

REPORT

To: CORPORATE SERVICES COMMITTEE		Subject: CONSULTATION: POST OFFICE DIVERSIFICATION FUND FOR SCOTLAND
From: HEAD OF CENTRAL SERVICES		
Date: 16 July 2010	Ref: MS/RM	

1. **Purpose of Report**

The purpose of this report is to advise Members of a consultation by the Scottish Government on a Post Office Diversification Fund (appended to this report).

2. **Background**

On 3 February 2010, the Cabinet Secretary for Finance and Sustainable Growth announced the deployment of £1m in 2010/11 to establish a Post Office Diversification Scheme which would help sustain and develop small businesses which are built around Post Offices, given their vital role in communities and local economies.

The consultation document "A Post Office Diversification Fund for Scotland" sets out some proposals about the type of support and outcomes that this new funding could provide. It takes account of a series of initial meetings with key stakeholders including the National Federation of Sub Postmasters, Post Office Limited, COSLA, Scottish Enterprise and the Grocers' Federation.

3. **Consideration**

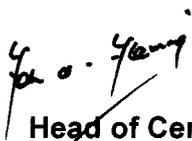
The purpose of the consultation is to develop proposals further taking account of views from a wider stakeholder audience. Key issues include

- eligibility criteria;
- levels of funding;
- types of activities and outcomes the Diversification Fund should support, and
- application, assessment and award procedures.

Having considered the consultation document, no firm views were identified on the key issues.

4. **Recommendation**

It is recommended that Members note that the Scottish Government were consulting on a Post Office Diversification Fund.

M. O. Young


Head of Central Services

Members seeking further information on the contents of this report are asked to contact Margaret Shankland on Ext. 2726.

A POST OFFICE DIVERSIFICATION FUND FOR SCOTLAND

Introduction

1. On 3 February 2010 the Cabinet Secretary for Finance and Sustainable Growth announced the deployment of £1 million in 2010-11 to establish a Post Office Diversification scheme which would help sustain and develop small businesses which are built around post offices, given their vital role in communities and local economies. While the Post Office, posts and postal services are reserved to the UK Government under the Scotland Act 1998, the Scottish Government is committed to strengthening the long-term sustainability of the Post Office network in Scotland consistent with the National Performance Framework and the Purpose:

to focus the Government and public services on creating a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth.

2. This short consultation document, "A Post Office Diversification Fund for Scotland" sets out some proposals about the type of support and outcomes that this new funding could provide. It takes account of a series of initial meetings with key stakeholders including the National Federation of Sub-postmasters, Post Office Ltd and the Convention of Scottish Local Authorities, Scottish Enterprise, Highlands and Islands Enterprise, Consumer Focus Scotland and the Scottish Grocers' Federation. We are grateful for their advice and assistance. The purpose of this consultation is to develop proposals further taking account of views from a wider stakeholder audience.

3. Key issues include:

- Eligibility criteria;
- Levels of funding;
- The types of activities and outcomes the diversification fund should support;
- Application, assessment and award procedures.

4. **The consultation period will begin on 10 June 2010 and close one calendar month later.** Please take your time to answer the questions posed in this document and let us have your views about why you agree or disagree with the proposals. We look forward to receiving your responses. The Scottish Government will also organise consultation roadshow events within that timeframe to facilitate constructive dialogue with stakeholders across Scotland.

Precedents

5. A £2 million fund to develop Post Offices in deprived urban areas was operated by Communities Scotland between 2003 and 2006. The objective of the fund was to contribute to the regeneration of deprived urban areas by sustaining and improving Post Office branches, on the margins of viability, that provide socially important services and facilities and that act as an "anchor" for other retail activity.

6. Key elements of the initiative were that:

- eligibility was restricted to branches located in Scotland and located in settlements with a population of 10,000 or more, and in the 20% most deprived postcode sectors based on the Scottish Index of Deprivation;
- applicants were only permitted to make one application for each Post Office branch they operate;
- there was no minimum grant, but the maximum grant was set at £50,000;
- funding was only available for specified capital expenditure;
- funding was in the form of a one-off payment.

7. £1.8 million was awarded in total enabling 47 post offices to improve their shop business and security. The average award was £38,000.

8. Related research commissioned by Communities Scotland investigated the needs and perceptions of the sub-postmasters of Post Offices in deprived areas and identified which types of assistance they believed could have the most impact. Some of the key findings to emerge from the study were:

- At least half of surveyed sub-postmasters felt their business would benefit from marketing (50%) or help with some aspect of the retail business operation (55%).
- A majority of the sub-postmasters (65%) stated that they would find training useful with the main topics of interest cited being – marketing, sales and merchandising skills.
- Physical improvements to the premises, although not regarded as a major threat to viability, were what most sub-postmasters (64%) would actually seek assistance for.
- 82% of the surveyed Post Offices provided a retail function and 62% of them reported a declining footfall. The most common action taken to halt this was marketing.
- Among those with a growing business, diversification was reported as the single biggest cause.
- The main threats reported were perceived as external and arose from loss of custom – through changing rules about benefit payments, general population trends and increased competition.
- The primary factors cited for not applying to Communities Scotland for funding were lack of perceived need and lack of awareness of what was involved.

9. At present a Post Office Development Fund is being run by the Welsh Assembly Government. It was opened in January 2009 to provide £1.5 million a year for 3 years in capital and revenue grants to Post Offices throughout Wales. Applications can be made for capital grants for up to £5,000 for small projects, capital grants of up to £20,000 for larger projects and revenue grants of up to £15,000. Funding can only be used to improve the non-Post Office side of the business to increase overall sustainability. Areas eligible for funding include: business & marketing advice; advertising; training; some set-up costs for new services; creating better access to buildings; upgrading computer equipment; improving security; providing better external signs for the premises.

10. The first round of applications closed in April 2009 and 63 grants worth £1,146,729 were awarded. A further round closed in October 2009 and 75 grants worth £1.55 million were awarded. The activities funded included CCTV, improvements to shop frontages including signage, interior improvements including new counters, improved lighting and flooring and new shelving and chillers.

A Post Office Diversification Fund for Scotland

11. The agreed objective for the Post Office Diversification Fund for Scotland (PODFforS) is to sustain and develop small businesses which are built around post offices, given their vital role in communities and local economies.

12. We wish to develop proposals for a Fund which is suitable for the circumstances in Scotland. While most of this consultation is focused on the aspects of the Fund where alternative options might lead to different impacts and outcomes, there are a few elements of the design which are not open to debate or negotiation. Specifically, the PODFforS will:

- only be open to applicants who hold a valid and ongoing contract¹ for services with Post Office Ltd, and must relate to services provided in Scotland; businesses operating more than 3 sub-post offices “multiples” will not be eligible;
- be disbursed in full by 31 March 2011 - all works or activities must be completed and paid for by end February 2011 or earlier;
- be State Aid compliant - most awards are expected to fall below the de minimus threshold of €200,000 over three years;
- not fund any activity or work which is funded by Post Office Limited; or any activity or work which would breach the terms and conditions of the applicant’s contract with Post Office Ltd;
- not fund any activity for which alternative funding is available (for example, energy efficiency);
- not provide competitive advantage relative to other comparable businesses operating locally.

Eligibility criteria

13. The PODFforS will only be open to the relevant small businesses (as above) who hold a valid and ongoing contract for services in Scotland with Post Office Ltd.

14. However, given the scale of the funding resource available, we anticipate receiving more applications than the Fund can support. As such we considered the case for some form of targeting criteria in relation to eligibility. The Communities Scotland fund was focused on post offices in deprived urban areas, and also specified a one application for each Post Office branch rule. The Welsh Fund in contrast is open to Post Offices in any geographical location, with applications submitted in specific timeframes assessed relative to each other.

¹ The contract must be either a Sub-postmaster's Contract or a Modified Sub-postmaster's Contract.

15. The Scottish Government is minded to encourage diverse and innovative applications from all eligible sub-postmasters, focused primarily on optimising business viability, sustainability and growth. Related to that we consider applications should be assessed concurrently on a competitive basis in order to invest in the most compelling proposals. All applications must be received by the closing date. They will be assessed against the criteria and the most compelling proposals will be offered funding. This Challenge Fund approach also makes sense given the limited timescale for the Fund to operate.

Q1. Do you agree with the concept of a Challenge Fund?

Q2. Do you agree that there should be only one application for each eligible Post Office?

Levels of funding

16. We also considered the case for some form of targeting criteria in relation to the level of potential awards. The Communities Scotland fund capped awards at a maximum of £50,000, with no base limit. The Welsh Fund offers capital grants of up to £5,000 for smaller projects and £20,000 for larger projects. It also offers revenue grants of up to £15,000.

17. The Scottish Government is minded to encourage diverse and innovative applications from all eligible sub-postmasters, focused primarily on optimising business viability, sustainability and growth, rather than just project cost. We are not minded to impose arbitrary limits in relation to capital or revenue spending, although we recognise that capital bids by their very nature are more likely to be for a higher amount. However, we recognise that the £1 million available through PODforS could support relatively few businesses if very large awards were to be the norm. We wish to find an appropriate balance between the impact on any given business and providing support as widely as possible across the country. As such, we are minded to adopt a lower limit of £2,500 and an upper limit of £25,000 for grant awards.

Q3. Do you agree with these limits?

18. Project costs may of course be higher given that we would also encourage businesses to use their own or alternative funding sources to augment the Scottish Government's investment in their future viability and growth. We are minded to use the availability and scale of such "other investment" in projects as a factor in assessing the relative priority of applications.

Q4. Do you agree that the availability and scale of owner or other investment should be a factor used to prioritise applications?

The types of activities and outcomes the diversification fund should support

19. We also considered the case for some form of targeting criteria in relation to types of expenditure and eligible activities. The Communities Scotland fund was restricted to specified capital expenditure. In contrast the Welsh Fund lists a range of eligible activities or project types:

Capital Expenditure	Revenue Expenditure
<ul style="list-style-type: none"> • Improving and expanding the sales area • Introducing new retail business • Modernising the associated retail business • Provision of ICT facilities in the retail business • Providing essential equipment • Improving security with lighting, alarms or CCTV • Improving external appearance • General repair/investment work to the retail business • Work that supports other benefits to the local community 	<ul style="list-style-type: none"> • business advice to sub postmasters/mistress • marketing advice for the retail business • advertising new services • training courses or associated revenue costs • 'pump priming' new diversification set up costs i.e. funding new staff posts or extra hours of opening for a limited period

20. Again it is important to stress that the Scottish Government is minded to encourage diverse and innovative applications from all eligible sub-postmasters, focused primarily on optimising business viability, sustainability and growth.

21. As such we believe that the PODFforS should be open to both capital and revenue costs

Q5. Do you agree both capital and revenue projects should be eligible for funding?

22. We are also minded to adopt and use the examples set out in the table above, but as an indicative rather than an exhaustive list of eligible projects. We want the PODFforS to foster innovation and enable business development. While most projects are likely to fall within familiar categories, we recognise that we should not inhibit the form of business support the fund is capable of providing as long as it delivers desired outcomes.

Q6. Do you agree with this inclusive approach?

Q7. Are there any other project examples which should be added to the box/list above?

23. The outcomes we intend to support through the PODFforS relate to:

- the Scottish Government's Purpose;
- the National Performance Framework;
- the development of a low carbon economy in Scotland;
- the Fund's objective of helping to sustain and develop small businesses which are built around post offices, given their vital role in communities and local economies.

Application, assessment and award procedures

24. The Scottish Government wishes to make applying the PODFforS simple and unbureaucratic. However, this must be balanced with:

- ensuring successful applications represent value for money and comply with the European Commission's State aid rules,
- the terms of the Scotland Act; and
- efficiency and effectiveness in sustaining and improving small businesses which are built around post offices.

25. Another key factor is ensuring funds are disbursed to successful applicants as soon as possible and in good time to allow project completion before the end of February 2010.

26. In parallel with the publication of this document, the Scottish Government will therefore shortly publish a draft application form and related guidance (modified from the Welsh model, and with thanks to the Welsh Assembly Government). It is indicative of the form we expect to be used later this summer, and is not expected to change substantially. **We encourage all postmasters who may be considering applying for PODFforS funding to take account of this paper and begin developing and costing your project and the information needed to support it.** This should involve dialogue with Post Office Limited if the project or activity being considered might require the agreement of Post Office Ltd or breach the terms and conditions of the applicant's contract.

27. Sub-postmasters are also encouraged to obtain business advice from the Business Gateway support service. Further details can be obtained from: www.bgateway.com or 0845 609 6611.

28. We expect to receive more applications than the Fund can support. We therefore propose to assess and prioritise bids using the following primary criteria to account for at least 70% of the total scoring:

- Core eligibility (see paragraph 11);
- Improving the sustainability of the non-post office business;
- Diversification - introducing new retail business activities. This will only be supported if it can be demonstrated that the new business will not be in competition with other local businesses.
- Providing a distinct economic or social purpose to the community – this includes the provision of additional or vital services to the local community e.g. protecting the only retailer in the area or protecting the community's access to cash.
- Availability and proportion of owner or other investment in the project or work.

Q8. Do you agree with this list as the primary criteria for assessing and prioritising bids?

29. Additional factors which may be taken into account in assessing the relative merits of applications could include:

- Providing facilities or activities which support the reduction of poverty (including child poverty), financial exclusion, inequality, discrimination or social disadvantage.

- Improving the built or natural environment of the local area, including the appearance of the post office.
- Improving the well being of the community eg hosting a food co-operative or selling locally sourced fresh fruit and vegetables.
- Encouraging training for local people.
- Assisting with the promotion of job opportunities and increased income including creating jobs within the post office itself.
- Stimulating community business and social enterprise including hosting community groups and services.
- Strengthening the cultural and linguistic identity of the community.
- Strengthening community safety issues for the community.

Q9. Do you agree with this list of secondary criteria for assessing and prioritising bids?

30. The Scottish Government is particularly grateful to the National Federation of Sub-postmasters, Post Office Ltd and the Convention of Scottish Local Authorities, Scottish Enterprise and Highlands and Islands Enterprise for the advice and support they provided in developing the ideas set out in this consultation paper. We intend to involve them in an advisory capacity as required during the assessment phase.

31. This funding is available in 2010-11 and as such all associated work must be completed and paid for by the end of February 2011. We acknowledge that this is likely to be challenging for sub-postmasters, and wish to develop an implementation timetable which achieves the optimum balance between their planning and delivery activities. The two timetable options are as follows:

Consultation begins	10 June 2010	10 June 2010
Sub-postmaster begin developing project applications and consulting suppliers and advisers as appropriate		
Consultation ends	9 July 2010	9 July 2010
SG assess responses and publish final guidance/forms	23 July 2010	23 July 2010
Deadline for completed applications	Noon 30 August 2010	Noon 30 September 2010
SG assess applications and announce awards	Noon on 30 September 2010	Noon on 29 October 2010

Q10. Which proposed timetable is most pragmatic?