect of the public sectors role in supporting retail activity and that the policy should encompass the following:

- Recognition that it is not the proper role of the public sector to act as a retailer or directly support non viable retail services.
- Recognition that community function of the public sector and that where they are threatened direct to a retail outlet closure an action plan should be developed led by the local authority or community council in respect of the future focus of community activity.
- Recognition that specific public sector funded initiatives are required to ensure access to retail services for those who are disadvantaged by distant services. This might include:
 - Regular transport links.
 - Home delivery schemes.

6 Provision of support services

- 6.1 A specific organisation exists to support rural retailers. Virsa (Village Retailers Service Association) was established 10 years ago by a retailer faced with the closure of their village store. In this case the community took over the store and now run it as a community owned resource. On the basis of this experience it was decided that Virsa should be set up to assist communities facing a similar predicament. It is based in Dorchester and has developed its network, to date, throughout England. It is only recently that that Virsa has become active in Wales and committed resources to Wales. It works closely with the Countryside Agency in England and now has a network of retail advisors throughout England.
- 6.2 It is Virsa's view that there is a lack retail advisors in Wales which are able to provide advice and support to small, rural village stores. In order to address what they perceived as this gap in support services Virsa now employs two part time development officers in Wales, one based North Wales and the other in Brecon. Their roles are:
- i) to inform public bodies of Virsa and to promote the work of Virsa through these bodies.
 - ii) to work with community groups and individuals who are facing the closure of their village store by providing business development support, basic retail advice and handholding.
 - iii) To advise private individuals who wish to set up new village stores or take over existing stores.
- 6.3 Virsa point to a number of examples of successful rural retail initiatives which have a strong community focus and which could be replicated across Wales if the appropriate support was available:
- Llanbrynmair post office and store had introduced internet access for the community to use as part of the services it was able to provide. Although the store was then put on the market, because customers had been retained and the there was a market, a private sale was made.
 - In Sennybridge the Shoe Makers Arms has been successfully purchased by the community.
 - Llanbadarn Fynydd is an example of the community managing a range of services – the garage is owned by them and they have a portacabin where the store is based and a large community hall houses a telecentre.
 - In Llangunllo, near Knighton, the village shop owner died and although the shop was not re-opened as before, a group of community volunteers opened a part time shop in the front room

of the local, privately owned, pub. The store sells local produce and buys other products from the supermarkets where they have identified 'best offers' (2 for 1 etc). A part time post office service is also available where the postmaster from a neighbouring village will come to the store 2 days per week. The shop is open most mornings and a couple of afternoons and they pay a weekly rent to the pub owners.

Virsa has a joint project with Sparc (the South Pembrokeshire LEADER group) in West Wales that has developed a training programme for retailers and small village stores owners. This programme has been recently piloted in Pembrokeshire. Training is seen by Virsa as an essential element of securing the future of rural retail outlets.

- 6.4 Although Virsa itself is not a membership based organisation it has established the Rural Shops Alliance (RSA) which will aim to bring together rural shop owners. The RSA will work with post offices and the larger franchise operations such as Londis and Spar to jointly develop new ideas and provide support.
- 6.5 An example of targeted support for rural retail outlets is the Countryside Agency's Vital Villages Programme which provides a package of financial support to deliver to community based retail projects or the expansion of existing businesses, the maintenance of threatened businesses or the creation of new retail services. A total of £48 million is available. The types of support available includes £7,500 to a community to help them set up a community shop and post office and individual grants of up to £25,000 are available from a Community Services Fund.
- 6.6 The need for proper business support and retail specific training is high within Wales. Many of the existing stores simply do not have the know how to provide the products and services that their potential customers require and basic retail training should go a long way to changing this. Increasing the retail knowledge in both stores and post offices is seen as key to successfully maintaining these in rural villages.

Where a retail outlet is linked to a wider network such as Spar or Londis or the Post Office or a brewery then to a greater or lesser extent this support is available. It is certainly developing as these organisations recognise the need to develop the skills of individual retailers. Where the outlet is independent the availability of support is significantly less.

- 6.7 Business Connect in Mid Wales do employ 2 retail advisors and a similar service is available in North Wales. They cover all aspects of retail advice and tend not to include community owned services. Other organisations such as the Leader groups and Enterprise Agencies can provide limited specialist support. However, we have not been able to identify any significant level of specialist retail advice available to the

independent village retailer. It would appear that there is no village store specific advice available other than through Virsa's and they tend to respond to enquiries on a 'fire fighting' basis with little or no resource to become pro-active in the provision of support.

- 6.8 We suggest there are two options in respect of the provision of further advice and support to rural retailers. First, rather than attempt to establish high quality expert retail advice capacity within the public sector business support agencies that is also able to deliver services across the whole of rural Wales it might make more sense and be more effective to identify an appropriate organisation to act as a single point of contact.

This would mirror the current thinking in business support whilst recognising that the retail sector requires a considerable degree of specialised support on matters including product range, store design, distribution and product pricing.

- 6.9 The location of this access point is a matter for discussion. However, there seem to be three obvious homes; the Welsh Development Agency, the Welsh Assembly or another business support agency. It might also be an appropriate function for local authorities.

Our view is that the WDA is best placed to take on this role for the following reasons:

- There is a natural fit with many of their other activities such as:
 - Agri food support
 - Development of new technology initiatives
 - New business support mechanisms
- As an all Wales body it has the ability to ensure equity of access and consistency of supply

The basis on which it would undertake the role would, we believe, have to be directly linked to the issues of commercial viability which have been explored above.

- 6.10 Second is secure similar services from a third party organisation or organisations working in partnership together with a greater level of direct retail advice and support with an agency such as the WDA acting as the contract manager. In these circumstances the Welsh Assembly Government would develop the overarching strategy and provide the funding. The WDA would develop a detailed service provision specification and invite organisations to tender for the service delivery contract. This would mirror the relationships that are emerging in the revised Business Connect structure and process.

6.11 In both options the service provided would include:

- **Provision of some advice and support directly.** One significant advantage of the single access point approach is that over time the retail expertise capacity of this service will inevitably grow and to some extent address the expertise 'gap' in the public sector that has been previously highlighted. The extent of advice and support could differ significantly between the two options.
- **Research, collation and dissemination of practice (both good and bad).** Through the conduct of this study it has become very clear that a good deal of work has already been done in identifying ways and means of supporting rural retail businesses and more significantly it is growing all the time. This work is not just research and report based but perhaps more importantly, includes the implementation of a great many initiatives. It is important that equal attention is given to private and third sector as well as public sector led initiatives. It would be a great waste not to take advantage of this work and have some mechanism of bringing it all together and making it available throughout rural Wales.
- **Signposting.** It would not make any sort of sense to establish a single point of access which then duplicated that specialised and general support that already exists. The central point of access needs, therefore, to establish what range of business support rural retail businesses might require in what locations throughout rural Wales and then to identify what support is available which can meet these demands. An important element of the success of this approach is the monitoring of an individual client's progress through the support and the evaluation of the support given which in turn can inform the future development of the services.
- **Developing and promoting joint working with the private sector.** A recurrent theme of this report is the need to recognise the importance of the private sector in securing the future of rural retail outlets. There can be a tendency to look to publicly funded responses without, perhaps, exploring the full range of possible private sector responses. Any solution that arose out of this sector would have the distinct advantage of, by its very nature, being based on commercial viability and medium to long term sustainability.

6.12 In both options the areas of support that are either not available or not sufficient to meet the demands of independent rural retailers would be established very quickly. The response would be likely to be different in each option. On the one hand it is whether to develop the capacity

to meet these demands within the public sector or whether the capacity of existing organisations particularly those who are specialists in the field should be developed to meet the demands.

Recommendation

⇒ **That consideration is given to two potential options:**

- i. that a single point of contact for rural retail services support is established and that it should be located in the Welsh Development Agency.**
- ii. that the Welsh Development Agency act as the contract manager for tendered services which might include a greater level of direct service supply than option (i)**

⇒ **That funding be made available by the Welsh Assembly to develop the capacity of support services in the context of a strategic approach to the support and development of rural retail services.**

7. Impact of business rates on rural retail outlets

- 7.1 New guidelines which will change rural rate relief are being introduced by the Welsh Assembly Government in April 2002.

At present only post offices or general stores operating within a rural settlement and having a rateable value of less than £5,000 can benefit from a mandatory relief of 50%. This is funded by the Welsh Assembly from the non domestic rating pool.

The changes will widen the scope of eligible businesses by including pubs, guest houses, shops, cafes and petrol stations. In addition the rateable value threshold will be set at £9,000 for pubs and petrol stations and £6,000 for other businesses.

- 7.2 Under the current guidelines local authorities can apply discretionary relief up to 100% for post offices and general stores. Discretionary relief can also be applied to other businesses operating within the eligible area which are providing an essential service to the community. This discretionary relief is currently available only for those businesses with a rateable value of less than £10,000.

The new guidelines will raise the rateable value threshold to £12,000. The element of the relief covered by the Welsh Assembly will also rise from its current 75% to 90%. The balance has to be covered the local authority itself.

- 7.3 11 of the 22 local authorities in Wales currently offer discretionary relief. The aim of the new guidelines is to encourage a wider use of discretionary relief. The Welsh Assembly expects the new rural rate relief guidelines to benefit an additional 25,000 businesses within rural Wales.

- 7.4 As part of this study we spoke directly to five local authorities in Wales with predominantly rural characteristics:

Carmarthenshire
Gwynedd
Powys
Ynys Mon
Denbighshire

The clear picture that emerged was one of a varied application of business rate relief in terms of the level of relief, what nature of retail outlet was eligible and how the decisions were made.

- 7.5 Carmarthenshire

Shops and post offices receive 100% rate relief. If the shop is in the post office then the post office receives 100% relief and the shop

element 50%. For other retail businesses such as pubs and petrol stations application for relief is considered on an individual case by case basis. The key criteria is the benefit the business provides to the community, the importance of relief to the maintenance of the business and the degree of isolation experienced by the specific community within which the business is located. Relief in these cases is only offered to a maximum of 50% and any recommendation by local authority officers has to be ratified by the local authority's Cabinet.

7.6 Gwynedd

All post offices currently benefit from 100% business rate relief if they are in designated rural relief areas. Other general stores can apply to the local authority for up to 50% relief. Decisions will in some part be made on the type of goods they sell and, for example, food preparation, restaurants and craft outlets would not be eligible. At present pubs and petrol stations would not be eligible for rate relief up to the 50% level. Decisions are made by the business rates department. Only difficult cases or those officers seek guidance on are referred to the taxation officer and treasurer. There is no elected member involvement in decisions.

7.7 Powys

Post offices and village shops are eligible for a mandatory 50% rate relief. Further discretionary relief is applied. Businesses must be in a qualifying area which covers the whole of the County with the exception of Ystradgynlais, Brecon, Newtown, Welshpool and Llandrindod Wells and must also have a rateable value of less than £5000. Rural businesses with a rateable value of up to £10,000 receive up to 100% relief if it is deemed that the business provides services that are of direct benefit to the community. The business rates department makes recommendations to a specific committee of elected members.

7.8 Ynys Mon

Those businesses that operate in rural rate relief areas, everywhere except Menai Bridge, Holyhead and Llangefni, and having a rateable value of less than £1,500 get mandatory 100% relief. This includes post offices and general stores. The mandatory 50% relief up to £5000 of rateable value applies. General stores in a village where there are other general stores would be eligible for 25% relief unless the rateable value is below £1,500. In these circumstances they would receive 100% relief. To attract the discretionary relief general stores must be seen to be benefiting the community they serve and this specifically excludes tourists. As a consequence stores must be open for at least 48 weeks of the year. Pharmacies are considered in the same light as post offices and general stores. The overall rules under which relief operates are set by elected members however there is no formal elected member involvement in individual cases.

7.9 Denbighshire

Relief is offered in line with current guidelines. Privately owned pubs have been considered for relief and have been granted it in the past. Guidelines have been agreed by elected members which take into account criteria such as benefit to the local community and local employment opportunities. Two years accounts are requested with all applications for relief and decisions are made by officers of the local authority.

7.10 The Department of Environment in 1992/93 undertook a significant piece of research which looked in detail at the impact of business rates. This study examined the significance of rates costs on businesses and how it varied for different sizes and types of businesses. This study was, of course, undertaken shortly after the introduction of the Uniform Business Rate in 1990.

The main objectives of the study were to:

- Assess the significance of rates as a business cost in relation to firms' turnover, total overheads and profitability.
- Determine whether the impact varied in any systematic way by key business characteristics

One third of the principal trading companies (PTC) surveyed were in the retail / distributive sector and 25% of them owned the properties from which they traded outright and, therefore, rates were the only property costs.

81% of PTCs with a turnover of < £50,000 spent 10% or more of their total overheads on property costs with the majority of larger firms (£10million + turnover) spending no more than 2%.

In the period surveyed the average rates bill for a PTC with a turnover of less than £50,000 was £3,300.

For a PTC with a turnover of less than £50,000 rates represented an average of 35.9% of profit and 13.7% of overheads. Significantly the biggest leap in the relative costs of rates is between PTCs with a turnover of between £100,000 and £499,000 where it represents 17.2% of profits to those with a turnover of between £50,000 and £99,000 where it represents 31.8% of turnover.

The report highlighted two significant conclusions in the context of the subject being addressed by this report. First that the group of businesses for whom the impact of the introduction of the Uniform Business Rate was greatest was those businesses with a turnover of less than £100,000 and second that size emerged as the dominant factor determining impact of rates on businesses. The effect of other

business characteristics such as industry sector, location or property type was less marked.

- 7.8 In the process of undertaking this study business rates were identified as a key determinant in the success of a rural business by VIRSA (the Village Retail Shops Association) and by a consultant who has been undertaking a piece of work on behalf of Nomura (a Japanese bank) who own a chain of pubs, Unique, with a significant presence in rural Britain.

In the case of VIRSA the following points were made:

- The burden of rates themselves
- The complexities of having a negotiable situation
- The need for rate relief to form part of a coherent package of support

- 7.9 The Unique pub group perspective was quite clear. Business rates and the availability of relief was and is a 'bottom line' decision which could and has made the difference between a decision to continue with a tenanted property or a decision to dispose of it.

Recommendation

⇒ **That a review of the new rate relief guidelines be undertaken during 2003/4 which should include the following elements:**

- **The degree to which variable application of rate relief occurs in different local authority areas**
- **Identification of those businesses for whom securing business rate relief has been the determining factor between survival and failure**
- **That the range of relief available is properly promoted and that action is taken to ensure maximum take up of reliefs**
- **That there is a consistent approach by rating authorities across Wales**

⇒ **That consideration should be given to specific additional business rate relief measures up to and including 100% relief regardless of rateable value for those retail initiatives that fall within the implementation of the strategy proposed in the overarching recommendation of this report.**

8. Overarching recommendation

- 8.1 There is a single overarching recommendation. It is that the Welsh Assembly Government should develop and adopt as policy a strategic approach to the support for rural retail services. This would be completely different to the current piecemeal approach.

This approach should be based on the following principles:

- That its development and implementation is based on a partnership approach.
- That all private sector led options should be fully considered and supported before public sector funds are invested.
- That any support provided be on the basis that the recipient is signed up to the strategic approach.

The aim of the strategy should be:

- To secure a network of rural retail services which is self sustaining.
- To ensure that those most disadvantaged by more distant rural retail services are directly supported.
- To ensure that alternative foci for community identify and activity are identified where rural retail services cease.
- To secure a comprehensive and regularly updated map of rural services.

The development of this strategy should be completed in time for the 2003/2004 budget planning round with the intention of implementing the strategy from April 2003. The timescale should not deflect existing activity and programmes supporting rural retail services.

8.2 Summary of recommendations

- 1) That the introduction in Wales of 'Your Guide' should be implemented at the earliest opportunity. If this is not possible at a minimum there should be sign up to the principles of 'your guide'. That specific measures should be taken to ensure that the maximum benefit is gained in Wales from the introduction at an universal 'information point' system. This might be achieved by the bringing together of all public agencies (such as ELWa, local authorities and the Welsh Assembly) with companies in the planning and implementation of 'Your Guide'.
- 2) That the Welsh Assembly should consider topping up the capital grant scheme and that grant approvals should be dependent on satisfying the requirements this report recommends for a strategic approach to development and support of rural retail services.

- 3) In order to achieve a strategic approach to the future location of post office services in Wales the possibility of adopting a different approach to closures in Wales should be explored. This should only be on the basis of a system which permitted planned closures where the closure could be clearly shown to be within an overall strategic approach to securing postal services in a given geographical area.
- 4) All agencies and organisations with a role in supporting (which includes local authorities, community councils, WDA, ELWa, the farming unions and the private and voluntary sectors) rural communities should be actively encouraged by the Welsh Assembly to engage with Consignia through their Rural Transfer Advisers. The aim of this engagement should be to continue to seek innovative approaches to securing rural post office services in the future.
- 5) Postmasters and mistresses should be eligible to benefit from the Community Entrepreneurs proposal set out in a later recommendation.
- 6) That consideration be given to identifying a clear role for Community Councils and community groups in planning the future of rural retail services in the context of overarching strategies at a local authority level. Any new roles would clearly need to be supported by local authorities and other appropriate agencies.
- 7) This role might include:
 - a. Responsibility for gauging local opinion and support for specific retail services
 - b. Acting as the focal point for any community based initiative
 - c. Engagement in the strategic approach to clustered services development recommended later in this report.
- 8) In order for Community Councils or community groups to develop their role in this way the level of resources and capacity required would have to be considered and addressed.
- 9) That the Welsh Assembly should undertake comprehensive biannual surveys of rural services along the lines of those undertaken by the Countryside Agency. The aim should be for the first survey report to be completed by the end of 2004
- 10) An advisory group made up of representatives of the private retail sector, including the post office should be established. Its remit should include the following:
 - a. Consideration of the wider impact of the introduction of a range of 'footfall' measures by a retail outlet in the context of the effect they might have on other services in the immediate area and on the community in general.

- b. Brokerage of partnership solutions between a range of separate private sector service providers.
- 11) If such a group were to be established then it would obviously need to be very closely linked with the existing and any new rural retail support structure in Wales.
- 12) That consideration be given by the Welsh Assembly to providing funds to enable an initiative with the following characteristics:
- a. Purchase of retail outlets which would otherwise cease trading.
 - b. Retail outlets owned by an organisation with strong community focus.
 - c. Network of retail outlets contract with a convenience store multiple.
 - d. Any profits derived applied in the following ways:
 - i. Contribute to future purchasers.
 - ii. Investment in the business.
 - iii. Investment in the community served by the owned shops.
- 13) As a first stage this would be best approached on a pilot basis with, perhaps, two pilots in strategic locations. The concept of clustering as a route to achieving sustainability amongst rural retail outlets should only be implemented if as a result of the evaluation of the pilots:
- i. It is established that it would result in a self sustaining network of retail outlets and
 - ii. No private sector led response is forthcoming.
- 14) That a strategic approach to the development of clustered retail services be established based on the detailed information derived from the study that has been recommended earlier in the report. This strategic approach could be led and driven by:
- a. WDA
 - b. Enhanced Community Councils
 - c. Local Authorities as part of their statutory requirement to produce overarching community plans or as a result of new detailed planning guidance which required a different approach to support for rural retail development initiatives.
- 15) This approach would have to fully involve:
- a. The private sector
 - b. The voluntary sector and the wider social economy
 - c. The wider public sector
 - d. Other key agencies such as the Post Office

As planning partners and potential deliverers

16) That there should be incentives for the private sector to become actively involved in strategic clustering of retail services through the availability of pump priming capital monies. This financial support could be directly linked to any top up of the rural post office capital grant scheme as proposed earlier.

17) That the Welsh Assembly continue to recognise the need for capacity building within communities and ensure that appropriate programmes provide opportunities for owners and their employers of rural retail outlets and are aimed at building their capacity as catalysts for community activity and development. Programme would require the following elements:

- a. Mentoring and peer support.
- b. Training
- c. Exchange of best practice through:
 - i. Study Tours
 - ii. Seminars/Conferences.
 - iii. ICT and more traditional media.
- d. Support to enable retailers to access existing private and public sector schemes.

18) That a clear priority is established by the Welsh Assembly in respect of the public sector's role in supporting retail activity and that the policy should encompass the following:

- a. Recognition that it is not the proper role of the public sector to act as a retailer or directly support non viable retail services.
- b. Recognition that community function of the public sector and that where they are threatened direct to a retail outlet closure an action plan should be developed led by the local authority or community council in respect of the future focus of community activity.
- c. Recognition that specific public sector funded initiatives are required to ensure access to retail services for those who are disadvantaged by distant services. This might include:
 - i. Regular transport links.
 - ii. Home delivery schemes.

19) That consideration is given to two potential options:

- a. that a single point of contact for rural retail services support is established and that it should be located in the Welsh Development Agency.
- b. that the Welsh Development Agency act as the contract manager for tendered services which might include a greater level of direct service supply than option (a)

- 20) That funding be made available by the Welsh Assembly to develop the capacity of support services in the context of a strategic approach to the support and development of rural retail services.
- 21) That a review of the new rate relief guidelines be undertaken during 2003/4 which should include the following elements:
 - a. The degree to which variable application of rate relief occurs in different local authority areas
 - b. Identification of those businesses for whom securing business rate relief has been the determining factor between survival and failure
 - c. That the range of relief available is properly promoted and that action is taken to ensure maximum take up of reliefs
 - d. That there is a consistent approach by rating authorities across Wales
- 22) That consideration should be given to specific additional business rate relief measures up to and including 100% relief regardless of rateable value for those retail initiatives that fall within the implementation of the strategy proposed in the overarching recommendation of this report.

9. Case Studies

9.1 Trigolion Llanddaniel Fab

Llanddaniel Fab is a small rural village (population approximately 700) in south Anglesey, being mid-way between the larger villages of Gaerwen and Llanfairpwll, some 3 miles from the Britannia Bridge and the Menai Straits.

In 1995 the village lost its only shop which closed for commercial reasons, a loss which was compounded as the rural Post Office was housed within the shop premises.

Many felt that the 'heart' had been removed from the community. As the local pub was over a mile from the village centre (technically in the next village) and the primary school further than that, there remained only a collection of houses – including pensioners' cottages – which were not served by any services at all.

Following two public meetings a committee was established to try and recover the situation, the objective being to restore shop/Post Office facilities if possible. This was to become the first such group in the locality, and as such had to research carefully every step taken in order to ensure that all options were identified and assessed before any action was taken.

Of paramount importance was to be the legal structure of the group. The chosen structure had to protect the interests of every individual supporter as well as the community as a whole. In addition, the committee comprised several professional (or retired professional) people who were of strong mind and analysed every piece of advice before acceptance (to the extent that a solicitor engaged to assist was dismissed when the quality of advice given was considered to be inadequate).

The group approached Wales Co-operative Centre for assistance and was impressed by the clear assessment and advice given. The decision was taken to form a company limited by guarantee which would provide the protection offered by limited liability but clearly maintain the non-profit retaining nature of the enterprise. Wales Co-operative took the group through the whole process, providing support/advice/information as required – at a place and time of the group's choosing.

Once the legal structure was established, the objectives of the new company were keenly pursued. Funds were raised by a membership scheme and private loans, with well-publicised (and televised) events organised to raise awareness as well as additional monies. Match funding was obtained with the assistance of Menter Môn.

The focus of the effort was a small, disused building within the village centre, being the former smithy. The fund-raising success enabled this to be purchased, renovated and adapted in order to accommodate both a shop and Post Office. The building is owned by the company and rented to the postmistress who runs her own shop business that supplements her Post Office income. Realistic rents make the business viable and ensure that the service, which opened in mid-1997, remains available.

9.2 Cheshire Rural Forum

A key issue in the maintaining and development of viable rural services is the quality and skill of the manager or managers of these rural services. There may be some problems with lack of customer activity but often the problems are less serious and can be corrected if the managers were familiar with good practice elsewhere.

In Cheshire, the rural forum has secured the experience of business consultants to assess the viability of its rural post offices. All post offices have information packs detailing availability of grants, rate relief, advice on retailing and useful contacts.

In addition sub postmasters and mistresses have been attending free Sunday courses to hear from experts in health and safety, business, marketing, retail law. They also have the opportunity to meet with suppliers such as Mars, Walkers Crisps, Hallmark Cards and Coca Cola.

The aim of the programme is to increase the skills of sub postmasters and mistresses to give them the knowledge and ability to turn their post offices into viable, sustainable small businesses.

9.3 Papay Community Co-operative, Orkney Islands, Scotland

This initiative is located on the island of Papa Westray, Orkney Islands. This is a small remote island community in the north of the Orkney Islands with a population of 64. Travelling to Papa Westray involves a 2 hour ferry crossing or a 12 minute flight from Kirkwall (the main town of Orkney), and Kirkwall is reached by a 1 ½ hour ferry crossing from Scrabster in the far north of the Scottish mainland, or by air from Inverness.

There is a Primary School (currently with 10 children) and visiting health professionals, with individual islanders serving in many capacities such as postman, registrar, coastguard and other roles. The school is used for community meetings and videoconferences.

The co-operative runs a retail store selling food and non-food items, a hostel / guesthouse with catering and guided tours of the island in the summer months. It owns a mini bus, which is used for the school transport, guided tours, transport from the ferry pier and for carrying shop goods.

There is one full time staff member (Shop Supervisor) averaging 30 hours per week and six seasonal part time staff involved in cooking, serving food and housekeeping for the guesthouse and hostel.

The co-operative was started in 1978 (when the population was approximately 80) as a response to the threatened closure of the island shop, to stem depopulation and to meet the need for employment and essential services. It now has a turnover of approximately £100,000 per annum

It is a corporate members of the Co-operative Group and therefore eligible to order through the regional distribution centre in Cumbernauld, near Glasgow.

Development support is provided by Tor Justad, the Co-operative Group's Community Affairs Officer for the Highlands & Islands and Angela Meechan who is a Community Affairs Officer based in Glasgow.

There was considerable local community engagement in the early years and this continues now through commitment of the seven Management Committee members. The key to the Co-operative's success has been a number of committed local people willing to devote considerable amounts of voluntary time and practical effort, combined with a collective commitment to the history, culture and uniqueness of the island. This has been a critical factor in the survival and success of the Co-operative despite a continued decline in the population, a decline in visitor numbers in recent years and some difficulty in recruiting staff willing to work irregular hours and seasonally.

Considerable financial and development support was provided by the Highlands & Islands Development Board in the early years of the Co-operative. Other support has been provided by Orkney Islands Council, Orkney Enterprise and the Scottish Co-op and from contracted retail consultants.

9.4 The Dyke's End, Reach

In February 1998 The Kings, the only pub in the village of Reach in Cambridgeshire, closed. The owner wanted to sell the pub as a private house. The villagers believed that there was a potentially viable business, it just needed better leadership.

At a packed public meeting, local people decided by a unanimous vote to campaign to keep the pub open. A steering committee of 9 people was formed to lead the campaign and a fighting fund of £10 a head was launched to cover any initial costs.

So far, this was little different from many other campaigns to save village pubs. However, it quickly became evident that the only solution was going to be for the villagers themselves to get involved in a purchase. The incumbent freeholder was adamant that he was going to go for a change of use. He was not interested in a pub rescue, and

with sparse financial records, a commercial sale as a going concern would be difficult.

Drawing inspiration from the successful community buyout of the Pig and Abbott in the nearby village of Abington Pigotts in 1997, villagers began to investigate how they might buy the pub themselves. They first conducted a pledging process to see what sort of sum they might be able to raise. The result was encouraging and three separate campaigns were then fought.

First, the villagers found a suitable couple (which included a chef) who were interested in buying the pub and keeping it going. A plan was put in place whereby the villagers would act as bankers and lend the couple whatever they needed to borrow (they had some collateral of their own) with a repayment date set three and a half years later. All went well until the landlord of the pub took the property off the market.

The Landlord had been advised that he should go for a change of use and that was the reason for his withdrawal. This meant a lot of additional work for the steering committee researching planning matters. It was imperative to get the local council firmly behind them. East Cambridgeshire District Council were persuaded to support the local community and were prepared to devote time to make a detailed research of the position. The key to objecting to a change of use planning application was that 'a reasonable alternative option' must be presented. Just to say "we want to run the pub and we think it can do better" would not be sufficient. To this end, a bid of £130 000 was formally tabled prior to the Planning Committee meeting to consider the application for change of use. Commercial valuations were coming in at between £115 000 and £125 000 and so, crucially, the buyout team could be seen offering a figure above the commercial value. As the pub had by now been closed for several months, so its value had in reality reduced further.

With local TV and media in attendance, and a noisy placard waving crowd on the steps of the District Council office the planning application for a change of use was rejected. An appeal by the Landlord was possible, but it would have taken around nine months, cost several hundred pounds, and all the indications were that an appeal would fail. In the event, the Landlord accepted the villagers' offer of £130 000.

The community formed a new company, Reach For A Pint Limited, a company limited by shares. The minimum investment was set at £250 and each shareholder, irrespective of how much they invested, held one A share and the balance as B shares. Only A shares entitle the owner to a vote. The aim was to raise £170k from less than 50 shareholders to cover the purchase price, legal costs and refurbish the premises. The target was reached from 49 shareholders.

In offering shares in the company to local villagers, the buyout fell under the provisions of the Financial Services Act 1985 and a full offer document needed to be drawn up.

The pub was finally bought by the village on 1 July 1999. After a comprehensive refurbishment undertaken by two village craftsmen plus dozens of other volunteers, it reopened for business on October 16th 2000. The pub was reopened under its original name, The Dyke's End, the village being at the end of the Devil's Dyke, an Anglo-Saxon earth works.

The Steering Committee members had found an excellent tenant landlord (also a chef) to take on the management of the pub. The new restaurant area upstairs that had been installed provided him with enough 'covers' to make the restaurant side of the business prosper, whilst at the same time, ensuring the pub side of the business was not compromised. The Tenant initially was granted a standard five months and 28 day tenancy, and this was replaced with a three year lease (outside of the Landlord and Tenancy Act) plus a separate option to buy agreement. This effectively gave him with first option to buy the premises from the company at any time during his tenancy. This was combined with a guaranteed reduction in the purchase price of at least 10 per cent less than market price. If he does not wish to buy the premises, vacant possession was assured for the Company, plus full disclosure of financial information to enable an alternative buyer to be found.

Reach for a Pint Ltd decided that it would sell a long lease on the premises, rather than the freehold. The freehold would then be vested in a village organisation or trust that could ensure that no change of use could ever take place again, unless there was clearly no viable business to run.