



## **ACS Submission: 2016 Post Office Network Consultation**

ACS (the Association of Convenience Stores) welcomes the opportunity to respond to the Government's consultation on the Post Office Network. ACS represents 33,500 local shops across the UK including Co-op, Spar UK, McColls Retail, One Stop and thousands of independent retailers.

17% of convenience stores, equal to over 8,000 outlets, provide Post Office services to their local communities. Convenience stores are therefore sustaining the majority of the Post Office Network across the UK as a result of the Network Transformation programme. Retailers have taken on Post Office services to retain their availability within the local area, increase footfall into their stores and benefit from association with the Post Office brand.

ACS' Community Barometer report, referenced in the Government's consultation document, highlights that consumers, Councillors, retailers and Parliamentarians value the Post Office. They consider Post Offices to be the local service with the most positive impact on their area. However, many retailers within our membership are struggling to sustain Post Office services in-store due to consumer demand and remuneration failing to match rising operating costs.

### **Convenience Stores and Post Offices<sup>1</sup>**

Convenience stores provide a broad range of product categories and service offers. They can offer a personal, quality service that is quick and convenient for customers and accessible during long trading hours, located in communities where people live across the UK. BEIS research by YouGov and London Economics shows what consumers value in a post office; with quality of service (73%), distance (68%), waiting time (62%) and weekend opening (58%) rated the most important factors<sup>2</sup>. With convenience stores already having a positive impact on the communities in which they trade, these complementary consumer demands make them ideally placed to offer Post Office services in-store.

ACS' Local Shop Report 2016 details that 17% of convenience retailers operate a Post Office. Based on a sub sample of over 400 independent retailers from ACS' Local Shop Report we can learn more about the typical operating model of independent convenience retailers.

Convenience stores are typically smaller than 3,000 square foot, and must maximise their use of space to provide a diverse product and service offer for customers. 53% of Post Offices hosted by independent convenience stores are based within stores with a size of less than 1,000 square feet. Maintaining a Post Office in these stores requires significant administrative and staff training costs as a proportion of overall business costs, but allows them to provide a greater range of valued local services.

Almost half (47%) of independent convenience stores with a Post Office are open to trade for 85 or more hours per week. This is making the Post Office more accessible during evening and weekend periods and allowing consumers to take advantage of its service offer, alongside store's core grocery offer, in one location.

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<sup>1</sup> ACS Local Shop Report 2016 – data in this section is taken from the ACS Local Shop Report, unless otherwise stated.

<sup>2</sup> BEIS. [The Social Value of the Post Office Network](#). November 2016

21% of independent convenience stores only employ family, but this figure is 17% for independent stores with Post Offices. This indicates the employment requirements to maintain a Post Office, with 65% of staff employed by independent convenience stores with a Post Office being women.

## **2016 Post Office Network Consultation**

ACS members are concerned about the sustainability of the Post Office network in the future and the viability of some Post Office sites. Operating costs in the retail environment have changed a great deal since Network Transformation began. Increasing employment costs such as the National Living Wage, increased business rates and a highly competitive grocery market has meant that all store products and services must justify their position.

Many retailers have reported that in some locations they are having to subsidise Post Office services in stores. The per transaction fees that retailers are paid for operating post offices have not increased at the same rate as employment and property costs and have in some cases been cut<sup>3</sup>. ACS has also received feedback that the footfall and associated spend that Post Office services were meant to deliver for retailers has been over estimated.

Based on the concerns outlined above ACS is recommending that the Government consider the following options as part of their consultation process. To deliver on their manifesto commitment to sustain 3,000 rural post offices, the Government should;

1. Review the remuneration package offered to retailers that host Post Office services, to reflect the increased employment and property costs that the retail sector has absorbed since the network transformation programme began.
2. Review the access criteria for Post Office sites, basing them on population density, consumer need and commercial viability. The network size must be proportionate to consumer demand – this could result in a smaller network and a change to the way in which services are provided to rural communities.
3. Establish a new strategic vision for the Post Office with retailers and commercial viability at the foundation of the network. This should also include a review of current services offered alongside existing services in convenience stores.

Convenience retailers cannot be expected to subsidise in-store services. The Government should be aware that continuing cost pressures on convenience retailers and the current remuneration package offered to retailers may result in the removal of Post Office services from stores in a few years. This pressure comes at a time when convenience stores need to be motivated to buy Post Offices from specialist sub postmasters who are being incentivised with 26 months of salary<sup>4</sup> if they can find a buyer for their Post Office.

The new Mains contract guarantees a certain level of payment for three years (like for like transactions only, derived from the income attached to these transactions pre and post conversion) meaning that there is little incentive to resign a branch within that period. Furthermore, if a converted branch closes within a certain period of conversion (three years for a Main, 18 months for a Local) the operator has to hand back a proportion of the conversion payment received and notice has to be given of the intention to resign a branch (12 months for a Main, 6 months for a Local). This means there is a systemic reason to

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<sup>3</sup> <http://www.nfsp.org.uk/News/nfsp-speaks-out-against-further-cuts-to-sub-postmasters-pay>

<sup>4</sup> <http://sub-postmasters.co.uk/network-transformation-mk2/>

delay closing a branch until after that period elapses but this may mask retailers' plans to remove Post Office Services once their incentives expire.

ACS members are committed to working with Post Office Limited and the Government to ensure that Post Offices are sustained in the communities where there is sufficient customer demand. ACS has responded to the relevant consultation questions below.

- 1. Do you agree that the existing criteria should continue to be used for defining what a nationwide network of post office branches should look like?**
- 2. What different criteria or what different approach could government consider to define what a nationwide network of post office branches should look like, including steps to ensure provision of post offices in small remote or hard-to-serve communities?**

ACS believes that the criteria used for determining the size of the network and location of services must change. We want to see a Post Office network determined by commercial viability and consumer demand. This may mean that there is not enough consumer demand to sustain 11,500 Post Office providers across the country.

We believe that a large number of post offices operators will seek to resign from the network within the next three years if the branch profitability challenge is not resolved. This will result in, in effect, a haphazard, unmanaged closure programme leaving gaps in local coverage. It would be preferable, we argue, for the Government to consider central management of Post Office openings and closures. A centrally managed programme would ensure that Post Offices are both best-placed to serve consumers and commercially-viable for their host business. A reduction in the number of Post Office sites would likely result in increased footfall for other sites, improving the sustainability of the overall network. This must be done alongside an analysis of whether the access criteria are fit for purpose. For example, the current criterion of vicinity of the population in rural, urban and deprived areas is not an indicator of commercial viability.

The commercial viability of a Post Office in a convenience store must be based on population density, consumer demand for sites and an open conversation with local retailers to determine whether the operation of the service will be viable. The future of the network would be better served by having Post Office services that are easily accessible to consumers, considering their ability to travel to it and desire to use the service. ACS-commissioned polling finds that only one in twenty consumers claim not to have core amenities within 15 minutes' travel of their home, determined by whatever mode of transport they usually use<sup>5</sup>. This suggests that access to services is not a problem for much of the population and that the distances between consumers and where these services are offered can be revised.

It is currently very difficult to assess the full extent of the Post Office network's national coverage. Many sites have been allocated as temporarily closed but have not been in service for over a year. Freedom of Information requests from various organisations have attempted to establish the extent of Post Office operations<sup>6</sup>. Post Office Limited would have the data necessary to make assessments about network sustainability and could work closely with commercial partners to review this. Whilst centrally managed opening and

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<sup>5</sup> Populus Polling November 2016; Thinking about the area within fifteen minutes of your home, whether you would usually drive, walk or use public transport, or the places you regularly pass to and from work or other daily journeys, which of the following are available to you?

<sup>6</sup> <https://www.sundaypost.com/news/scotlands-hidden-post-office-closures-leave-remote-communities-stranded/>

closure programmes have not been popular in the past, such a programme would be fundamental to delivering a sustainable Post Office network for the future.

Convenience stores are fundamental to the supply of Post Office services to rural and isolated communities. 38% of convenience stores consider themselves to operate in rural locations and 42% of convenience stores operate in locations where there are no other businesses around them<sup>7</sup>. However, it is in these locations that there are significant challenges in making the Post Office model viable. Post Office Limited and the Government must consider if it would be more appropriate to deliver Post Office services in a different format in these communities. To some extent this is already happening as there has been a 35% increase in the number of outreach services (mobile vans, temporary village hall provision) between 2011 and 2015<sup>8</sup>.

If the Government does not plan to review the existing criteria, as stated in the consultation document<sup>9</sup>, then it must consider an increase in subsidies for rural sites operating Post Offices. This would mean guaranteeing income for retailers operating both Mains and Locals for longer periods of time or increasing the per transaction fees for these sites, to reflect the reduced throughput these sites experience. Overall, the Government must consider what format Post Office services will take in the future in rural locations and must consider the funding structure for sites that are not viable.

We urge the Government to look back at the terms set out for mutualising the Post Office: “Attaining financial stability and commercial sustainability are therefore pre-requisites to the transfer of ownership to a mutual”. This commitment needs to be upheld beyond the initial transfer of Post Offices to commercial premises if the Government wants to sustain Post Offices in the future.

### **3. What, if any, new services do you think could be offered at post office branches in the future – in particular considering those that could support remote communities, vulnerable members of society and others that rely on over-the-counter transactions?**

ACS members have asserted that the Post Office is not currently maximising its potential in relation to the number of commercial services offered and competitiveness with other service operators. Many retailers highlighted the need for a greater focus on financial support services and banking services to attract a different customer demographic and take advantage of high street bank closure programmes. Where retailers do take on banking services it is important that they are remunerated appropriately to reflect the additional staff training and time taken for transactions in stores. Others have expressed disappointment that more Government services are not being provided through the Post Office, but are instead being transferred online. Members have highlighted the anomaly that some services cannot be provided at all Mains format Post Offices, for example Passport “check and send” services.

Retailers are concerned that Post Office Limited has failed to communicate their long term strategic vision for the Post Office network for the coming decade. Although the Government has achieved its objective to reduce the central costs of Post Office Limited, this has only been achieved by transferring the cost and risk of operating the Post Office network onto independent retailers. The network will not survive without ongoing reform and focussed investment. Many retailers are concerned that Post Office services are not meeting the

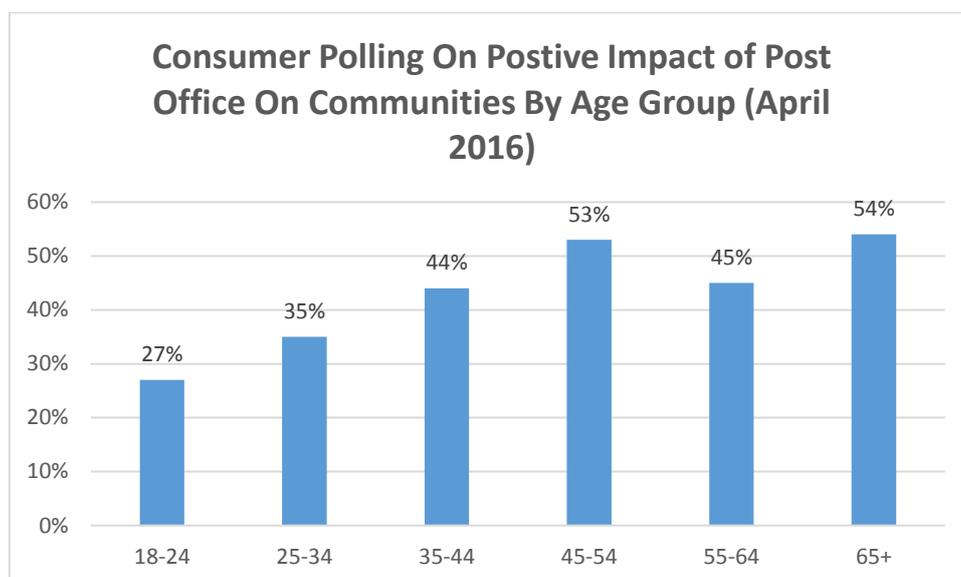
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<sup>7</sup> ACS Local Shop Report 2016

<sup>8</sup> Comparison of outreach services from Post Office Network Report [2011](#) and [2015](#)

<sup>9</sup> [Access to the Post Office Network \(page 8\)](#)

needs of younger consumers. The chart below<sup>10</sup> shows that the positive impact that the Post Office has on communities is weighted more towards older customers.



A difficulty that many retailers highlight with the current Post Office operation is the non-compete clause associated with hosting Post Office services. The non-compete clause means that retailers cannot offer other parcel delivery services or bill payment services through providers such as Paypoint and or the national lottery. This causes operational issues when retailers are trying to take on Post Offices but already have other service providers in the business.

Service provision in convenience stores has grown significantly in the last decade and convenience retailers rely on providing a range of low margin services in-store to drive footfall. For example, convenience retailers currently offer; free to use ATMs (39%), parcel services (28%) (excluding Post Office), bill payment services (53%) and click and collect (10%). The non-compete clause can block some of these services and is unhelpful to both retailers and consumers in that it prevents a full range of complementary services being offered from a single location. The Post Office should work towards operating competitively alongside other service providers in the future.

#### **4. What ways do you think communities might be able to play a more significant role in the operation of the post office network, in particular with the objective to support rural economies and strengthen local communities?**

The role that communities can play in the operation of the Post Office network in the future is limited to the most isolated communities in the UK. The long-term future of the Post Office network cannot be dependent on volunteers and good will alone, but must be underpinned by a commercially-viable business model.

The Plunkett Foundation, which represents communities that run local shops, estimates there are 337 community run shops in UK<sup>11</sup>. They suggest that 64% of these shops host Post Office services, however this is not the sole income of a community run shop. The Post Office is one service offered amongst a range of other products and services, for example; grocery products, food to go and newspapers. Community run operations also have the

<sup>10</sup> ACS Community Barometer Report 2016 – Consumers views of positive impact of Post Offices on communities, by age.

<sup>11</sup> <https://www.plunkett.co.uk/community-shops>

significant advantage of not having to pay their staff the National Living Wage, holiday entitlements, pension contributions or sick pay.

Whilst we positively welcome that some communities have taken on the provision of Post Offices services we believe it shows that operating Post Offices in some locations is not viable in the long term. Community involvement in Post Office provision will ultimately only pick up a very small proportion of the overall Post Office network.

**5. Do you have any other views on the points raised in this consultation that you feel government should consider regarding its approach to the post office network?**

**Remuneration**

Retailers are not being appropriately remunerated for operating Post Offices. Retailers' operating costs have increased while demand for services has remained stagnant. Retailers believe that Post Office Limited is more likely to reduce its remuneration payments than increase them.

ACS is not a negotiating body between the Post Office and convenience retailers, this role is performed by the National Federation of Sub Postmasters, however there is a unanimous view from retailers operating Post Office services that per transaction payments require revising upwards. Failure to do so is likely to result in some retailers handing back contracts for unprofitable sites.

**Increased Operating Costs**

The introduction of the National Living Wage is the cost increase that has had the biggest effect on convenience retailers. The Government's commitment to deliver a National Living Wage rate that is 60% of median earnings is contributing to concerns from retailers about long-term employment costs and investment plans. Following the introduction of the National Living Wage in 2015, the convenience sector has seen an overall reduction in jobs of 4%, from 407,000 employees to 389,000 employees<sup>12</sup>. We have also seen a reduction in full time staff hours, with 70% of staff working less than 30 hours per week in 2016, compared to 63% in 2015<sup>13</sup>.

ACS' survey of members about the impact of the National Living Wage shows that retailers are having to make difficult decisions as the wage rate increased. In response to the introduction of the National Living Wage, 74% of retailers have reduced staff hours, 67% have reduced staff numbers and 65% of independent retailers have increased their working hours in the business<sup>14</sup>. Reductions in staff hours and staff numbers will have a knock-on effect for providing low margin services such as Post Offices, which are labour intensive to run and require trained retail staff to operate.

ACS members have confidentially shared forecasts<sup>15</sup> for the future contributions that Post-Office services will make in their business over the next four years. The forecasts made several assumptions including an increase in wage costs of 4.5% each year and 0% increase<sup>16</sup> in Post Office remuneration awarded to retailers. Based on a sample of over 200 stores the forecast suggested that there would be an overall reduction of 49% of contributions made back to businesses from Post Office services.

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<sup>12</sup> ACS Local Shop Report 2015 compared to ACS Local Shop Report 2016

<sup>13</sup> ACS Local Shop Report 2015 compared to ACS Local Shop Report 2016

<sup>14</sup> ACS Submission to the Low Pay Commission 2016, pg 9 Figure E.

<sup>15</sup> ACS can share forecast with the Department for BEIS separately on a confidential basis

<sup>16</sup> ACS can confidentially share more information on this sample directly with the Department for BEIS

It is clear from conversations with convenience retailers there are a number of Post Offices that are already being subsidised by retailers. There is consensus amongst retailers that the number of Post Offices they subsidise will increase over the next five years if action is not taken to revise up the current remuneration package. ACS can confidentially discuss these projections in more detail with the Department for Business, Energy and Industrial Strategy.

### **Strategic Vision**

Retailers are concerned that Post Office Limited has failed to deliver or communicate a clear strategic version about the future of the Post Office network. This is essential to ensure that retailers have time to plan to deliver new services and understand the viability of existing Post Office services for their business.

We understand that Post Office Limited intends to focus investment on new IT systems designed to make transactions speedier and easier in branch. However, we do not believe that efficiency savings alone can make up for both the cut in income experienced by operators over the course of Network Transformation and the scheduled increases in personnel costs to 2020.

The initial Post Office network transformation is near its end, a new strategy for the future of a mutualised Post Office needs to be developed and communicated as soon as possible. At the heart of the strategy, unlike the Government's consultation, must be the important role retailers play in providing Post Office services, the commercial viability of the Post Office model and an understanding of modern consumer needs.

**For more information on this consultation response please contact [steve.dowling@acs.org.uk](mailto:steve.dowling@acs.org.uk) or contact the ACS public affairs team on 01252 515001.**