

Department for Business Innovation & Skills – Building a Mutual Post Office Consultation

Response from the National Federation of SubPostmasters

December 2011

1 Executive Summary

1.1 Post offices offer a uniquely wide range of products and services under one roof. Post offices also play critical roles supporting local communities and underpinning local economies. However, our national post office network is under considerable pressure due to trends in retailing, technological innovations and reductions in the amount of government work offered through post offices. Subpostmasters are increasingly struggling to make a living from their post offices.

1.2 The government has published a range of proposals to modernise the post office network, to make it more financially viable and prevent further post office closures. A central part of the government's plans include the proposal to convert Post Office Ltd (POL) to a mutual structure. The National Federation of SubPostmasters (NFSP) welcomes this initiative.

1.3 Mutual organisations are owned by their members, and members usually have another relationship with the mutual either as producers (workers or employees), suppliers or consumers. Mutuals are an expanding sector and there is considerable evidence of the efficacy of mutualised companies and organisations.

1.4 The government emphasises the importance of including 'producers' (employees and subpostmasters) as members of a Post Office mutual. The NFSP agrees it is essential that producers play a central role in a future mutualised Post Office.

1.5 Research shows businesses owned by employees and other producers consistently outperform conventionally-owned businesses. Employee-owned businesses are particularly robust; more concerned about long-term sustainability than short-term profitability; more stable; have higher productivity; create jobs faster and preserve them better during recessions. Evidence also shows businesses with this ownership structure tend to have higher levels of innovation and more staff commitment. The NFSP believes such strengths should be harnessed in a Post Office mutual and used to transform the post office network.

1.6 A subpostmaster stake in POL is particularly crucial to the future of the Post Office, as POL and subpostmaster interests are currently badly misaligned. Many decisions taken by POL are decisions specifically designed to protect the central structures of the company at the expense of the network as a whole.

1.7 Subpostmasters' personal investment of over £2bn in the national post office network needs to be far better reflected in decisions about the company and its future. The NFSP believes that converting POL to a mutual model, with subpostmasters forming a significant part of the membership should be key to resolving this issue.

1.8 The NFSP agrees that the interests of the public need to be central to the running of Post Office mutual. We recommend that the consumer voice is heard through organisations such as Citizens Advice, rather than by customers being offered direct membership.

1.9 The NFSP supports the government's proposal for a three-tier governance structure, on the basis of a trust ownership model. This would include general membership; the members represented on a representative body, which could be elected or appointed by them; and a board of directors. The representative body would act as a formal link between the board of the company and its members.

1.10 Ownership would be held in the representative body (a trust). The members (or owners) would not contribute capital. They would be unable to extract the stake or increase it; they would not take any shares when they leave. All rights would belong to the trust, including votes and dividends. The board of directors should have clear operational control of the business. But the consent of the representative body should be required for key strategic decisions.

1.11 The NFSP suggests a representative body of around 11 members. This would be a 'multi-stakeholder mutual' consisting of no majorities but a balance of different interest groups. However, there should be a proportionally greater producer influence on the representative body to help ensure POL benefits from the advantages typically gained by organisations run on an employee-owned model.

1.12 The public interest within a mutualised POL should be protected through consumer body representative(s) on the representative body; the continued requirement to ensure reasonable access to Post Office services, through access criteria and a guarantee on the minimum number of post offices; a government representative on the trust; and the better run Post Office that would result from the new ownership model.

1.13 The NFSP believes the government should continue to retain an ownership stake in Post Office mutual. We are concerned that without a government representative on the trust, the current link between Post Office and government would weaken, reducing the government's commitment to the network. The government should also act as the ultimate guarantor of the network, and must be prepared to step in, in the event of a collapse of POL.

1.14 It is essential that the government ensures the 'front office for government' service comes to fruition. This would provide face-to-face access

at post offices to a full range of central and local government services. The NFSP does not believe the post office network can be financially sustainable without a comprehensive, suitably remunerated, front office for government service.

1.15 A commitment to additional government funding will be required before mutualisation can take place. This is needed to ensure the network is fit for purpose and must include funding to upgrade around 5,500 post offices, following the current investment programme in the other 6,000 branches.

1.16 A number of key financial questions remain to be resolved. The government says POL must be “financially sustainable” before mutualisation. But it is not clear what exactly this means and the NFSP would welcome clarity on this. However, the post office network will continue to require the government’s Social Network Payment, and without this funding (or contract for services) the mutualisation of the Post Office is not a viable option.

1.17 Questions about how investment and working capital would be raised and financed under a mutualised Post Office also need to be addressed.

1.18 The NFSP agrees with the government’s position that distributions (or dividends) could incentivise those who run the network, but that this is only likely to be appropriate once the business is able to generate sufficient cash to meet all of its operating costs and investment needs. However, the NFSP cautions that any dividend payments should only be made to producer members. POL will never be a hugely profitable organisation and dividends will never be substantial enough to allow for distributions to the general public.

1.19 A radical change of organisational culture is essential for POL if it is to achieve the benefits that mutualisation should deliver. This includes inclusive management approaches; transparency; genuine and significant ongoing subpostmaster and staff engagement and consultation.

1.20 In the transition phase, it is critical that the POL-NFSP board has a meaningful role to play, and subpostmasters should have seats on POL’s board of directors and executive management team.

2 The National Federation of SubPostmasters

2.1 The National Federation of SubPostmasters (NFSP) is the trade union and membership organisation which represents subpostmasters. Subpostmasters are independent business people who act as agents to Post Office Ltd (POL) and run sub post offices, which make up 97% of the national post office network. The NFSP is the only organisation recognised by POL to represent subpostmasters.

3 Background

3.1 The government is developing a proposal to convert POL into a mutual structure. The aim of this consultation is to assist with the further appraisal of the case for and shape of a mutualisation, to move towards an agreed model for a mutual POL. This is the NFSP's written submission to the consultation.

3.2 POL's mutualisation must be understood against the full background of issues facing the post office network, and the wider government initiative to introduce new models for public service delivery, and in particular employee-led mutuals.

4 The post office network

4.1 Services

4.1.1 Post offices offer a uniquely wide range of products and services under one roof - from postal services, travel, telephony and bill payments to government services, banking and financial services. Eight in ten post offices are run alongside a shop, and post office shops play important roles in providing local retail including stationery, newspapers, food and household goods.

4.1.2 With 11,800 outlets, the post office network provides easy public access to these essential services throughout the UK, including remote rural communities and deprived urban areas. Government access criteria require POL to maintain a minimum coverage.

4.1.3 Post offices are extensively used, and used by all sections of society. Every week 20 million people conduct almost 60 million transactions. Research finds 98% of households use a post office, and 49% of consumers use a post office every week.^{1,2}

4.2 Community role

4.2.1 There is overwhelming evidence of the exceptionally valuable role played by the post office network in supporting local communities above and beyond that of providing Post Office and retail services. This includes providing assistance for vulnerable residents – interpreting official letters, fielding lost property, taking messages and offering emotional support. Post offices also provide a focal point for communities by offering a place to come together and a venue for agencies like the police, local authorities and tourist attractions to offer information and services.

4.2.2 Although all sections of society use post offices, certain sections of the

population are more reliant on the network. The heaviest users of post offices are older people and those in the lower (C2 and especially DE) socioeconomic grades – some visiting the post office three or four times a week.³ Studies show disabled people and rural residents are also particularly frequent users of post offices.^{4,5}

4.3 Local economic role

4.3.1 Post offices play significant roles in local economies as sources of cash. For every £1 transacted in the UK, 14p is handled through the post offices, and over £80bn of cash a year passes through the network. The post office network is bigger than the UK's retail bank and building society branch networks combined, and its role in cash provision is likely to become increasingly critical as more and more banks close their branches.

4.3.2 Local access to banking services is not just a question of access for individuals. Access to banking is key to the survival of retail and other services in many communities. Cash is often spent near to where it is withdrawn - people who take out money from a bank or cashpoint spend 50-67% in nearby shops.⁶ A study of post offices in Manchester concluded each post office contributes around £310,000 to the local economy each year, of which £120,000 is direct spending on local goods and services.⁷

4.3.3 In addition, post offices provide a wide range of services directly to local businesses. There are 4.5 million small businesses in the UK, accounting for 49% of total private sector turnover. The Federation of Small Businesses (FSB) finds 88% of small businesses use a post office for mails services.⁸ The FSB reports 20% of small businesses use a post office every day and 47% use it more than once a week.⁹ Local firms also use post offices for DVLA issues, passport renewals, parcel collection, bill payment, foreign exchange, accessing cash and cheque acceptance.

4.4 Current issues

4.4.1 Despite its obvious strengths our national post office network is under considerable pressure. This is in part due to trends in retailing and technological innovations. Long-term lack of investment has also taken its toll. A further blow to the network's fortunes came in 2003, when the government introduced the direct payment of state pensions and benefits straight into bank accounts. Two major government closure programmes resulted in the closure of 7,000 post offices over the past decade, in an attempt to boost the viability of the remaining post offices. However, many subpostmasters continue to struggle to make a living.

4.4.2 A major survey carried out by the NFSP in 2009 revealed subpostmasters' personal drawings (money taken as a salary) from their Post Office income had dropped by nearly 9% over the previous three years and average drawings were £866 per month. Moreover, 14% of subpostmasters were taking no personal drawings from their post office at all.¹⁰ Since this time, internal research for the NFSP shows further reductions and an ongoing downward trend in transaction volumes and transaction payments.

4.4.3 In November 2010 concerns about the future viability of the post office network led the government to publish a range of proposals to modernise the post office network, to make it more financially viable and prevent further post office closures.¹¹

4.4.4 The government is providing a £1.34bn funding package to restructure the network. The NFSP supports the planned restructuring programme which will see the introduction of two new models of post office service – Main Post Offices and Post Office Locals – to operate alongside the traditional post office model. The network will remain at its current size. Main Post Offices will receive investment funding; Post Office Locals will integrate post office services within existing retail businesses. Both Locals and Mains will have longer opening hours than traditional post offices.

4.4.5 The government has proposed that post offices should become the ‘front office for government’, providing face-to-face access at post offices to a full range of central and local government services. This proposal builds on the many central and local government services already available at post offices. The NFSP supports these plans, which need to translate into significant amounts of additional work across post office counters.

4.4.6 The government also says the Post Office needs to expand further into financial services. This should include developing new Post Office financial services products, and making all UK current accounts accessible through the post office network. The NFSP has long been lobbying for comprehensive access to banking and financial services at post offices and the development of a state-backed Postbank.

4.4.7 A further critical issue for the future of the post office network is the government plan to split Royal Mail Group, separating POL and Royal Mail into two entirely separate companies. However, income from mail transactions accounts for one-third of total post office income, and the NFSP is concerned that the separation of POL and Royal Mail may mean current business arrangements between the two companies will change. It is vital that existing levels of Royal Mail work at post offices are maintained - a minimum 10 year Inter Business Agreement between the companies must be signed in order to guarantee this.

5 Mutualisation

5.1 A central part of the government’s plans for the modernisation of the Post Office include the proposal to convert POL to a mutual structure. The NFSP welcomes this initiative, which reflects the NFSP’s long-standing position and work which the NFSP has undertaken in recent years.

5.2 Whilst the term ‘mutual’ is not consistently defined, the term tends to be used to describe organisations where the ownership is contained within a group of internal stakeholders. These stakeholders could be employees, customers, suppliers or a mix of these groups. It is usual for these stakeholders, known as members, to play a role in the governance of the organisation.^{12,13}

5.3 A mutuals' umbrella group, Mutuo, identifies a wide range of mutuals including financial mutuals (e.g. building societies, credit unions); co-operatives (e.g. the Co-op Group); employee-owned mutuals (e.g. John Lewis); community mutuals (e.g. allotments, social clubs); public service mutuals (e.g. NHS Foundation Trusts, cooperative schools).

5.4 Mutuals are an expanding sector. According to Mutuo, there are now 18,500 mutuals operating in the UK, with a combined £100bn gross annual turnover and over 1 million people working in mutual businesses.¹⁴

5.5 There are strong arguments made in favour of mutualised organisations and companies, and much evidence indicates their efficacy. Essentially, mutuals should be better placed to tap into members' know-how and ideas. As Demos points out, by involving their members, mutuals should be able to unlock ideas among individuals and whole communities, which investor-owned companies and public sector bureaucracies cannot reach.¹⁵

5.6 In the public service sector, the democratic governance structures play a particularly key part in enabling a variety of ethical and social factors to be fed into decision making.¹⁶ There is also a robust economic case for granting employees and workers greater autonomy in the workplace.

6 Employee and worker ownership

6.1 The government emphasises the importance of including 'producers' (employees and subpostmasters) as members of a Post Office mutual. The NFSP agrees it is essential that producers play a central role in a future mutualised Post Office.

6.2 In the UK employee-owned businesses are becoming a significant part of the economy. In total they have an annual turnover of at least £25bn.¹⁷ High-profile examples include the John Lewis Partnership, Scott Bader and Arup. Demos finds "examples of employee-owned public service outlets are rare but generally impressive".¹⁸ Employee-owned businesses delivering public services include Central Surrey Health, Sunderland Home Care Association and Circle.

6.3 The government's Mutuals Task Force has reviewed the national and international evidence relating to the performance of organisations with a high degree of employee control – in both the public and private sectors. It concluded that there is a significant body of reliable evidence suggesting that well-designed mutualisation of this sort in relation to public services has the potential for yielding considerable benefits in a wide variety of contexts.¹⁹ The NFSP believes a Post Office mutual could - and should – harness these benefits, using them to transform the Post Office and securing a thriving network for decades to come.

6.4 The employee-ownership model of business is a particularly robust one. Evidence indicates employee-owned businesses taking a stakeholder view of management are concerned about long-term sustainability, rather than short-

term profitability.²⁰ As a result in the long term employee-owned companies prove to be more resilient than conventionally-owned companies.

6.5 The UK Employee Ownership Index (EOI) shows that over 18 years, employee owned companies have outperformed FTSE All-Share companies each year by on average 11%. Over successive three year periods they have outperformed by 38% and over successive five year periods by 74%. An investment of £100 in the EOI in 1992 would at the end of September 2010 have been worth £768, the same investment in the FTSE All-Share Index would have been worth £235.²¹

6.6 Employee-owned businesses are more stable and display less sales variability across the business cycle. Average sales growth for employee-owned businesses surpassed considerably the average sales growth for non-employee-owned businesses when the economy entered recession in 2008. Average increases in sales turnover in 2008/09 was 11.08% for employee-owned businesses and 0.61% for non employee-owned businesses.²²

6.7 Research from businesses in the UK, Japan and the US shows employee ownership results in increased productivity. For example in Japan, firms found an increase of 8-9% when employee ownership was applied effectively.²³

6.8 Employee-owned businesses create jobs faster and preserve jobs better than conventional firms during recessions. Average increases in employment in 2005-2008 were 7.5% per annum in employee-owned businesses, and 3.9% per annum in non employee-owned businesses. In 2008/09, average increases in employment were 12.9% per annum in employee-owned businesses and 2.7% per annum in non employee-owned businesses.²⁴

6.9 Higher levels of innovation are found in employee-owned businesses. Studies indicate that the ability to participate in decision making processes, combined with the financial incentive, increases an employee's motivation to pass information on about customers, suppliers and processes, and creates a mechanism for these views to be heard and acted on.²⁵

6.10 Employee-owned firms themselves are unequivocal about the benefits of their ownership structure. A survey of employee-owned firms about the advantages of employee ownership found 91% said extra staff commitment; 84% said better employee relations; 81% said staff are prepared to take on more responsibility; 72% said employees tend to work harder; 61% said higher productivity; 56% said control of product and service quality is improved; 52% said recruiting and retaining talented staff is easier. Moreover, 77% believe customers like their employee status – thinking the company will be more ethical, behave more responsibly, be more trustworthy.²⁶

6.11 Whilst most research carried out into worker ownership has focused on employees, the NFSP believes the findings equally apply to subpostmasters as agents of POL. In fact, subpostmasters already have a good fit with the characteristics of people working for businesses with employee-ownership models, who have been found to be relatively entrepreneurial, have a more

creative attitude to their own work, are more comfortable taking responsibility for decisions and have a lot of discretion about the way they carry out work tasks.²⁷

7 Subpostmaster stake

7.1 The government explicitly acknowledges the shortcomings of the current model of the post office network and states it “holds the Post Office network back in important respects. It aligns poorly the interests of its different stakeholders... subpostmasters are often pitted directly against Post Office Ltd...”²⁸

7.2 The NFSP shares these concerns. We strongly believe that POL’s and subpostmasters’ interests are currently misaligned; and that subpostmasters’ personal investment of over £2bn in the national post office network should be better reflected in decisions about the company and its future. We agree with the government that converting POL to a mutual model, with subpostmasters forming a significant part of the membership should be central to resolving this issue.

7.3 These problems were highlighted in 2009 by the (then) House of Commons Business and Enterprise Committee in a report on the future of the post office network.²⁹ The committee recognised that some of POL’s “efforts to improve its financial position may be directly against subpostmasters’ interests.”

7.4 This is the case, for example, in the way in which individual services are promoted. For instance, POL offers better rates for products such as foreign currency and travel insurance if customers purchase products online - an arrangement that can directly affect sub post office profitability. However, under a mutualised Post Office with subpostmaster and POL interests aligned, subpostmasters should no longer see POL’s online business as a threat to their livelihoods. Instead it would be viewed as a revenue stream for a company they themselves own.

7.5 A lack of transparency over pay rates and contracts with clients is a major issue. Commercial confidentiality is cited as the reason, but it leads to an extreme lack of trust in POL from subpostmasters. This contrasts hugely with companies such as John Lewis Plc, which are very open about such negotiations and arrangements with their staff (or partners). John Lewis staff throughout the company have access to an extremely wide range of financial information ranging from profit margins on goods, financial performance of individual stores to staff pay rates.

7.6 The NFSP is concerned that currently many decisions taken by POL are decisions that are specifically designed to protect the central structures of the company at the expense of the network as a whole. Central costs - including the operation of 3% of the network’s branches (Crown offices) - are running at over 50% of the income of the company. However, giving subpostmasters a significant stake in POL would facilitate holistic decision making: ensuring decisions could be made that are beneficial to the entire network, and that

those in the network can take extra responsibilities to grow business and reduce costs.

7.7 For example, the cost base of POL's Crown post offices is around £210m per annum, but the income from the transactions these offices undertake for POL is £150m a year. The £60m deficit is funded by POL's underpayment of subpostmasters for the transactions they undertake on behalf of the company. However, the NFSP believes the service currently offered by the Crown offices could, and should, be provided more cheaply. The government also acknowledges the unacceptability of the loss making Crown offices.³⁰

7.8 Other areas that should be urgently looked at include Cash in Transit, which the NFSP also holds could be provided more efficiently.

7.9 The NFSP believes there should be transparency over executive pay within POL. Current remuneration and benefits for POL and Royal Mail Group senior directors is notoriously opaque and includes performance related bonuses, cash supplements, pension, long term incentive plans, company car, health insurance as well as the annual salary.

7.10 In his final year as managing director at POL, Alan Cook received £1.25m (2009/10). Adam Crozier, the then CEO at Royal Mail Group, of which POL is a part, received £2.42m during that year.³¹ In contrast average personal drawings for subpostmasters in 2009, from their POL pay, were the equivalent of an employee's annual salary of around £12,300 before tax.³² This is 1/102th or 1/197th of the respective director's pay. The disparity appears even more extreme than recent comparisons from industry, which show the lead executive at Barclays earning 75 times staff average pay in 2009-2011, and BP's lead executive earning 63 times average pay.³³ Yet research shows pay equity influences aspects of lower-level employee motivation, commitment to management goals, effort and cooperation.³⁴

8 Mixed membership model

8.1 The government makes clear it supports a 'mixed membership' model for a Post Office mutual. Under this model the company is owned by its customers, as well as by producers such as subpostmasters and staff. The government acknowledges the many advantages of ownership by producers, but holds that a "balanced combination" of producers and consumers should be members of the mutualised Post Office. This would ensure that both those who run post offices and those who use them would have a say in the future of the network.

8.2 The NFSP agrees the interests of the public must be absolutely central to the running of our national post office network. However, the way in which the public interest is represented in the company needs careful consideration.

8.3 Experts in mutual organisations warn that membership organisations prosper with a reasonable homogeneity of interest among their members. The greater the diversity of interests within the membership the more difficult it is to sustain agreement on a common source of action. A mutual thrives with a

common purpose: with a more diverse membership a mutual can become confused by multiple and conflicting objectives. Leadbeater and Christie emphasise the importance of a clear focus to hold together members, and suggest that this should be a shared occupation or employer. There are serious dangers in membership becoming too large, dispersed and diverse to allow it to maintain a strong sense of purpose.³⁵

8.4 The NFSP does not believe a large percentage of customers would voluntarily become members of a Post Office mutual. Playing an active and responsible role on this basis is time-consuming and difficult for members of the public.

8.5 Moreover, the democratic processes required to involve large numbers of the public throughout the UK are expensive. For instance, we understand that the Co-operative Group's democratic processes require 160 staff and cost £10m annually. This would be a high cost for POL, which only achieved an operating profit of £21m in 2010/2011, and this only after the government's £180m annual network subsidy (the 'Social Network Payment'). In addition, POL's falling revenue and the low levels of profits and margins on POL products makes producing a dividend to the public unrealistic.

8.6 In view of these considerations, the NFSP holds the government's suggestion that the consumer voice could be heard through organisations such as Citizens Advice is likely to be a more fruitful approach than offering customers direct membership.

8.7 However, a further cost-effective option for public involvement would be to make use of the NFSP's own extensive regional and branch structure to provide meetings and discussion space for customers. Under this proposal, the NFSP would not be part of the meeting but merely facilitators providing the venue and administration, operating under a commercial contract. A public meeting attached to the NFSP's annual conference could elect members of the public to Post Office mutual's representative body. This alternative could form a relatively inexpensive effective democratic structure facilitated by, but independent of, the NFSP. The necessary expenditure would be a fraction of providing this function centrally through POL.

9 Governance structure

9.1 The government proposes a three-tier governance structure for the Post Office mutual. Under the three-tier structure, there would be a general membership. The members would be represented on a representative body, which could be elected or appointed by them. The third tier would be the board of directors. The representative body would act as a formal link between the board of the company and its members. The NFSP supports this proposed structure on the basis of trust ownership, as set out in annex 3 of the government's consultation document.

9.2 Under this arrangement ownership is not held by individual members, but by a separate trust. The trust (the representative body) is a separate legal entity which holds the shares in the company and ensures that the company

acts in accordance with its constitutional arrangements. All rights belong to the trust – votes, dividends and any capital gains.

9.3 Within a trust model members become owners, but they do not contribute capital. They are unable to extract their stake or increase it, they do not take any shares when they leave. The assets are locked to the company. This has the advantage that “managers and employees pay heed to the fact that they are the beneficiaries of a legacy, which needs preserving beyond their own tenure.”³⁶

9.4 The expert view lends support to a trust model as most appropriate for the Post Office. Graeme Nuttall, partner with Field Fisher Waterhouse LLP, who has worked in the field of employee ownership transition for many years, and advised several of the public sector mutualisations states “The most appropriate type of employee ownership depends on the desired endgame. If a clear exit route (e.g. IPO or trade sale) is envisaged, direct individual shareholding works best. If sustainable employee ownership is the objective, a trust is usually the best structure.”³⁷ Given the government’s repeated categorical assertions that the Post Office is “not for sale”, the trust structure seems most suitable.

9.5 The NFSP agrees with the government that 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. We agree that the representative body should not adversely affect the day-to-day running of the business nor should it create significantly slower or more expensive decision making processes. However, the consent of the representative body should be required for key strategic decisions. The NFSP believes the representative body should formally hold the board to account. We would not support a model where the representative body appears more like works councils, focusing on non-strategic “tea and toilet” issues.³⁸

9.6 It is important that representatives on the trust receive appropriate levels of training and support. This is likely to necessitate the company secretariat organising training and providing administrative support to the representative body.

9.7 The NFSP suggests a representative body of around 11 members. This would be a ‘multi-stakeholder mutual’ consisting of no majorities but a balance of different interest groups. However, we believe a proportionally greater producer influence on the representative body will help ensure that POL benefits from the advantages typically gained by organisations run on an employee-owned model (see section 6). Case studies of employee ownership in public services confirm that the benefits of employee ownership only apply when employee ownership is substantive, and more than 50% of the shares of the company are owned by the workers.³⁹

9.8 The NFSP proposes the representative body should be formed from one or more people from the following stakeholder groups:

- POL staff

1

- POL board 2-3
- Subpostmasters (incl multiples) 4-5
- Consumer/special interest bodies 2
- Local authorities 1
- Government 1

9.9 We believe subpostmasters on the representative body should be elected through the NFSP, and this should include multiples (or franchises) such as the Co-operative and Londis. Similarly, the POL staff member should be elected by their union. The POL board representatives should be appointed by the POL board. The government should appoint representatives to the body on behalf of the public; these representatives should be drawn from consumer bodies, such as Citizens Advice or Consumer Focus. The local authority representative should be appointed through local authority umbrella bodies. We would also like to see the government having a stake in the representative body (see section 11.2).

10 Public interest

10.1 The government emphasises the need to “protect the public interest” within a mutualised Post Office. The NFSP agrees this is essential, and central, to the purpose of the post office network, the *raison d’être* of which is the provision of services to the public.

10.2 The NFSP believes that under a mutualised Post Office the public interest should be defended through a continuation of the requirement for the network to conform to the existing strict access criteria. This ensures reasonable access to Post Office services regardless of where people live.

10.3 In addition, under a Post Office mutual the public interest should be protected through the continued guarantee of a minimum number of post offices. Currently the government is committed to ensuring 11,500 UK post offices, and the NFSP believes this requirement on POL should be maintained. However, there are a number of different ways in which the requirement could be instated. It could be established under contract; or alternatively added to Royal Mail’s universal service obligation, requiring a minimum number of ‘access points’ specifically defined as post offices.

10.4 The public interest would also be protected through public representation on the representative body. Representatives should be drawn from consumer bodies or other special interest organisations, such as Citizens Advice, Consumer Focus and Age UK. An alternative approach for public representation would be by using the NFSP’s existing structures to facilitate more direct participation by members of the public (see section 8.7).

10.5 The fact that a mutualised Post Office would be a better run, more sustainable Post Office, is central to the protection of the public interest. The needs of customers will be better met by a more robust, productive, innovative Post Office with superior financial performance and stronger worker commitment – all characteristics of companies with an employee ownership model.

11 Government role

11.1 The NFSP holds that the government also has a key role in protecting the public interest of a mutualised Post Office.

11.2 The government prefers not to retain an ownership stake in the Post Office mutual, suggesting that the future relationship with the mutual should be purely contractual. However, the NFSP believes the government should have a stake, and this should include at least one government representative on the representative body. We are concerned that without a government representative on the trust, the current link between Post Office and government would weaken, to a potentially damaging extent. A weakened link with government risks lessening the incentive to put government work through the post office network, and reduces the likelihood of the government providing the network with any essential future investment. In turn, these outcomes would seriously risk the sustainability of the national post office network.

11.3 The NFSP holds the government should continue to place the access criteria and minimum network size requirements on a mutualised Post Office. However, in order to ensure these requirements are met the government needs to commit to funding on an ongoing basis. This is needed to keep the non-commercial part of the post office network viable. The government currently provide funds to support this part of the network under the Social Network Payment, and the NFSP anticipates the continued need for a similar such payment. The payment could take the form of a contract for services. As an increasing amount of retail and a larger number of services are provided digitally, the government payment may also need to recognise this.

11.4 Central to the government's future relationship with the Post Office, is the development of the 'front office for government' proposal. It is essential to the future of the post office network that this plan comes fully to fruition. Under the proposal as many central and local government services as possible will be provided through post offices, offering citizens face-to-face access and complementing the digital channels. The NFSP does not believe the post office network can be financially sustainable without a comprehensive, suitably remunerated, front office for government service. It is the government's role to ensure this proposal is delivered. Without a full front office service, the government will have to fund an increased Post Office subsidy or preside over the decimation of UK's post office network.

11.5 The government is keen that the mutual is incentivised to reduce its reliance on government funding. The NFSP believes there are two main mechanisms through which this can be achieved. Firstly by a significant increase in the amount of government work provided through post offices, and secondly through the reduction of POL's central costs.

12 Finance

12.1 The NFSP believes that a commitment to additional government funding will be required before mutualisation can take place. This is needed to ensure

the network is fit for purpose. The funding may include finance for central structures, such as IT, and it certainly includes funding to upgrade a significant proportion of post offices.

12.2 Current government funding is set to modernise 6,000 post offices by 2015. However, this leaves around 5,500 offices untouched. New funding is required to modernise the remainder of the network. Insufficient remuneration levels for subpostmasters over recent years, mean many post offices are falling behind the best standards on the high streets. Previous grant schemes for post offices have been shown to be particularly effective. Grant funded improvements have a major impact on the viability of post offices. The evidence strongly shows significant increases in customer numbers, sales turnover and retail income following grant-funded alterations.^{40, 41} The NFSP would like to see similar investment funds made available for all post offices that require it.

12.3 Historically the government has provided finance to secure the infrastructure of the post office network; in the last decade this has included funding for the restructuring of the network, IT and equipment. Questions remain about how investment would be raised and financed under a mutualised Post Office. The way in which both investment and working capital is funded is a significant issue that needs to be addressed.

12.4 The government is clear that POL must be “financially sustainable” before mutualisation. However, it is not clear what exactly this means and the NFSP would welcome clarity on this. Nevertheless, it is evident that if mutualisation is to take place, the current Social Network Payment will have to be calculated as an income stream, keeping POL in profit and therefore within scope of mutualisation. The retention of the Social Network Payment is essential to the sustainability of the network, and without this funding the mutualisation of the Post Office is not a viable option. The Social Network Payment should be a robust contract between POL and the government to ensure that the public interest is met and services are continued to be provided in remote and disadvantaged areas.

13 Distributions

13.1 The government says that giving a mutual Post Office powers to make distributions (or dividends) could incentivise those who run the network to focus on driving up its competitiveness by making it a more attractive place to do business. However, the government emphasises this is only likely to be appropriate once the business is able to generate sufficient cash to meet all of its operating costs and investment needs. The government also states any distributions must be consistent with the requirement for a Post Office mutual to act for the public benefit.

13.2 The NFSP agrees with the government’s position on distributions, however, we caution that any dividend payments should only be made to producer members – subpostmasters and staff. POL will never be a hugely profitable organisation and dividends will never be substantial enough to allow for distributions to the general public.

14 Safeguards

14.1 The government states that a range of safeguards should be introduced to protect a mutualised Post Office. These should include the assurance that the Post Office could not be demutualised, unless it is returned to public ownership; that it could not be moved to a different mutual without approval of the Secretary of State; and an asset lock to ensure that Post Office assets are used for the public benefit. The NFSP agrees with all these safeguards.

14.2 The NFSP believes a further key safeguard is vital – that the government acts as the ultimate guarantor of the post office network. The record of new public sector mutualisations has been excellent in terms of sustainability and performance. However, as the All Party Parliamentary Group on Employee Ownership points out, in the case of essential public infrastructure organisations there must be a serious contingency plan for what would happen if the organisation fails.⁴² The NFSP holds that the government must be prepared to step in, in the event of a financial, or other, collapse of POL.

15 Transition process

15.1 A radical change of organisational culture is essential for POL if it is to achieve the benefits that mutualisation should deliver. The Office for Public Management states that without such a change in culture “alternative models of ownership are unlikely to bring about the benefits usually associated with employee or user ownership.”⁴³

15.2 A review of the evidence on the effects of employee ownership finds while employee commitment tends to be stronger in employee-owned businesses compared with traditionally owned organisations, this benefit appears to be dependent upon the extent to which employees feel that they can influence decision-making.

15.3 For managers to respond appropriately to worker-owners, this requires far greater transparency than is usually the case in either public or private sector organisations. Managers will need to take the time to explain issues carefully, giving all members a chance to identify with the purpose of the organisation, to explore and shape direction, to review and to hold managers to account.

15.4 Important aspects of a ‘culture of ownership’ have been identified as including inclusive management approaches; staff engagement and consultation; and making visible changes to management practices following a transition to a new model of ownership.⁴⁴

15.5 Communications and knowledge are critical and include using regular announcements on trading and future plans to demonstrate what the business does and the employee’s role in this performance. Workers should be empowered by inviting them to take responsibility for decision-making and their jobs. There is a consensus that face-to-face communications are the most effective form of communications. Many organisations use regular, formal meetings, to review business plans and staff are encourage to raise

issues and provide feedback. However, most employee-owned organisations also embrace new technology from video casts to blogs, text messaging and social networking.⁴⁵

15.6 The Office for Public Management warns that cultures do not change easily or fast. Organisations planning a transition will need to play particular attention to the leadership behaviours that will model and engender the new culture. However, structures and systems set up to engender the new culture of attention to member needs cannot be at the expense of highly efficient organisational systems.⁴⁶

15.7 In the case of the Post Office mutual, the participation of subpostmasters is vital as POL moves from its current ownership structure to a mutualised company. This should include ensuring the joint strategic POL-NFSP board has a meaningful role to play in the transition process. The NFSP would also like to see subpostmasters with seats on POL's board of directors and executive management team prior to transition. The NFSP believes this move would aid the transition to new methods of working.

15.8 In addition, it is essential that individual subpostmasters and other stakeholders and future members are engaged throughout the transition process. This should include a high level of involvement such as representatives visiting other employee owned organisations, roadshows, meetings and consultation. As the Employee Ownership Association points out "A culture of ownership cannot be fostered where there is cynicism about the motives for offering employee share ownership plans, or a lack of visible change to management practices after the transition."⁴⁷

15.9 The government queries whether it should fully transfer its ownership of the Post Office to the mutual over time. The NFSP does not see any benefit from a step by step mutualisation. The NFSP believes the government should focus on ensuring POL is fit for purpose and has sufficient government work coming in as an income stream, so a piecemeal release would not be necessary. We are also concerned that a piecemeal approach could mean the drivers that provide the advantages of mutualisation could be lost. Moreover, the NFSP does not hold with a complete government withdrawal from the Post Office; we would like to see the government retaining a seat on the representative body.

15.10 The NFSP is extremely supportive of the proposal to mutualise the Post Office. However, we are clear that the anticipated benefits will not materialise unless there is buy-in from subpostmasters and other members; POL is financially fit for purpose prior to mutualisation; members of the mutualised company have a genuine ongoing and significant say in how Post Office mutual is run; and there is are substantial income streams, including from the proposed 'front office for government' service, to sustain the network well into the future.

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