

## **Mutualising the Post Office**

Subpostmasters and Post Office Ltd (POL) do not always have the most harmonious of relationships. Questions have long been asked about whether it is possible to run and organise the network in a way that works better for subpostmasters, employees and customers.

The government thinks there could be a better way. Last autumn, ministers publicly acknowledged the current Post Office model “aligns poorly the interests of its different stakeholders” and that “subpostmasters are often pitted directly against Post Office Ltd”. To resolve these issues the government proposed that POL could be converted into a ‘mutual’ structure, “empowering those that know the Post Office best”.

The NFSP is delighted by these plans which we were instrumental in bringing about. The government acknowledges the Federation’s role as being critical, as the plans follow several years’ work and lobbying for Post Office mutualisation by the NFSP’s Executive Council.

At root, the NFSP believes that POL’s and subpostmasters’ interests are currently mismatched; and that subpostmasters’ personal investment of over £2 billion in the national post office network should be better reflected in decisions about the company and its future.

However, the NFSP, the government, and experts on mutualisation have all warned that for POL to successfully transfer to mutualised form, the company must first be financially viable. A key element of this is making post offices a ‘front office for government’; without this the company will struggle to be profitable. It is essential that the new structure builds from solid foundations, as nobody will want to take on responsibility for an enterprise without a future.

### **What is a mutual?**

A mutual is an organisation which is owned by its members. Members have formal input into the corporate governance – the processes and policies affecting the administration and management – of the company. In a mutual organisation members usually have another relationship with the mutual, for example as employees or workers, customers or suppliers.

The UK’s mutual sector is growing and over 1 million people now work in mutual businesses, which combined have a £100 billion gross annual turnover. Mutuals include some very big names. The John Lewis Partnership owns department stores and Waitrose supermarkets. The Co-op Group is now the fifth largest food retailer, and also provides many other services from banking to funeral care and travel. The UK’s 48 building societies are all mutuals. Other mutual organisations include NHS Foundation Trusts, football trusts; credit unions; and, at the smallest end of the scale, allotments and pubs.

The government is very keen that more public services convert to mutual ownership, and POL is likely to be a flagship for many future proposals.

### **Why mutualise?**

One of the main arguments made in favour of mutualisation is that organisations with this structure should be better placed to tap into members' know-how and ideas. The member-ownership of a mutual should make people feel more committed, contribute ideas and solve problems in way that does not happen in public sector bureaucracies or investor-owned companies.

### **Which model?**

There are many different types of mutualisation and a number of potential models for the Post Office are currently under discussion. The first is an employee-owned model, like the John Lewis Partnership, in which subpostmasters and employees of POL would hold the major stake in the company. The second is a co-operative or customer-owned model, like the Co-operative Group, in which the public (customers) have a majority stake. A third option is a combination of the first and second models.

The NFSP's preference is for the first option, where those who work in the business – subpostmasters and POL employees – are the majority owners.

The Co-operative model is less suitable. Decision-making procedures which involve members are difficult to devise and maintain with a large, diverse and dispersed membership – such as the entire Post Office customer base. The democratic processes required to involve large numbers of the public throughout the UK are expensive.

It also seems unlikely that a large percentage of customers would voluntarily become members of a customer-owned POL. Customers simply do not have an ongoing interest in the Post Office in the way members do of a building society or friendly society. In addition, POL has falling revenue and profits and margins on Post Office products are very low. Producing a dividend to the public is unrealistic in these financial circumstances.

In contrast, studies show membership organisations thrive where members have a reasonable amount of common interest. This indicates that the best model for the Post Office would be the employee-ownership model, where those who work in the business – subpostmasters and POL employees - are the members and owners.

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 accept a lot of discretion about the way they carry out work tasks.

### **Employee-owned model**

The vast majority of commentators agree that successful employee-ownership businesses need both financial participation and participative mechanisms

ensuring workers have a significant say in how the company is run. The importance of subpostmasters making real contributions to the governance of a mutualised POL is a matter the NFSP continues to stress. Without this genuine participation, the benefits of a mutual structure will not be realised.

Research indicates a considerable number of advantages of the employee-owned model of business. A Cass Business School study concludes the employee-ownership model is more robust and these businesses are more concerned about long-term sustainability rather than short-term profitability.

Other evidence shows employee ownership results in increased productivity, faster job creation, better preservation of jobs during recession, extra staff commitment, better employee relations, higher productivity, higher levels of innovation and improved product and service quality.

### **NFSP proposal**

The NFSP would like the Post Office to become a mutual along the lines of the John Lewis Partnership model; this would be similar to an employee-owned business with a trust. The NFSP's Executive Council have been working with legal experts on initial proposals for a mutual Post Office structure.

Under these proposals power in POL would be shared between a Post Office Trust and the POL board. The Post Office Trust would set the overall strategic direction of the Post Office and have a general oversight of the work of the POL board. Comparable with the BBC Trust, but with a wider range of stakeholders involved, the Post Office Trust would include subpostmasters on the board. The trust would own all the share capital in POL and beneficiaries would include subpostmasters and all POL employees.

The POL board would be responsible for the operational management of the Post Office, and would have to deliver Post Office services in accordance with the priorities set by the Post Office Trust.

Each subpostmaster and employee would be a member of the mutual and would hold a share. Members would have voting rights and would share in profits or assets. The NFSP would continue to have a role, as it does now, and this would include conducting negotiations with POL and representing the views of subpostmasters.

Although we may not get our preferred model, without the NFSP's role as catalyst of the proposal, mutualisation would not happen at all.

### **What happens next?**

Co-operatives UK has been asked to produce a report for the government on options for Post Office mutualisation. The report is due to be provided to ministers this spring with a number of proposals for how a mutualised Post Office might operate.

The NFSP will work with the government and other stakeholders to agree on a model for the mutualisation of the Post Office. With advice from legal experts in the field, the NFSP will be advocating the model that works for subpostmasters and provides the best outcome for public, by delivering a robust and sustainable network for the future.

Mutualisation is not a quick process, and it will not happen overnight. Recent amendments to the Postal Services Bill currently going through parliament mean proposals for the mutualisation of the Post Office are now subject to parliamentary scrutiny and vote. The government says it will also conduct a public consultation so both customers and taxpayers can have their say.

The separation of POL from the Royal Mail Group must precede any changes in ownership of POL, and this is likely to take place by April 2012. Critically, POL's financial viability also needs to be addressed before mutualisation can take place. However, the government has said the Post Office could be a mutual by the end of 2015.

The conversion from an organisation that is 100% government owned to an effective mutualised structure is a Herculean task, the challenges of which should not be underestimated.

This article was first published in *The Subpostmaster* May 2011.