

BIS | Department for Business
Innovation & Skills

**BUILDING A MUTUAL POST
OFFICE**

The Government's Response

JULY 2012

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Foreword

These are exciting times for the Post Office. The business, newly independent from Royal Mail, has set its sights on growth. Last financial year, for the first time since 2004/5, Post Office revenues grew, both before and after Government funding is taken into account.¹ At the same time, the number of post offices has been at its most stable for a quarter of a century.²

These welcome developments have come as a result of hard work. Under the leadership of Chief Executive Paula Vennells and the newly-established Board chaired by Alice Perkins, the Post Office has been working assiduously to build a positive platform from which to grow the business. These successes are also of course a testament to the hard work of all those involved in operating the network - nearly 8,000 Post Office staff, more than 8,000 sub-postmasters and around 50 retail partners who operate multiple branches, as well as all the people who work for them.

There will be no branch closure programmes under this Government. The Post Office will maintain a branch network of at least 11,500 offices. 90% of the UK population (and 99% of those in urban areas) must live within a mile of a Post Office.

The Coalition Government is investing £1.34bn over the period to 2015 to support and modernise the network. This funding will enable a network transformation programme across half the network – increasing opening hours for customers and reducing fixed costs. The Post Office's unrivalled branch network provides a physical presence for local communities to access essential services.

This makes it ideally suited to act as a front office for both local and national Government, enhancing access to Government services, while at the same time improving the long term sustainability of the Post Office. The business has made good progress in this area recently, securing a number of contracts for new services (worth up to £30m in new revenues). This is a good start, but we are clear that the Post Office needs to build on this success to secure more business in the future.

There remains a long road ahead to financial stability, with many demands on the business and its people. For too many years, the Post Office was allowed to decline. Technological change and the online revolution meant certain core parts of the Post Office's business, such as over-the-counter social benefit payments and letter volumes, have reduced. Consecutive post office closure programmes over the last decade reduced the number of branches by a third.

But with the right customer offering of products and services, and the right branch models, I am confident that the Post Office can achieve the financial stability that would make its branches more profitable. Our ambition is for a Post Office network which thrives on the business it generates, rather than relying on Government funding.

¹ Post Office Ltd reported total segment income of £1,160m (£980m ex-subsidy) in 2011/12, up from £1,121m (£971m ex-subsidy) in 2010/11, in Royal Mail Holdings plc, *Annual Report and Financial Statements 2011-12* (June 2012).

² The overall number of Post Offices at the end of March 2012 was 11,818. This compares to 11,820 in March 2011. This is the smallest net fall in over a quarter of a century.

Of course some branches may be inherently commercially unsustainable, for example because they are located in sparsely populated areas. Yet those branches have a high social value to their communities. There will almost certainly remain a need for continued public subsidy to maintain such branches. But by transforming its network and growing the business, the Post Office can greatly reduce its reliance on Government support. The success of this transformation will ultimately rely upon the ability of the Post Office to retain its customers and win new ones. And that will be determined by the staff and sub-postmasters who serve and support them.

The unpopularity of past closure programmes highlighted the importance communities attach to their post offices. Independent research has estimated the annual social value of the Post Office at more than £2.3bn.³ This was partly on account of the wide range of services it provides – from postal services to benefit, pension and bill payments. But the Post Office is more than the sum of its parts, a shop that is for many communities the only shop in the village and therefore a vital social hub. More than three million people signed a petition to halt the last Government's closure programme. Those who rely on the Post Office's services expressed their clear interest in its future.

The Post Office's interest groups are an asset to the business and its performance – as customers and those who serve them directly. The responses to this consultation show an appetite among stakeholders for greater participation. We want to unlock the benefits that a strong and mutually-supportive culture between the business and these groups can provide. Mutual ownership could achieve this by giving those with an interest in the success of the business a real stake in its future development. It could bring a sense that they are all working with the business to achieve shared ends. But it requires a change from the status quo, to bring diverse interests together within the Post Office, with the shared purpose of serving the public benefit.

The Post Office is undergoing major change, with the conversion of over half of its branches to new Local and Main network models by 2015 and the development of new revenue streams. The autonomy of the newly established Board to manage that process and deliver the commercial sustainability on which a transfer to mutual ownership depends is essential. And meanwhile, the Post Office will continue to rely heavily on public subsidy, so that Board must remain directly accountable to Government as owner and guardian of the public's interest.

This consultation has confirmed that the best principles of mixed member mutualism – particularly staff engagement and customer responsiveness – should be embedded in the Post Office's culture as part of this transformation. Building the appropriate mutual culture is as much a necessary precursor to the transfer of ownership as the sustainability of the business. The support we have received for a mutual model gives me confidence that it can deliver effective and efficient services upon which individuals and communities can depend. This is why mutualisation is at the heart of the Government's Open Public Services Agenda.

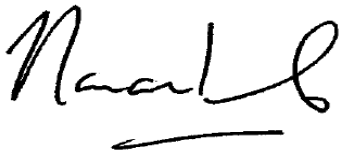
John Stuart Mill wrote of “the civilizing and improving influences of association, and the efficiency and economy of production on a large scale, [that] may be obtained without dividing the producers into two parties with hostile interests and feelings ... the relation of masters and work-people will be gradually superseded by partnership”. I believe building

³ National Economic Research Associates (NERA), *The Social Value of the Post Office Network: Report for Postcomm* (2009)

such a partnership can help deliver a successful transformation of the Post Office network and thereby successfully pave the way towards a possible mutualisation.

I want clear progress to have been made towards mutualisation of the Post Office by the end of this Parliament. This will entail building a mutual culture within the business. And, of course, the Post Office must move to a position of greater financial stability, which is why we are investing in network transformation while Post Office pursues a growth strategy. This consultation has been a very positive step on the path to mutualisation. I am grateful to all who have contributed, both through written responses and subsequent meetings and workshops. Staff, subpostmaster and consumer engagement will be the key ingredient in developing a successful mutual Post Office.

The level of participation from stakeholder groups thus far shows a clear appetite for further engagement with the business. I am confident that the conclusions from this consultation, alongside the steps Paula Vennells and her team at the Post Office are already taking, will help to build a culture of greater responsiveness between the business and its staff, agents and customers. But this is not just the responsibility of Government and the Post Office's management. All must play their part in the transition. And the quicker such a mutually-supportive culture is established with the Post Office and stakeholders working successfully together, the more promising the prospect of an ultimate transfer of ownership to a mutual will become.

A handwritten signature in black ink, appearing to read 'Norman Lamb', with a horizontal line underneath the name.

Norman Lamb

Minister for Employment Relations, Consumer and Postal Affairs

Executive Summary

Post offices are at the heart of communities across the country. In recognition of the public service the Post Office provides, the Government is legally obliged to retain it in public ownership. Legislation does provide, however, for the possibility of a transfer of ownership of the Post Office to a mutual run for the public benefit.

Building a mutual culture will be crucial for developing a shared view of the purpose and strategy of the Post Office, balancing the commercial needs of the business with the needs of consumers and, in particular, those most vulnerable. Mutual businesses have been shown to have a higher quality of service and staff conditions, with reduced absenteeism and an enhanced performance in terms of productivity. The involvement of those who work for the Post Office, subpostmasters and other commercial partners can offer valuable insights into making the Post Office more competitive, as quickly as possible. And giving consumers, as the users of post offices, a voice in developing the business's strategy could help to protect the public mission of the Post Office.

Ultimately, the correct ownership structure – whether, as now, a fully Government owned business or a stakeholder mutual – will be the one that best serves the public. It will be a Post Office that provides public services in easy reach of those who rely upon them; a Post Office that runs efficiently with less dependence on public funding. Parliament will have the final say over whether to transfer ownership to a mutual.

Before it can be mutualised, the Post Office must be on a secure financial footing. It would not be in anyone's interests – whether Government, stakeholder or the wider public's – to transfer the Post Office to mutual ownership if it cannot sustain itself financially. Nor would the Government consider handing over control of the Post Office if it were not satisfied that the company could flourish in the absence of current levels of subsidy and concomitant Government scrutiny. Its corporate form must best serve its public benefit purpose, and a transfer of ownership must be affordable to the taxpayer and good value for money. Attaining financial stability and commercial sustainability are therefore pre-requisites to the transfer of ownership to a mutual.

The Government's £1.34bn spending review commitment to maintain and transform the post office network seeks to put the business on the path to stability. It will fund the conversion of more than half the Post Office network to new 'Locals' and 'Main' branch models, offering longer opening hours but with lower fixed costs. It will enable the currently loss-making Crown Post Offices network to break even. It will make the Post Office better positioned to expand its business, developing Government services, personal finance products and new mail offers. The strategy is geared to modernisation, to customer excellence and, ultimately, to the growth of the business. To succeed, it needs the co-operation of staff and sub-postmasters, and the approval of consumers.

The benefits to be gained from achieving a shared view between those who work in and those who use post offices of its public benefit purpose and how it should be fulfilled led the Government to look at mutual ownership for the Post Office. The ownership model of the Post Office needs to be one that best meets the Government's objective to serve the public through the services it provides and its network coverage. It needs to lend itself to a commercially sustainable business. This has not been achieved in the recent history of the Post Office under public ownership. The Government therefore launched a consultation last autumn exploring whether a mutual Post Office would be a better ownership model and how a mutual Post Office could be designed.

Responses to *Building a Mutual Post Office* and Government's Conclusions

The thoughtful responses elicited from across the Post Office's range of stakeholders are an encouraging sign of their appetite for greater involvement. They have enabled the Government to draw a number of conclusions related to the questions asked; to set parameters within which a Post Office mutual could be developed; and to identify the next steps that would need to be taken to mutualise. The four subsequent chapters of this response set out in greater detail the nature of responses to the questions asked and Government's conclusions. To summarise:

Protecting the Public Benefit

The consultation invited comments on the purpose of the Post Office as being more than just a commercial organisation, given its distinct social value. It asked whether there were particular aspects of the Post Office that a mutual should retain. It then went on to ask whether a mutual Post Office should be able to make distributions to its members, provided the public benefit was protected.

Having analysed the responses, the Government concludes that the public benefit provided by the Post Office through its widely accessible branch network and the services made available there should be codified within the constitution of a mutual Post Office. That mutual must, in line with the Postal Services Act, exist to serve the public benefit. The Post Office will therefore establish a stakeholder forum. It will be structured in a way to enable input from the widest range of stakeholders, either directly or through representative groups, including representatives of stakeholders from across the spectrum of subpostmasters, directly-employed staff, multiple retailers who operate Post Offices, consumers and Government. Its particular focus will be working with the Post Office to define the business's public benefit purpose. Defining that common purpose will be essential for the development of a successful mutual. The forum's success will also be a crucial bellwether for the ongoing ability of those key stakeholders to work together with the business for the public benefit.

In any future mutual, regardless of its structure, there will need to be protections in place to safeguard the public benefit. The Government concludes that a mutual Post Office must include an appropriate asset lock to prevent the disposal of any Post Office assets which would be inconsistent with the public benefit purpose of the Post Office. While the constitution of a mutual should include a mechanism for the payment of profit distributions, the current financial position of the Post Office makes it difficult to envisage a situation in the medium term where there would be a surplus from which to make meaningful profit distributions. The business would need to prioritise reinvestment to secure the future of the Post Office and its long term financial and commercial ability to deliver its public purpose. The mutual must focus on successfully building its business, and reducing its reliance on Government subsidy, over and above profit distributions.

Membership and Governance

The consultation asked whether a mixed membership mutual of 'producers' (e.g. staff and subpostmasters) and 'consumers' (e.g. customers and consumer groups) is the correct model for a mutual and whom it should include. It also asked whether members should engage with the business through a representative body and, if so, whom that body should include with what balance of representation.

Based on responses to the consultation, Government has concluded that both 'consumers' and 'producers' should be represented within a Post Office mutual. This should include

staff, subpostmasters and multiple retailers and there must also be a formal conduit for the mutual to engage with the Post Office's consumers (which may also be through membership or through other appropriate means). Ultimately, a representative body should exist to represent the membership. The Board of the Post Office and its executives must have the clear autonomy to run the business day-to-day in a manner consistent with the mutual's purpose but must also be accountable to the representative body. The representative body will only be successful if it aligns interests rather than internalising differences in views. That is why the successful definition the public benefit purpose of the Post Office by the stakeholder forum will be essential in ensuring that members share a common purpose.

Government's Role

The consultation asked whether Government should transfer fully its ownership of the Post Office to a mutual over time.

In light of the concerns exposed by the consultation on this point, the Government has concluded it should be closely involved in the development of the mutual and retain an ownership stake at least until commercial sustainability is reached. Working with its stakeholders, the Post Office and Government should agree the criteria against which the financial stability and commercial sustainability of the Post Office should be assessed. Government will monitor the Post Office's progress against these criteria. And there will be greater transparency around the Post Office's financial position as a result of its independence from Royal Mail Group. The Post Office will now publish a separate annual financial report and it is also required under the terms of the Postal Services Act 2011 to publish an annual post office network report.

While Government believes that a contractual relationship between Government and Post Office Ltd could ultimately displace an ownership relationship, Government would retain an ongoing policy interest in the Post Office's ongoing operation for the public benefit. Therefore even after a transfer of ownership from Government to a mutual, Government would retain a mechanism for intervening if required to preserve the public benefit, for example through a special share.

Next steps

The conclusions above set a framework for designing a mutual model. This publication does not prescribe the precise corporate structure of a future mutual, what the balance of representation of different stakeholders should be nor the optimal timing for moving the Post Office to a mutual. Nor should it. If the mutual model is to work, these should be developed collaboratively between stakeholders, the business and Government.

The timetable will be dictated by a number of important factors already mentioned. The Government, the Post Office and its stakeholders must be satisfied that the business is on a sound financial footing for a transfer of ownership. This will be informed by the Post Office's success in introducing its new network models and growing its business. And a positive, collaborative culture working to achieve the shared goal of building a successful Post Office, run for the public benefit, must also have been established.

The remainder of the consultation's conclusions identify a process for resolving the outstanding questions that must be answered in advance of a move to a mutual. In so doing, they seek to build stakeholder engagement, sustaining momentum by developing a shared mutual culture.

1. Generating a culture of mutualism within the business

A culture of collaborative working within the Post Office is essential: transferring ownership to a mutual will not work unless there is enthusiasm among prospective members to work together with a shared purpose.

The Post Office is already fostering stakeholder engagement and customer responsiveness, for example through its Crown office staff engagement strategy, and through the National Federation of SubPostmasters' inclusion on the Post Office Network Transformation Board and the joint Post Office Ltd, National Federation of SubPostmasters Strategic Partnership Board. Chapter Six sets out more on the way in which the Post Office is beginning to instil mutual ways of working at local level to improve staff engagement and customer service.

The Post Office's establishment of a stakeholder forum to define the business's public benefit purpose is a key task in further building that culture. The stakeholder forum will provide an opportunity to test how a wide range of stakeholders with diverse interests can work together towards a common goal.

2. Stakeholder engagement to develop the mutual's form

Once the Post Office's public benefit purpose has been defined, the Post Office and its stakeholders will need to collaborate to develop more detailed aspects of the mutual model, including its membership and the balance of representation; and governance arrangements such as the role of the representative body.

3. Monitoring the commercial strategy to assess the attainment of financial sustainability

The Post Office's business strategy must be introduced successfully with revenue growth and the introduction of new 'Local' and 'Main' branch models. The Post Office, working with its stakeholders, will develop criteria against which financial stability and commercial sustainability can be measured. The criteria will be agreed with Government, which will then, alongside the Post Office Board, monitor progress against them to assess suitability for the move to a mutual. Obviously those of the Post Office's stakeholders who are to become members of any mutual would also need to be satisfied the criteria had been met.

4. Government endorsement of mutualisation

Prior to a transfer of ownership, the proposal to mutualise must be assessed as representing value for money for the taxpayer. And as set out in the Postal Services Act 2011, the Government must report to Parliament in advance of a vote on whether to mutualise.

5. Parliamentary vote approving the transfer of ownership of Post Office Ltd to a mutual structure

Informed by the Government's report and before any transfer can occur, Parliament must debate and vote in favour of the transfer of ownership to a mutual.

Conclusion

This response sets parameters for mutualisation. The Post Office's stakeholders - including Government, staff, subpostmasters and consumer groups – must now work with the Post Office to consider the design of a viable mutual in more detail. Shared views must be reached, thereby demonstrating the prospects for mutualism in aligning the diverse interests of the Post Office's stakeholders around a common goal. It will require a cultural shift in terms of engagement within Post Office and across its stakeholders. And if it is successful, the Government believes significant progress towards mutualisation could be made by the end of this Parliament.

1. The Consultation

The Department for Business, Innovation & Skills published *Building a Mutual Post Office*, a public consultation, on 19 September 2011. It followed an independent report by Co-operatives UK, *Options for a Mutual Post Office*, commissioned by Government and published in May 2011. The consultation lasted for twelve weeks, closing on 12 December 2011. *Building a Mutual Post Office* was sent to a range of relevant stakeholder organisations and was published on the BIS website.

Building a Mutual Post Office set out the Government's proposal to bring the Post Office into the mutual ownership of those with an interest in it – as consumers, subpostmasters, employees, franchisees, and their representatives – in how the business is run and how it fares.

In *Building a Mutual Post Office*, the Government asked the following questions:

1. Do you agree with this analysis of the value of the Post Office network [as more than just a commercial organisation – one that provides important social benefits to customers across the country, as a vital contributor to local retail and community services, as a social hub and a trusted and respected public service brand]? Are there any aspects of your post office experience that you consider particularly important for a mutual Post office to retain?
2. Do you agree that a 'mixed membership' model is the correct model to be considered for a mutual Post Office? If so, whom do you consider should make up the different constituencies of members, and why?
3. Should Government fully transfer its ownership of the Post Office to the mutual over time? Please give the reasons for your views.
4. Do you agree that the members should engage with the business's Board of Directors through a representative body? Or do you think an alternative governance structure would be more appropriate? If so, please explain.
5. Who do you think should sit on the representative body? Do you agree that there should not be an overall majority of members representing either consumer or producer interests?
6. Do you think a mutual Post Office should have the ability to make distributions to members, provided that the public benefit can be protected and financed through its constitution?
7. Do you have any comments on the considerations outlined? Are there any other considerations you think Government should pay particular attention to, in the event of a transfer of Post Office Ltd to mutual ownership?
8. In the light of this document, do you consider that mutualisation should be the preferred future ownership model for Post Office Ltd, as opposed to continued Government ownership? What do you see as the advantages and disadvantages of mutualisation for the post office network and its users?

Engagement with stakeholders

Ministers and officials from BIS have taken part in a number of discussions and events to canvass views from a wide range of individuals and organisations. A number of meetings dedicated to Post Office mutualisation have particularly informed the development of the policy, involving experts on mutual and employee ownership, trade unions, consumer representatives, subpostmasters, Post Office Ltd and multiple retailers. For example:

- Norman Lamb hosted a round table with experts
- Norman Lamb hosted a round table with Post Office stakeholders
- Officials held a workshop with consumer groups
- Officials held a workshop with multiple retailers
- Officials held a meeting with trade unions
- Post Office Ltd hosted a workshop with experts

The representative bodies themselves held independent consultative processes with their members.

The Consultation process

This paper sets out the issues that were consulted upon, a summary of respondents' views, the Government's analysis of the responses, and its conclusions about the nature of the path to mutualisation.

The 40 responses submitted to the Government are being published alongside this paper, with the exception of those submitted in confidence.

The Government would like to thank all those who contributed to the consultation. Positive stakeholder engagement is a pre-requisite to delivering a successful conversion of the Post Office to mutual ownership and, in particular, an ultimate transfer of ownership from Government. We want to build upon this strong base.

A paper copy of the consultation document can be obtained from:

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0207 215 5000

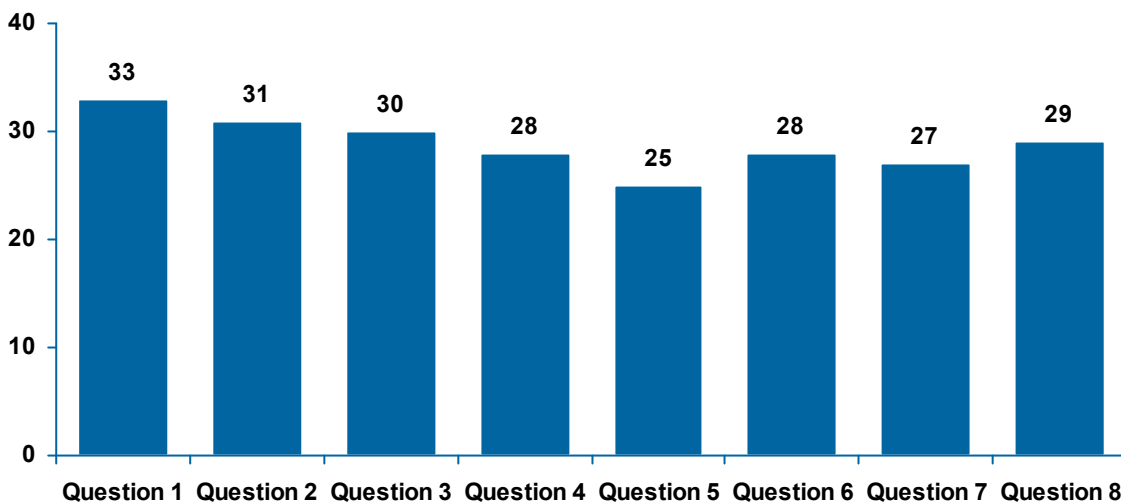
2. Responses Received

40 responses to the consultation were received from the following groups.

Type of Respondent	Number of Respondents of this Type
Business/trade organisation	7
Consumer Body/Charity/Social Enterprise	10
Devolved Government	1
Individual ⁴	7
Local Government	12
Trade Union/employer body	3

The response rate for each question is given in the chart below.

Figure 1: Breakdown of Responses by Question



⁴ Jesse Norman MP, Chair of the All Party Parliamentary Group on Employee Ownership, and two subpostmasters or mistresses, are included as individuals.

Overall Trends

- The majority of responses were positive about mutualisation as a long-term objective so long as the Post Office is in the requisite financial health and the public benefit is safeguarded. Only four respondents (one-tenth) stated a mutual Post Office would not be their preferred model.
- Almost all respondents believed both 'producer' (directly-employed staff and subpostmaster) and 'consumer' interests should have their voices represented within a mutual Post Office, given the public benefit mission of the business as well as its importance for those it employs directly and indirectly. However, several respondents envisaged a different role for 'producer' members from that of consumers within a mutual Post Office, given their divergent interests and levels of commitment to the Post Office's success.
- Answers have been analysed qualitatively so that, even where questions were not responded to directly, if they have been addressed indirectly they have been included in this analysis.
- Two-thirds of respondents were positive about the mutual model and the prospect of transferring ownership fully from Government to a mutual; the remaining third expressed scepticism. Many of the positive responses were tempered by caution as to the timetable for mutualisation and, in particular, towards a withdrawal of Government's ownership. Respondents largely saw the successful introduction of the new network models and the commercial opportunities they present as a pre-requisite to a transfer of ownership to a mutual.
- More than half recommended restricting distributions in order to protect the public benefit purpose of a mutual.

3. Protecting the Public Benefit

Proposals

The Government believes that the Post Office network is important because of the vital services that it provides customers across its unparalleled network, especially to vulnerable customers such as the elderly and disabled. It carries out a critical economic function for many small firms and often plays a significant social role, particularly in rural communities.

At present and for at least the remainder of this Parliament, the Government requires that the Post Office maintain at least 11,500 branches that meet specific geographical access criteria to ensure a wide coverage. Of the £1.34bn funding Government has committed to the Post Office over the course of this period, £750m is earmarked specifically to maintain the network at this size and reach.

In *Building a Mutual Post Office*, the Government posited that the value of the Post Office lies in being more than just a commercial organisation - it provides a range of vital local retail and community services, and offers a social hub and trusted public service brand to communities across the country.

In order to protect the social value of the network, safeguards will need to be imposed within the constitutional framework of a Post Office mutual. The Postal Services Act 2011 requires that a mutual Post Office could not be de-mutualised and sold into private hands. The consultation proposed additional safeguards such as an asset lock or other constitutional protections to ensure the public benefit remained the overriding purpose. So long as the latter were assured, the consultation included the option giving a mutual Post Office the powers to distribute surplus profits amongst members. Currently the business does not generate a profit without significant subsidy. But provided its growth strategy and network transformation prove successful, the ability to distribute profits amongst members could in future provide additional engagement and performance incentives for members.

The consultation asked the following questions:

Question 1

Do you agree with this analysis of the value of the Post Office network? Are there any aspects of your post office experience that you consider particularly important for a mutual Post Office to retain?

Question 6

Do you think a mutual Post Office should have the ability to make distributions to members, provided that the public benefit can be protected and financed through its constitution?

Views

Among the eight consultation questions, consensus was most apparent in the assessment of the value of the Post Office network. There was near-universal agreement in what one respondent described as the 'inherent social value of the network'. Three-quarters of responses explicitly cited access to branches and the services they provide as delivering that social value, while a sizeable subset singled out rural coverage and the provision of face-to-face services for the digitally excluded, elderly, vulnerable and deprived.

A number of respondents (particularly among multiple retailers and subpostmasters as well as some local government bodies) highlighted the difficulties of balancing the interests of the public with commercial interests of the business and its agents. As the Association of Convenience Stores pointed out, the ability of the Post Office to provide a public benefit is enhanced by commercial viability which generates funds for investment; the two have the potential to be symbiotic, not mutually exclusive.

"Post offices offer a valuable local setting to deliver important local and national public services and as such they perform valuable economic and social functions for local people."

Local Government Group

"The value of the Post Office network is axiomatic"

Unite the Union

While two thirds of respondents were in favour of ultimately giving a mutual Post Office the ability to make distributions, many felt the question of dividends to be premature based on its current financial performance. Its loss-making network is in need of modernisation. This creates an overriding need to invest in the business that eclipses the practicality and desirability of dividends at present.

More than half of respondents cited the need for restrictions on profit distribution and robust protections to preserve the public benefit. A number of alternative models for distributing profits were proposed. They included a transactions-based dividend for consumers; employee dividends based on defined financial and performance targets and operational success; and contractual incentives for subpostmasters and multiples to grow the business. Several respondents felt that distributions, if made, should be directed to producer members and a number stated that re-investment in the business should be prioritised to preserve the public benefit.

"The possibility of the Post Office having sufficient surplus to make a meaningful distribution is far from certain and would require a significant turnaround in the current position of the business ... We therefore believe it is premature for the government to discuss profit sharing ... any surplus would need to be reinvested into the business in the foreseeable future."

Communication Workers Union

"It is key to the success of any mutualisation that members are paid a dividend to reflect their good investment of time and energy. Without a dividend, why be a member?"

Essex County Council

Response

Defining and enshrining the public benefit

The Government shares the views of respondents that access to the Post Office branch network and its services are of vital importance and must be preserved. Not only is there a social need for a number of the services the Post Office provides over the counter – from benefits payments to drivers' licences, and from postage to banking – but its unparalleled network places it at the heart of many communities, particularly those in which the Post Office is the only shop for miles. The Government's primary objective for the Post Office has been to protect the provision of essential services to communities across its extensive network.

The Government has sought to ensure the Post Office delivers this public benefit through:

- A network of at least 11,500 branches across the UK, which meet certain access criteria, for the life of this Parliament.
- No programme of post office closures under this Government.
- Supporting the Post Office in its ambition to play a key role in delivering Government services, locally and nationally.
- Supporting the Post Office as it expands the range of accessible and affordable personal financial services it offers to customers.
- A modernised network that is a stronger partner for Royal Mail and other clients, backed by significant investment.
- The Post Office working with local authorities to plan and deliver local Post Office provision.

In order to ensure that its objectives are met in a way that is efficient and good value for money, the Government has also developed with the Post Office a strategy to create a more commercially sustainable Post Office. This will ensure future government funding can be targeted more directly at preserving those branches that may never be commercial without government compensation. This will entail:

- A transformed network with 6,000 modernised branches.
- Improved opening hours and retail experience for customers.
- Growth in revenues, particularly through Government and financial services provision.
- Eradication of the losses made by the directly-managed Crown post office network.
- Lower costs of the network to the taxpayer in the future.

The Government agrees with many of the consultation's respondents that often these objectives are complementary. For example, by winning contracts to provide benefit payments and manage drivers' licence applications on behalf of the Government, the Post

Office serves the public while growing commercial revenues that reduce its need for Exchequer support.

On other occasions, however, the commercial and social purposes of the Post Office chafe. A branch operating in a remote rural area with a small customer base is likely to be an economically inefficient business model; nevertheless the Government has committed to protect the Post Office's presence to preserve its social value. Post Office Ltd must maintain at least 11,500 post offices that meet strict access criteria. At least 93% of the UK population (and 99% of those living in towns and cities) must continue to live within one mile of a post office.

Throughout the consultative process, experts in mutualisation expressed the view that defining the purpose of the Post Office for the public benefit is a key ingredient to successful mutualisation. Defining the business's objectives will be a vital first step to ensuring that the business model applied to the Post Office is optimal, above alternative options. Mutual businesses also require a clear vision around which the wide ownership base can coalesce. For example, Arup's mission is a commitment to good design. John Lewis Partnership's stated purpose is the happiness of its members. For the Post Office, defining an appropriate level of service and those customers' needs it must meet, alongside the interests of those within the business who work to meet those needs, will be a vital prelude to mutualisation. This will enable codification of the Post Office's purpose within a future mutual's constitution.

It was generally accepted by stakeholders the Government consulted about building a mutual Post Office that in order to mutualise a business, it is necessary first to ascertain its objectives. As one key stakeholder commented, "You need to agree the purpose first before you can hang a structure on it." Defining the public purpose of the Post Office will be an important first step towards mutualisation and will mitigate the risk of conflict through a poor alignment of interests. It will serve as a barometer for the ability for the Post Office's stakeholders to work successfully to determine the collective interests of the business.

The Post Office will therefore establish a stakeholder forum. It will be structured in a way to enable input from the widest range of stakeholders, either directly or through representative groups, including representatives of stakeholders from across the spectrum of subpostmasters, directly-employed staff, multiple retailers who operate Post Offices, consumers and Government. Its particular focus will be working with the Post Office to define the business's public benefit purpose, around which a future mutual could be built. The success of the forum is a vital precursor to mutualisation and we will publish the agreed definition. Given its importance, the stakeholder forum will be chaired by the Chief Executive of the Post Office, and the Post Office will consider what expert advice and support the forum might benefit from to succeed in its task. The forum will report its findings to the Post Office Board and to Government.

Safeguards to protect the public benefit

The Postal Services Act 2011 requires that no disposal of a mutual's interest in the Post Office may be made, other than to another relevant mutual, the Secretary of State or a company wholly owned by the Crown. It also requires that a mutual Post Office has in place arrangements to prevent any disposals of its property or rights that would be inconsistent with the public benefit purpose. There must therefore be safeguards to deliver this.

An appropriate asset lock should be applied to a mutual Post Office to preserve its capital assets. This is needed to assure the public and funders of the Post Office that assets

could not be sold in a way that eroded the business's value and ability to act for the public benefit. Most post offices are privately owned by sub-postmasters but Post Office Ltd owns Crown post offices and other properties. While a Post Office mutual would need the flexibility to manage its estate in order to remain competitive and respond to its changing needs, there must be constraints on how it manages its assets to ensure consistency with the public benefit purpose of the business.

What is an asset lock?

Asset locks are designed to ensure that the assets of the relevant body (including any profits or other surpluses generated by its activities) are used for the benefit of those it serves. They are central characteristics of, for example, community interest companies. Their asset locks mean that any transfer of assets must satisfy certain requirements and either be retained for community purposes or, if transferred out of the company, done so in full consideration (i.e. at market value), to another asset-locked body specified within the constitution of the company or for the benefit of the community. Asset locks can also include more stringent requirements, provided they also include these basic provisions. Asset locks can also be put in place across a range of different corporate structures, beyond community interest companies.

An asset-lock on a mutual Post Office could be applied to ensure, for example, that the assets of the Post Office could only be disposed of at market value and only if consistent with its public benefit purpose.

Similarly, the distribution of any future profits of the Post Office must only occur if it served the public benefit. Currently, the Post Office only generates a profit as a result of significant subsidy from Government. Over the course of this Parliament, however, the business is projected to move towards greater financial viability, with the level of Government funding dropping significantly. Once financial stability has been reached, reducing the need for public funding, the Government envisages a mechanism for allowing a mutual Post Office to distribute profits among members so long as it did so in a way that sharpened the incentives to improve business performance and therefore served the public benefit. The business would need to have made sufficient investment in developing its business to meet that requirement before any distribution was made.

Even in advance of a transfer to mutual ownership, it may be possible to sharpen staff incentives for financial performance through remuneration structures. The network transformation programme will shift the cost base of the Post Office from fixed towards variable agents' pay, rewarding enterprising subpostmasters for transactions undertaken. This will provide a greater performance incentive in advance of mutualisation. However, giving subpostmasters a share in the performance of the business at large also has the potential to align the at times divergent interests of the Post Office and subpostmasters to the benefit of the public. For example, currently the individual subpostmaster may lack the financial incentive to channel work through the Post Office's website as they would lose out from the movement of that transaction online. Akin to asking a restaurateur with no tables to spare, 'Where else is good around here?', the customer may receive a referral but understandably the small business in question may also remain silent, fearing the future loss of footfall that could jeopardise its business.

Already, there is beginning to be what one union described as the 'golden halo effect' whereby the strong performance of the Post Office should trickle down to all its constituent

parts. For example, reducing the losses of Crown post office branches may allow the Post Office to spend more on developing successful new products, or further investment into branches. But this is not assured. To strengthen this 'golden halo' effect, it is Government's ambition for the distribution of profits to producer members to be possible in the future, so long as they are subject to the investment requirements of the network and would serve the public benefit. The potential distributions mechanism of a mutual Post Office could include profit based incentives, as proposed by respondents to the consultation, such as a transactions-based dividend for consumers; employee dividends based on defined financial and performance targets and operational success; and contractual incentives for subpostmasters and multiples to grow the business.

Decisions to distribute any profits of a future mutual must take account of the cost to the taxpayer of the 'social', uncommercial part of the network. As much of the network as possible must be sustainable without reliance on the Government. This is something which is in the business's interests in any event, but incentives could be developed to ensure this. For example, profit distributions could be made to Crown staff or subpostmasters in correlation to the reduction in overall subsidy for maintaining the network, so long as this were not at the expense of reinvestment to sustain the network and provide a good customer service. This will be important for the Post Office to remain competitive.

The question is however rather hypothetical at this stage given that the distributions model will depend on the financial position of the Company at the point of mutualisation and beyond. It is currently difficult to envisage a situation in the medium term where there would be sufficient profits from which to make meaningful distributions. In particular, the high volume, low margin transactions that characterise the Post Office's business model at present may make it ill-suited to a customer dividend model like the Co-operative Group's as dividends would be likely to be so small that they would not affect consumer engagement.

Profit motive is not all, however, and the civic importance of the Post Office and consumer interest in the level and nature of its services may well drive their participation in a mutual. Citizens Advice, for instance, noted that 'a financial incentive [may] have little effect on individual consumer members or consumer group members, whose main concern would be to have a real say in influencing the development of the Post Office.' Equally, for worker, subpostmaster and multiple retailer interests, the benefits of the culture of mutualism and a greater input in business strategy may provide an indirect profit motive if it makes the business more efficient. Overall, members would be united in their shared interest in a healthy Post Office.

Safeguards to preserve the public benefit would need to be constitutionally enshrined to assure their permanence. Such constitutional protections would themselves have to be protected. If the constitution of a mutual Post Office were to be amended it would need to be done in a way that preserved its main purpose of acting for the public benefit. We envisage that changes to the constitution would require the approval of Government or a body with accountability to Parliament, possibly through Government special share rights. Chapter Five further addresses the question of Government's role in a future mutual.

Conclusions

Defining and enshrining the public benefit

Conclusion 1

As enshrined in the Postal Services Act 2011, the purpose of the mutual must be to serve the public benefit. This must be codified in the constitution of the mutual.

Conclusion 2

Post Office Ltd will establish a stakeholder forum to develop a definition of the public benefit purpose of the Post Office. Government will be represented within the forum as an interested party.

Safeguards to protect the public benefit

Conclusion 3

An appropriate asset lock must be imposed on a mutual Post Office to protect the public interest while at the same time providing flexibility for the Post Office to remain competitive. As required by the Postal Services Act 2011:

1. A Post Office mutual must have in place arrangements to prevent disposals of property or rights that would be inconsistent with the public benefit purpose.
2. No disposal of a mutual's interest in the Post Office may be made, other than to another relevant mutual, the Secretary of State or a company wholly owned by the Crown.

Conclusion 4

The constitution of a mutual Post Office should include a mechanism for the payment of profit distributions subject at all times to consistency with the public benefit purpose of the Post Office. In particular, investment requirements to ensure the ongoing delivery of that purpose should take precedence.

Conclusion 5

The mutual must be incentivised to ensure as much of the network as possible is sustainable without reliance on Government funding. Decisions to distribute any profits to members must take into account the cost to the taxpayer of the 'social', uncommercial part of the network.

4. Membership and Governance

Proposals

The Government proposed a mixed mutual membership, embracing both producers – such as Post Office staff and subpostmasters – and consumers – such as customers or their representatives – with neither constituency holding a majority. This proposal was put forward in order to protect the public benefit by balancing commercial and public interests.

A representative body was proposed to represent the membership and hold the Board to account and ensure that the public benefit is delivered. The Board of Directors would have clear operational control of the business but be accountable to the representative body.

The consultation asked the following questions:

Question 2

Do you agree that a 'mixed membership' model is the correct model to be considered for a mutual Post Office? If so, whom do you consider should make up the different constituencies of members, and why?

Question 4

Do you agree that the members should engage with the business's Board of Directors through a representative body? Or do you think an alternative governance structure would be more appropriate? If so, please explain.

Question 5

Who do you think should sit on the representative body? Do you agree that there should not be an overall majority of members representing either consumer or producer interests?

Views

The majority of respondents agreed that both producers and consumers should play a role within any mutual's structure. Of those who opined, almost 90% (27/31) agreed with mixed membership. A greater variety of opinion was visible as to the balance of producer and consumer representation.

Three quarters (21/28) of those who responded to the question agreed that members of a mutual should be represented through a representative body; only one disagreed. (The remaining six were unsure.)

There was divergence as to whether any member interest should hold a majority within the mutual's representative body. A number of respondents, including the National Federation of SubPostmasters, the CWU and Unite, envisaged different roles for consumer and

producer members within a mutual structure. For example, the majority of respondents did not recommend that consumers should be eligible to receive dividends from membership of the mutual. Some felt that consumer organisations should be represented through a separate forum to that on which producers sat, whereby the Post Office's Board would be accountable to a representative body of producers, and consumer representatives would take an advisory role.

A number of respondents commented on the importance of ensuring that the business retain the flexibility to allow the Board of Directors to exercise overall strategic control of the business and run the company day-to-day unhampered by a cumbersome governance structure. Just as experts on mutual ownership emphasised the importance of a mutual having clarity of purpose, a number of respondents cited the importance of the representative body having a clear remit. The majority that commented on this subject recommended that the Board should be accountable to the representative body, which would have a monitoring role on how the Board was delivering the purpose of the mutual. Six respondents argued for a powerful representative body with, for example, influence over Board appointments and scrutiny of business strategy as part of its remit.

“The board of directors should have clear operational control of the business, but with the requirement to obtain the support of the representative body (trust) for certain decisions.”

National Federation of SubPostmasters

“There needs to be a balanced body of representatives, representing the public interest and commercial goals. It will be critical that all members are aligned to a pre-agreed strategy.”

WH Smith

Response

The Government agrees with the majority of respondents, that the voices of both ‘producer’ and ‘consumer’ interests should be represented within a future mutual.

There is a strong case for subpostmasters playing a key role in a Post Office mutual, directly and/or through the National Federation of SubPostmasters (NFSP). Already, subpostmasters and franchisees have a contractual stake in Post Office Ltd through the investment they make in their branches and their reliance upon Post Office Ltd to help to maximise the return on their investment, for example by winning services contracts. Meanwhile Post Office Ltd relies upon subpostmasters to sell its products and to implement its network transformation programme. There could be real business benefits to Post Office Ltd of further harnessing the interests and frontline expertise of subpostmasters and franchisees as it implements its network transformation and grows its business.

Similarly, by harnessing the experience of staff in an ownership capacity directly and/or through the CWU and Unite, Post Office Ltd may be able to better meet its objective to eradicate the losses of Crown post offices as well as benefit through higher productivity from improved staff engagement and industrial relations.

Given its wider social purpose, however, it is essential that there be a formal voice for those who rely upon a mutualised Post Office: its consumers. And like any other business,

the Post Office must meet the demands of its consumers to thrive. The interests of staff and subpostmasters and those of consumers may at times diverge. Consumer representatives, for instance, may have a lower level of expertise and appetite for participation in a Post Office mutual given that the Post Office is not their day-to-day occupation. However, the alignment of consumer and producer members' interests could result in real business benefits. The Government concludes that a formal conduit for a mutual to engage with consumers – particularly those most vulnerable and reliant upon its services – would be essential.

A move to mutual ownership will ultimately depend on the support of the Post Office's key stakeholders who would form its membership. Democratic structures rely upon participation which cannot be forced. This will begin with the work of the Post Office Ltd stakeholder forum, which will consist of representatives from across the spectrum of stakeholders including staff, subpostmasters and consumers. Its success in defining the public benefit purpose of the Post Office would augur well for the potential of mutual ownership in the long term to align the interests of the Post Office's stakeholders. Subsequently, the Post Office and its stakeholders will also need to collaborate to develop more detailed aspects of the mutual model, including its membership and the balance of representation; and governance arrangements such as the role and composition of the representative body.

If mutualised, the Post Office would be the largest mutual to emanate from the public sector. Post Office Ltd employs nearly 8,000 staff, and 30,000 staff are employed by over 8,000 sub postmasters and multiple branch operators, not to mention the Post Office's millions of customers. Some respondents to the consultation noted the at times divergent interests of sub-postmasters, as small business owners, and larger multiple retailers such as WH Smith or the Co-op. The involvement of commercial partners in helping the Post Office to develop the mutual proposal could offer valuable insights into making the Post Office more competitive as quickly as possible. The size of a mutual Post Office should not become unwieldy, however. At the outset, the staff of multiple retailers and subpostmasters should be represented through their employers.

The precise balance of representation of these groups will require further consideration by the Post Office and its stakeholders. However, the Government agrees with respondents that a representative body of members will be required. The Board of a mutual Post Office would be accountable to the representative body and report to the representative body on the performance of the business. But the representative body could not encroach upon the autonomy of the Board to run the business day-to-day and this will be paramount in ensuring the Post Office remains competitive. Equally, given the importance of the business's growth strategy and the network transformation programme, the Board must retain autonomy to manage rigorously their implementation, and accountability to Government alone before the move to a mutual.

Conclusions

Conclusion 6

Further work by Post Office Ltd in collaboration with its stakeholders should be undertaken to consider more detailed aspects of the mutual model. For example, the optimal balance of representation of a Post Office mutual will need to be considered collectively. This work will be based on the shared definition of the Post Office's public benefit purpose, developed through the stakeholder forum.

Conclusion 7

The future membership of a mutual Post Office should include staff and sub-postmasters. There must also be a formal conduit for any mutual to engage with consumers and further work will need to be done to determine whether this is best done through formal membership (direct or representative) or other means.

Conclusion 8

Any future mutual should include a representative body to provide oversight of the Board and represent the membership. Its remit and composition will be defined in partnership with the Post Office's key stakeholders.

Conclusion 9

The Board must have the clear autonomy to run the business in a manner consistent with the mutual's purpose.

5. Government's Role

Proposals

Building a Mutual Post Office followed Co-operatives UK's recommendation that it would be inappropriate for Government to continue in an ownership capacity. It proposed that the services that Government relies upon the Post Office to provide could be delivered instead through contractual means.

However, the transfer of ownership from Government to a mutual would be dependent on it representing value for money for the taxpayer, the ability of the Post Office to raise finance and working capital and the existence of a failure regime.

The consultation asked the following question:

Question 3

Should Government fully transfer its ownership of the Post Office to the mutual over time? Please give the reasons for your view.

Views

The majority of respondents recommended the continued involvement of Government in the Post Office, both in protecting the network's coverage and provision of services, and in ensuring its financial sustainability through subsidy. A third of respondents were actively opposed or sceptical about ownership transferring fully from Government to a mutual. For these respondents, Government is and should remain the ultimate custodian of the public benefit, answerable to Parliament for its performance.

Among the sceptics, however, several challenged Government to be more explicit as to how the public benefit would be guaranteed. Subject to securing the public benefit, only a minority of responses opposed mutual ownership over Government ownership in principle.

"Irrespective of whether mutualisation proceeds, we agree that it is important that POL achieves a 'clear cultural break' from the past. In particular it is important that it is able to move away from ... risk aversion, silo thinking between operational units, and a failure to demonstrate the commercial dynamism that is necessary to secure Post Office's future sustainability. Government ownership neither causes nor exacerbates these problems."

Consumer Focus

"It is tempting to say that the less Government has to do with the organisation going forward, the better."

Rural Services Network

Response

Government will not withdraw from ownership of the Post Office unless financial stability has been attained and it can be confident that the public benefit purpose will be met. Government will also need to retain oversight while it is still investing heavily in transforming the network on top of compensating POL for keeping open unprofitable branches in areas where post offices would not otherwise be commercially viable.

Ultimately, however, Government believes that the public benefit – and the branch network and services that contribute to it – could be served through a mutualised Post Office with a contractual relationship with Government to provide certain services and a branch network of a certain size and coverage. As set out in Chapter Three, the public benefit would need to be constitutionally codified within the mutual, with protections to safeguard its endurance. The twin Government objectives for the Post Office of serving the public well and securing a commercially sustainable business, have not been met in recent history under public ownership. The withdrawal of Government from an ownership role could provide a clear cultural break and drive commercial benefits for the business.

The Post Office's financial stability – a pre-requisite for mutualisation – relies upon the success of its current strategy. Funding of £1.34bn has been committed in 2011-2015 to sustain the network and transform over half of all branches into new models – Main and Local Post Offices – by the end of this Parliament. These models remove many of the fixed costs of the network and are designed to put the Post Office on a more sustainable footing, with longer opening hours and a product mix that meets customers' needs. The current modernisation programme, which goes hand in hand with projected growth in revenues, offers the prospect of greatly enhancing the Post Office's profitability. As a result, the business would be significantly less reliant on Government subsidy for maintaining uncommercial branches.

The success of this strategy to modernise the network and grow revenues will determine whether the Post Office is in good enough financial shape to mutualise. It would not be responsible for Government to transfer ownership of the Post Office unless it and the Post Office's stakeholders were confident that the business was in a suitable position to do so.

The Government will continue to monitor the Post Office's financial performance closely to track its success. The independence of Post Office Ltd from Royal Mail Group means that, already, a greater level of scrutiny will be applied to Post Office Ltd's business performance through, for example, the recent establishment of its new Board. Post Office Ltd will now also need to publish a separate annual financial report and, under the terms of the Postal Services Act 2011, an annual post office network report.

Government will therefore retain ownership at least until commercial sustainability is reached. In the meantime, Government will continue to be closely involved in the development of a mutual model and the definition of its public benefit purpose. It will be represented within the Post Office's stakeholder forum and support the Post Office in further mutualisation proposals within the framework of the conclusions set out in this publication.

Government will need to approve the appropriate definition of the public benefit purpose of the Post Office and the steps taken to protect it before they could be enshrined within the mutual's constitution. Any transfer to mutual ownership would also require the approval of Parliament.

Government would retain the ability to fund a mutualised Post Office, should funding be required to meet the public benefit. Government would also need to introduce a

mechanism to ensure that the Post Office's public benefit purpose continues to be fulfilled by any mutual structure, for example through a special share. This would ensure that, as set out in Chapter Three, changes to the constitution would require the approval of the Government or a body with accountability to Parliament.

Before the Post Office is mutualised, Parliament must be satisfied that its public benefit purpose is met by the mutual model selected, over and above its retention in public ownership or alternative models of mutual ownership. To protect the taxpayer's investment in the Post Office network, Government will carry out an assessment of the value for money of a mutualisation to ensure that the benefits outweigh its costs.

Conclusions

Conclusion 10

A formal transfer of ownership should only take place when commercial sustainability and financial stability have been achieved and it represents good value for money for the taxpayer.

Conclusion 11

Working with its stakeholders, the Post Office and Government should agree the criteria against which the financial stability and commercial sustainability of the Post Office should be assessed. Government will monitor the Post Office's progress against these criteria. And there will be greater transparency around the Post Office's financial position as a result of its independence from Royal Mail Group. The Post Office will now publish a separate annual financial report and it is also required under the terms of the Postal Services Act 2011 to publish an annual post office network report.

Conclusion 12

Government will retain ownership at least until commercial sustainability is reached. In the meantime, Government will continue to be closely involved in the development of the mutual model and the definition of its public benefit purpose.

Conclusion 13

Government will retain a mechanism to ensure that it can intervene if required to protect the public benefit, upon a transfer of ownership to a mutual, for example through a special share.

6. Next Steps

Proposals

The *Building a Mutual Post Office* consultation noted that more detailed complexities of governance would need to be addressed beyond those consulted upon, such as financing arrangements, the powers and precise composition of a representative body and a mutual Post Office's optimal corporate form.

The consultation asked the following questions:

Question 7

Do you have any comments on the considerations outlined? Are there any other considerations you think Government should pay particular attention to, in the event of a transfer of Post Office Ltd to mutual ownership?

Question 8

In the light of this document do you consider that mutualisation should be the preferred future ownership model for Post Office Ltd, as opposed to continued Government ownership? What do you see as the advantages and disadvantages of mutualisation for the post office network and its users?

Views

As shown in Chapter Two, the majority of responses were positive about mutualisation as a long-term objective. The Government also received a range of responses setting out thoughts on the pre-requisites to a transfer of ownership and the steps which must be taken to get there, referred to throughout this document.

“In the right circumstances Age UK would have no objection in principle provided that the public benefit for the most vulnerable customers is at the heart of the new Post Office vision and values.”

Age UK

“Removing Government ownership of the Post Office should enable the organisation to become more flexible and responsive to circumstances, since it will no longer be tied to Government processes ... this may result in an organisation which gains from the expertise of those who work for it, and responds to the needs of those who use it. On the other hand ... mutualisation will only take place if and when the Post Office is in a financially viable state. Reaching this stage is not a foregone conclusion.”

Action with Communities in Rural England, Cambridgeshire

Response

There are a number of pre-requisites to a transfer of ownership to a mutual. The Post Office must achieve financial stability and commercial sustainability. This will rely upon the success of the network transformation programme and on the Post Office winning more profitable business. Parliament must also approve any formal transfer of ownership, involving a further report by Government and then a vote in both Houses.

But many of the benefits of mutualism can and should be adopted in advance of any formal change in the ownership structure, if they can support the business's growth strategy and delivery of network transformation. Building a shared mutual culture will be crucial. The input of those with an interest in the Post Office will be an essential ingredient of that cultural shift.

Cultural transition

“The cultural change to mutuality is just as important as the change of structure and governance. Knowledge and capability need to be developed at all levels of the organisation from grass roots member development to training of leadership to operate within democratic governance, so that everybody can play their part and understand how they contribute to achieving the Post Office's goals.”

Co-operatives UK

Staff engagement to improve the customer experience

Mutualism is often associated with greater staff engagement, lower staff turnover and higher customer satisfaction.⁵ Research by the Cass Business School has found that employee-owned firms are less affected by the cycles of boom and bust and therefore more sustainable through economic downturns.⁶ The Post Office's network transformation programme involves a level of investment and degree of change unparalleled by any previous reorganisation. So the goodwill of the staff and subpostmasters involved in implementing the transformation, and of the customers who use the new post office models, will be essential to making it a success. Engagement and staff satisfaction not only offer benefits to industrial relations but have the potential to improve the Post Office's financial performance.

The need to make the business more responsive to customers is a central tenet of the Post Office's commercial strategy. This was also reflected in a number of the consultation responses. The Post Office is taking significant strides to improve levels of stakeholder engagement across its business. For example, data collected by Ipsos Mori on employee engagement shows that it has improved within the Post Office from 38% in November 2010 to 64% in March 2012. This is excellent progress and the Post Office is keen to build on this success.

⁵ Reduced staff turnover reported in M. Festing et al., 'Financial participation in Europe – determinants and outcomes', *Economic and Industrial Democracy*, vol. 20, no. 2 (1999).

⁶ Lampel, J, Bhalla, A. and Jha, P., *Model Growth: Do employee-owned businesses deliver sustainable performance?* (2010).

Regular, consistent and meaningful staff communication characterises successful mutual businesses, giving staff an opportunity to raise concerns and the business a chance to explain business plans. At the end of May the Post Office, supported by the CWU and Unite, ran an event for staff – Post Office Vision – to communicate the strategic direction the business is taking over the next few years. The event focussed on delivering customer excellence, growing and modernising the business, building the brand. And crucial to all of this is the leadership provided by all of the Post Office's people.

Staff feedback from the Post Office Vision Event

"I think our Government stakeholders would be reassured by what is happening at this vision event. This is a confident organisation."

"Some interesting questions coming into the Q&A session, but operationally focussed. Maybe a challenge to the executive team for greater engagement."

The business is also piloting an engagement strategy starting with Crown branches, driven by mutual principles. The pilot is empowering members of the 'frontline' to implement improvements based on their own detailed study of customer demand, in order to generate more demand for products and services, provided in more innovative ways. This harnesses their experiences of serving customers directly and the day-to-day operations of the business, to identify ways in which the business can be run more efficiently and more successfully. In the pilot, all support services will be asked to respond to the requests of the frontline staff for help: from managers to specialist functions such as IT and HR. In this way they are testing the impact of a customer-centric organisation that is responsive to the frontline experience of staff.

Staff Engagement Pilot in a Crown Post Office

Post Office Ltd is assembling a team of a dozen staff from the shop floor to dedicate time to researching the demands of customers and the community to which they belong. Taking their findings and applying them within a single Crown post office branch, staff will also be released from centrally-imposed targets and 'central control' management techniques. This will enable the Post Office to test what helps and hinders productivity, customer responsiveness and value creation. While there is no guarantee that this will increase profitability, footfall or customer satisfaction, the pilot will enable the Post Office to measure the impact on all these performance criteria as well as staff engagement. If successful, the new strategy can be rolled out more widely. Ultimately, the whole network could benefit.

The pilot is being developed collaboratively with the CWU and Unite. Three union representatives have been seconded onto the pilot full time with support from National officials.

Alongside the engagement strategy, the Post Office has been developing a partnership strategy with the Trade Unions. By understanding each party's interests they seek to find mutually beneficial solutions to issues confronting the Post Office.

The Post Office has also established a Strategic Partnership Board with the National Federation of SubPostmasters to work together to achieve the overall aims and objectives of the business, including the delivery of the Network Transformation Programme.

The successful move to a mutual requires a culture of openness and communication between staff, sub-postmasters and the business, with the customer at the centre. Innovations in engagement like these will help to further develop that culture.

Stakeholder Forum

The collective engagement of stakeholders by the Post Office has the potential to be both efficient and educative. Some of the same conversations that are currently taking place between the Post Office and its stakeholders on separate occasions could in future be aired on a multilateral basis. This would foster greater understanding among different interest groups as to the spectrum of views leading to better, more informed outcomes. For example, consumer representatives who challenge the product range available in advance might reappraise their views on hearing from sub-postmasters or Crown staff the impact that certain excluded products would have on queue times, if provided, to the detriment of the majority of customers.

Generating a culture of collective participation will be essential to the success of a mutual: moving to a mutual will not work unless there is enthusiasm among prospective members to work together with a shared purpose. And so the work of the stakeholder forum in defining a shared public benefit purpose for the Post Office will be a crucial step in developing that culture of collective participation.

Other engagement activities

Subpostmasters, staff and consumers via their representatives will also need to collaborate with the Post Office in developing more detailed aspects of the mutual model, such as the composition and balance of representation of different stakeholder groups, or the final corporate form. This will build on the work already done by Co-operatives UK and in line with the framework now being set out by Government.

Additionally, the Post Office is enhancing its engagement with subpostmasters. Regular road shows are planned to bring the Post Office closer to the network of sub post offices and the staff who work in them. The aim of this and other initiatives is to improve the business's ability to listen and respond to customers and those who are closest to them.

Communication with staff characterises many mutual businesses, giving staff an opportunity to raise concerns and the business a chance to explain business plans. The evidence gathered from the stakeholder forum, and from stakeholders more widely such as through the business's staff engagement strategy, will enable the Post Office Board to develop more detailed aspects of the mutualisation proposal. It will ultimately inform Government and Parliament's decision about whether to transfer ownership to a mutual. But these initiatives will also mean that the feedback and good ideas emanating from stakeholders (for example on network transformation) can be implemented early, before a mutualisation transaction, because it makes good business sense to do so. Inclusive ways of working can and must precede structural change.

Next Steps towards Mutualisation

The conclusions in this document do not fix a timetable for implementation of mutualisation. The timetable will be dictated by the point at which the Government, the Post Office and its stakeholders are satisfied that it has attained the financial stability and sufficient commercial sustainability to create a sound basis for transferring ownership. This will be informed by the Post Office's success in introducing its new network models and growing its business.

A move to a mutual Post Office will also be dependant on the successful establishment of a positive culture of working together to achieve the shared goal of building a successful Post Office that is run for the public benefit.

However, the Government here sets out the next steps towards mutualisation. They identify the means for resolving those outstanding questions that must be answered in advance of a transfer of ownership. They are designed to build stakeholder engagement, sustaining momentum by developing a shared mutual culture.

1. The generation of a culture of mutualism within the business will be a vital precursor to any ownership transfer.
 - The Post Office and its stakeholders will build further a culture of engagement and customer responsiveness.
 - The Post Office will establish a stakeholder forum to recommend a definition of the purpose of the Post Office for the public benefit.
 - The Post Office and its stakeholders will collaborate to develop more detailed aspects of the mutual model, including its membership and the balance of representation; and governance arrangements such as the role of the representative body.
2. The Post Office's commercial strategy must be introduced successfully with revenue growth and the introduction of new 'Local' and 'Main' branch models. The Post Office, working with its stakeholders, will develop criteria against which financial stability and commercial sustainability can be measured. Government will monitor progress against these criteria to assess suitability for a transfer of ownership.
3. Government must endorse the proposal on a basis that represents value for money for the taxpayer. As required by the Postal Services Act 2011, the Government must report to Parliament in advance of a vote on whether to mutualise.
4. Parliament must debate and vote in favour of the transfer of ownership to a mutual.

7. Summary of Conclusions

Conclusion 1

As enshrined in the Postal Services Act 2011, the purpose of the mutual must be to serve the public benefit. This must be codified in the constitution of the mutual.

Conclusion 2

Post Office Ltd will establish a stakeholder forum to develop a definition of the public benefit purpose of the Post Office. Government will be represented within the forum as an interested party.

Conclusion 3

An appropriate asset lock must be imposed on a mutual Post Office to protect the public interest while at the same time providing flexibility for the Post Office to remain competitive. As required by the Postal Services Act 2011:

1. A Post Office mutual must have in place arrangements to prevent disposals of property or rights that would be inconsistent with the public benefit purpose.
2. No disposal of a mutual's interest in the Post Office may be made, other than to another relevant mutual, the Secretary of State or a company wholly owned by the Crown.

Conclusion 4

The constitution of a mutual Post Office should include a mechanism for the payment of profit distributions subject at all times to consistency with the public benefit purpose of the Post Office. In particular, investment requirements to ensure the ongoing delivery of that purpose should take precedence.

Conclusion 5

The mutual must be incentivised to ensure as much of the network as possible is sustainable without reliance on Government funding. Decisions to distribute any profits to members must take into account the cost to the taxpayer of the 'social', uncommercial part of the network.

Conclusion 6

Further work by Post Office Ltd in collaboration with its stakeholders should be undertaken to consider more detailed aspects of the mutual model. For example, the optimal balance of representation of a Post Office mutual will need to be considered collectively. This work will be based on the shared definition of the Post Office's public benefit purpose, developed through the stakeholder forum.

Conclusion 7

The future membership of a mutual Post Office should include staff and sub-postmasters. There must also be a formal conduit for any mutual to engage with consumers and further work will need to be done to determine whether this is best done through formal membership (direct or representative) or other means.

Conclusion 8

Any future mutual should include a representative body to provide oversight of the Board and represent the membership. Its remit and composition will be defined in partnership with the Post Office's key stakeholders.

Conclusion 9

The Board must have the clear autonomy to run the business in a manner consistent with the mutual's purpose.

Conclusion 10

A formal transfer of ownership should only take place when commercial sustainability and financial stability have been achieved and it represents good value for money for the taxpayer.

Conclusion 11

Working with its stakeholders, the Post Office and Government should agree the criteria against which the financial stability and commercial sustainability of the Post Office should be assessed. Government will monitor the Post Office's progress against these criteria. And there will be greater transparency around the Post Office's financial position as a result of its independence from Royal Mail Group. The Post Office will now publish a separate annual financial report and it is also required under the terms of the Postal Services Act 2011 to publish an annual post office network report.

Conclusion 12

Government will retain ownership at least until commercial sustainability is reached. In the meantime, Government will continue to be closely involved in the development of the mutual model and the definition of its public benefit purpose.

Conclusion 13

Government will retain a mechanism to ensure that it can intervene if required to protect the public benefit, upon a transfer of ownership to a mutual, for example through a special share.

Appendix: List of Respondents

Respondents to the Consultation
Action with Communities in Rural England
Action with Communities in Rural Kent
Age UK
Association of British Credit Unions Limited
Association of Convenience Stores
Baker, M.
Cambridgeshire Action with Communities in Rural England
Citizens Advice
Communication Workers Union
Consumer Focus
The co-operative
Co-operatives UK
County Councils Network
Eden District Council
Essex County Council
Federation of Small Businesses
Gordon-Preston, M.

Respondents to the Consultation

Hughson, L.

Jesse Norman MP

Local Government Group

Maclay Murray & Spens LLP

Mid Suffolk District Council

Narayan, S.

National Federation of SubPostmasters

Newcastle City Council

O'Flanagan, P.

Oxfordshire Rural Community Council

Parson Drove Parish Council

Phillips, G.

Plunkett Foundation

Rural Services Network

Rural Shops Alliance

Ryedale District Council

Scottish Youth Parliament

Stowupland Parish Council

Respondents to the Consultation

Tatsfield Parish Council

Unite the Union

Welsh Government

WH Smith

West Sussex County Council

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