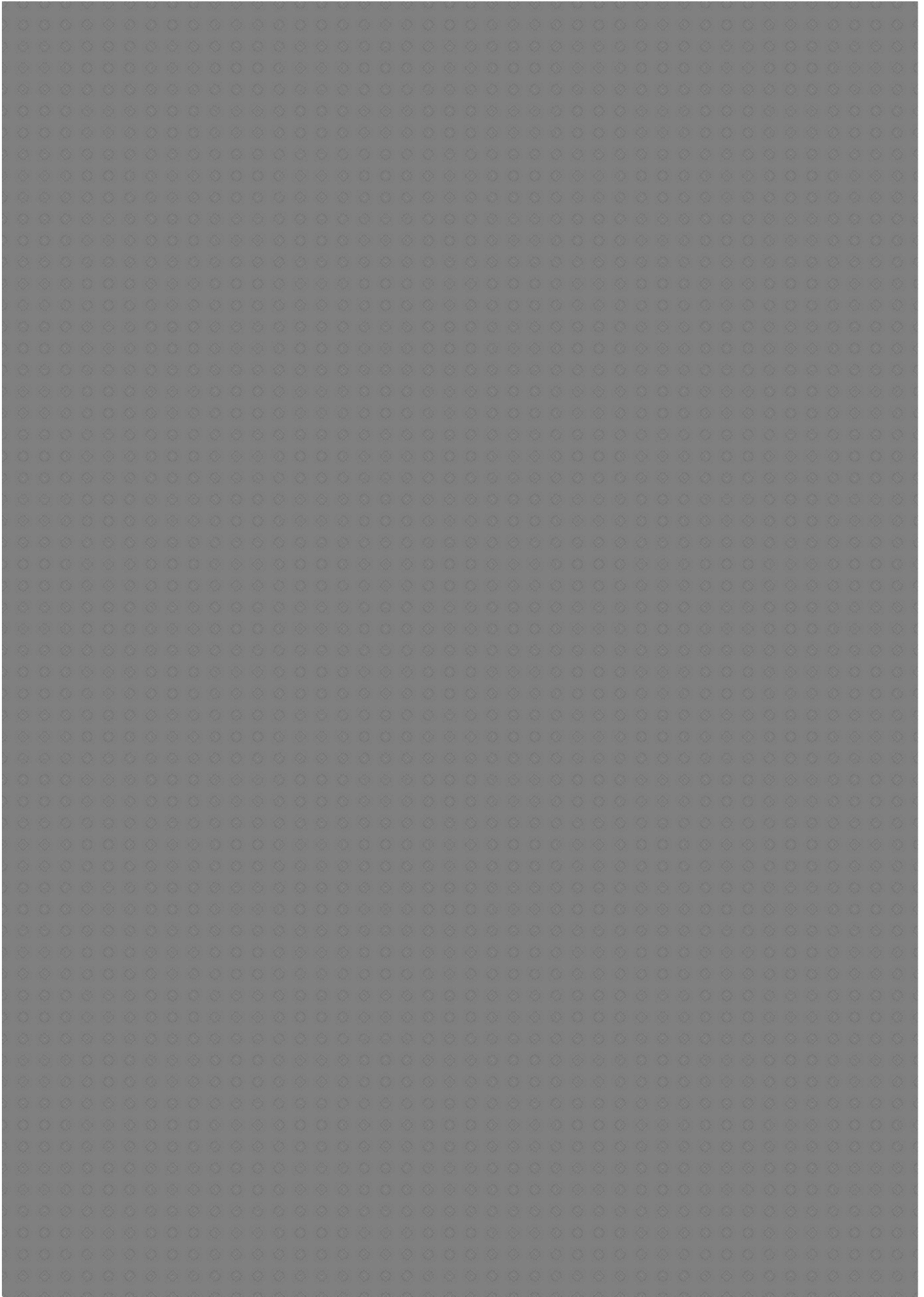




Mutual options for Post Office Ltd.





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Co-operatives UK

Co-operatives UK works to promote, develop and unite co-operative enterprises. It has a unique role as a trade association for co-operatives and its campaigns for co-operation, such as Co-operatives Fortnight, bring together all those with a passion and interest in co-operative action.

Any organisation supportive of co-operation and mutuality can join and there are many opportunities online for individuals to connect to the latest co-operative news, innovations and campaigns. All members benefit from specialist services and the chance to network with other co-operatives.

www.uk.coop

Executive summary

Co-operatives UK was commissioned by the Department for Business Innovation and Skills to explore options for the mutualisation of Post Office Ltd as suggested in the report ‘Securing the Post Office Network in the Digital Age’ and enabled by the Postal Services Bill. It is clear that in considering any mutualisation we are talking about Post Office Ltd and not the many individual branches which make up the network.

The project has run over several months and has involved a number of distinct stages including:

- Understanding the Post Office Ltd business model
- Identifying the key groups of individuals and organisations involved in the business and conducting independent research with those interested parties
- Researching aspects of existing mutual organisations which may be applicable
- Exploring mutual models with the interested parties

The findings from each stage of the project have been used to inform our proposals and are summarised in this report.

The Stimulus

In November 2010 the Department for Business Innovation and Skills published its report *Securing the Post Office Network in the Digital Age*.

This report examined the challenges faced by Post Office Ltd including its current ownership structure and suggested that the current structure may be holding the business back and poorly aligning the interest of its different stakeholders.

Prior to the publication of the report a new Postal Services Bill was introduced into Parliament. This Bill enables the separation of Post Office Ltd from the Royal Mail Group and provides that it may be mutualised in the future.

In considering what mutual structure may be appropriate for the organisation we sought first to answer the following questions:

- What is the purpose of the organisation?
- Who should own the organisation?
- What should the governance structure look like?

However, since any mutualisation must support and complement the business, before we move on to exploring possible mutual structures further we should first understand the Post Office Ltd business model.

Overview of the business

Post Office Ltd is currently a subsidiary of the Royal Mail Group. The Royal Mail Group Ltd is wholly owned by the UK Government and the Shareholder Executive manages the Government shareholding in the company. Post Office Ltd is a national provider of mail, financial, government and telephony services via a branch network of over 11,500 post offices throughout the UK.

This network of branches is not, for the most part, owned by Post Office Ltd. Most of the branches are independently owned and operated by individual sub-postmasters or multiple operators, who own the premises and employ the staff. Post Office Ltd itself only directly operates 373 post offices, which are often called Crown Offices.

Post office transactions do not appear in the accounts of the independent operators; they are held within Post Office Ltd, which makes payments to the operators based on contractual arrangements. This generally includes a fixed payment for operating the branch and a variable payment based on the number of transactions. For Post Office Ltd to succeed as a business and to remain profitable, the business of operating sub post offices must be commercially attractive to the independent operators.

Historically, Post Office Ltd has received part of its funding from government. There is recognition that post offices have a social value, providing continuing access to services in places where other retailers do not operate and helping to keep them sustainable. This is of particular importance to the elderly, vulnerable and disadvantaged in society. For this reason the Government has established access criteria for post offices and pays to Post Office Ltd, on an annual basis, a network subsidy payment for maintaining the network which provides access to services. In 2010 this equated to approximately £150m. In addition the Government has committed to further funding to modernise the network, with no further programme of closures.

The purpose of Post Office Ltd

Purpose is concerned not so much with what a business does, rather 'what it is for'. Most businesses are established to provide goods and/ or services of some sort but 'purpose' establishes why they are doing so. This is fundamentally important because it goes to the heart of how an organisation trades and how it behaves.

In traditional businesses owned by investors, the purpose is clear – they exist to maximise returns for investors and the traditional corporate structure is very effective at delivering this purpose. Some businesses, however, operate for a different purpose and therefore may be suited to a different ownership structure.

The first source of reference for the purpose of Post Office Ltd is the Postal Services Bill. The Bill makes provision to allow Post Office Ltd. to be transferred to, or to become a mutual. It only allows this to happen if three conditions are and will continue to be met. The first condition (Condition A) is concerned with purpose and states.

"Condition A is that the purpose (or main purpose) for which the body exists is to act for the public benefit by promoting the use by the public of services provided by a Post Office company or at its post offices."

It is clear therefore, that as far as the Bill is concerned, the underlying purpose of the Post Office Ltd. is to act in the public benefit.

The concept of Post Office Ltd acting in the public benefit was also supported by independent research conducted as part of this project.

When key interested parties were asked about what they felt the purpose of Post Office Ltd. was, answers revolved around three themes service provision, social function and profit generation. When questioned further about profitability most agreed that the network should not run at a loss (it is important for any business to remain profitable to ensure its future survival). Of those that felt that profit was a key purpose, it was in relation to their own position as an operator. It is fair to conclude, therefore, that those consulted agree that the delivery of service and the wider social function are the key purpose whilst profitability both for Post Office Ltd and its operators are the means.

Who should be the Owners?

Ownership is important because ultimately it is the owners' role to ensure that the business purpose is delivered. The owners (members) hold to account those who have day to day responsibility for running the business. In a traditional company the owners (shareholding members) hold the Directors to account at the general meetings and ultimately if they do not feel the board is delivering on its purpose (ie maximising shareholder value) they can remove and replace them. There is a clear alignment between the interests of the owners and their role in the company and it generally works well in driving the business to perform and deliver its purpose.

This then leads in to the question of the appropriate ownership structure for Post Office Ltd which has a public purpose. Clearly the owners (or members) must have sufficient interest in Post Office Ltd to be productive and they should also have interests which are aligned with the public purpose.

When we asked interested parties who they felt should have influence in Post Office Ltd, there was some consensus. Nearly all mentioned sub-postmasters (including multiple operators), customers and communities, as well as government. Based on these interest groups we considered who would be the most suitable owners for Post Office Ltd.

There are examples of successful mutuals which are owned by producers and/or employees. Whilst some of these organisations are extremely successful they are generally focused on the interests of the producers or employees; the purpose is to benefit them. This is a private benefit not a public one. In many cases the basis of success is that the interests of the owners are so closely aligned to the purpose of the organisation ie the benefit of the members. It is possible to conclude that ownership exclusively by the workforce (including sub-postmasters) would not be appropriate for Post Office Ltd for the simple reason that ownership by producers or staff does not provide a credible basis for the long-term protection of public benefit.

There are also examples of mutuals where the members are, or represent, customers and communities and not staff or producers. Whilst this might be a more appropriate basis for ownership to protect the public purpose it is not considered the best option for Post Office Ltd for two reasons. Firstly Post Office Ltd is heavily dependent on its employees and independent operators to deliver its services and there would be significant drawbacks in the business if they were to be excluded from membership. Secondly, the Bill clearly envisages employees and those involved in providing services having an opportunity for membership.

The logical solution for Post Office Ltd, therefore, is to have an ownership which encompasses different categories of interested parties (employees, sub-postmasters, large multiples, customers and community). This ownership could be held through direct membership, representative membership or some sort of trust arrangement.

What should the governance structure look like?

Governance is concerned with how an organisation is organised and controlled and how power is shared. The governance structure is merely the framework by which this is defined.

At the heart of governance is a separation of ownership and control. Those who own the organisation do not have control over its day to day operation. In a simple structure the owners delegate responsibility for the day to day operations to a board of directors. They are given power to deliver the corporate purpose and the vision of the business. The directors are required by law to do their job honestly and carefully and are normally required to account to the owners on how they have discharged their responsibilities. Through this process of accountability the directors are monitored, encouraged, corrected and if necessary replaced to ensure the purpose and vision are satisfactorily delivered.

In trying to establish appropriate governance arrangements it is important that they provide effective arrangements for the operation and management of the business. They must not be too cumbersome or expensive such that they hinder the business, nor must they be so lightweight or simplistic that they don't adequately control it. They must also provide an effective mechanism for the members to hold the board properly to account. This is vital in ensuring the organisation succeeds and achieves its objective, in the case of Post Office Ltd its public purpose.

In deciding on a board of directors it is important to consider what is required for the business. Post Office Ltd is a large and complex business and there should be the right number of executive directors to reflect this. To further good corporate governance, the board should include a majority of independent non-executive directors who bring the right balance of skills and experience to assist in the running of the business.

We believe that the most appropriate governance arrangements for Post Office Ltd as a mutual would appear to be a three tier structure of members, representative body, and a board of directors. This would enable close scrutiny of the directors and secure greater accountability but it will be important that the representative body is given sufficient powers to adequately fulfil this role. The composition of the representative body should reflect an appropriate balance of different interests whilst ensuring that no group of private interests could have an overall majority. Wherever practicable the representatives should be elected by and from the various constituencies of members.

Outline recommendations

Drawing on what we have established about Post Office Ltd regarding its purpose, ownership and governance, we make the following outline recommendations (set out more fully below in the concluding section headed Summary and Recommendations).

Post Office Mutual

Post Office Mutual will be incorporated as a body constitutionally committed to trading for the public benefit; whose profits are primarily re-invested for the public benefit; and whose assets are protected for future generations.

It will be empowered to enter into contracts with sub-postmasters, multiple post office operators and employees that incentivise and reward their performance.

It will have full power to enter into joint ventures and other commercial relationships.

Ownership

The members (owners) of Post Office Mutual will include those receiving the service (customers and community) and those delivering it (employees, sub-postmasters and multiples). Government will no longer be an owner, but will have a contractual relationship.

There are a range of possible mechanisms for membership, including direct open membership, a form of representative ownership via selected individuals, and a trust.

The various constituencies of owners will be represented in the governance through a representative body.

The members will meet annually to receive an annual report and accounts, and otherwise when necessary to approve any change to the constitution.

The representative body

This will comprise a majority of elected representatives of the constituencies of members, and a minority appointed by other interested parties that might include consumer groups, and voluntary or charitable organisations.

The role of the representative body will include contributing to the forward planning of services and strategy, and monitoring the performance of those holding responsibility for delivering the purpose.

Board

The business and affairs of Post Office Mutual will be managed by a board of executive and non-executive directors. Non-executives will be in the majority.

Introduction

Purpose of this Project

In its document 'Securing the Post Office Network in the Digital Age'¹, the Department for Business, Innovation and Skills (BIS) sets out that the current ownership arrangements for Post Office Ltd, where the Government acts as ultimate 100% shareholder, hold the Post Office network back and poorly align the interests of its different stakeholders. BIS suggests that a different form of ownership might be preferable.

It proposes that in time, Post Office Ltd could be converted into a mutual structure, with the ownership and running of the organisation handed over to employees, sub-postmasters and communities. It is the purpose of this report to explore the options that such a move might entail.

A new form of ownership

Underlying the specific question about the future ownership of Post Office Ltd is a much broader question: who will own public services in the UK?

For many years, we have been familiar with the concept of state ownership. The idea of the state owning the provision of services, and looking after the public interest in the delivery of those services, is generally understood. Indeed, we tend to equate state-ownership with public ownership. But the present reality is that for a variety of reasons state-ownership is being rolled back and replaced in many areas. As a form of ownership, it has been in decline since the 1980s.

Transfer into private ownership (privatisation) has been the result in many areas. But there are significant parts of the public sector, including Post Office Ltd, where transfer into private ownership is inappropriate for one reason or another. Indeed, the Government has made it clear that Post Office Ltd. will not be sold. So the broader question, for those services which are to continue to operate for the public benefit but which are no longer to be owned by the state, is this: what form of ownership will be appropriate as successor to the state in order to protect the public interest?

1 November 2010: see <http://www.bis.gov.uk/assets/biscore/business-sectors/docs/s/10-1260-securing-the-post-office-network>

The answer to that broader question, as already put forward in 'Post Office: Made Mutual'² is some form of co-operative or mutual ownership, which is committed to delivering public benefit. This report will explore what that means in practice in the context of Post Office Ltd.

A change of ownership

If Post Office Ltd is converted into a mutual, this will not just involve a wholly new set of governance arrangements. Something fundamental will happen, namely a change of ownership. One party (the Government) will surrender ownership, and another party will take over ownership. What does that mean? Who will that party be? These are big questions which need clear answers.

A change of ownership is a major step for any business to take. It is a step which should only be taken if it will clearly benefit the business itself. Exploring the mutual option is not some cosmetic or presentational exercise. It needs to be seen as an opportunity to renew the core relationships within the overall business, to set them in a new context and to put in place a different set of arrangements which will make it more likely that the Post Office business will succeed.

Nor is exploring the mutual option an exercise in imposing one particular agenda on everybody else. If the future of Post Office is in some form of mutual ownership, that will only come about if the key parties involved want to make it happen because they believe it to be the best way forward for all. Mutuality is not something which can be imposed from above: it is something which emerges, by consensus between the key interested parties, who come to the view that by working together the business is more likely to prosper. Mutuals emerged because people in communities did not have access to something. They created their own organisations, as customers or providers, to serve their needs and to do their bidding. A mutual starts with need and self-interest, which stimulates self-help, and through collective action can enable the delivery of services needed for the wider benefit of all.

This project, therefore, is an exploration of what is possible if the key parties wish to work together and go down this route. The intention is to set out a range of options to be examined further and ultimately consulted on.

But the starting point is not a blank sheet of paper.

2 <http://www.mutuo.co.uk/wp-content/shared/Mutuals-post-office-3.pdf>

First, an ownership and governance structure is simply a means to an end. It provides a framework to hold and operate a business. It needs to be appropriate for that particular business and appropriate for the vision for the immediate future of that business. It needs to provide a mechanism to continually drive that business to improve and succeed, and it needs to secure the engagement and loyalty of those who are ultimately in a position to make it succeed or fail. So the current business and the vision for the future of that business are the starting point.

Second, Post Office Ltd can only emerge as a mutual from state ownership with the help of legislation. The Postal Services Bill, which is currently making its way through Parliament, allows for the possibility of the mutualisation of Post Office Ltd.. But it only provides a framework, and does not specify details of how a mutual might work. The Bill specifies three conditions which must be met by any mutual wishing to take on the running of the company, and in particular sets out the purpose of the mutual, which it states should exist to act for the public benefit. This report will explore the detail of the conditions set out in the Bill.

So the current business and the possibilities created by the Postal Services Bill provide the starting point to explore a range of options. However, there are two other sources of assistance which are used in this report:

- Qualitative research has been carried out, by an independent third party, about the future of Post Office Ltd., across a broad range of key interested parties. This research is attached as Appendix 1. A workshop has also been held with key interested parties, at which a number of different mutual models were explored. That workshop was a first conversation in the process of working out the options, and it has helped to inform this report.
- In considering what options might be appropriate for Post Office Ltd as a mutual, various existing member-based organisations (not all of which claim to be mutuals) have been considered as case studies. This provides insight into different models of ownership and governance. Six different member-based organisations have been looked at, and brief summaries are set out in Appendix 2.

Brief details of the Project Team and the process that has been followed in undertaking this work are set out in Appendix 3.

This report proceeds as follows:

- Section 2 provides an overview of Post Office Ltd and its current business, the challenges it faces and the plans for modernisation
- Section 3 looks at the purpose of Post Office Ltd, including the provisions set out in the Postal Services Bill
- Section 4 considers what form of ownership is likely to be appropriate

- Section 5 explores various options for governance
- Section 6 looks at issues involved in safeguarding the future of Post Office Ltd
- Section 7 sets out the conclusions

Overview of the organisation and its business

The business today

Post Office Ltd is a national provider of mail, financial, government and telephony services via a branch network of over 11,500 post offices throughout the UK.

There are four pillars to the services provided:

- Mail services (around 37% of revenue)³ including postal services, lottery, retail cards and stationery
- Financial services (around 29% of revenue) including bill payments, Cash in Transit, National Savings, Travel, Banking, and Post Office Financial Services products
- Government services (around 20% of revenue) including work from benefits and Post Office Card Account⁴, DVLA and passport
- Telephony (around 14% of revenue) including e-top ups, Homephone, broadband and Phonedcards.

The typical post office branch offers up to 170 products and services, from foreign currency to fishing rod licences; parcels to the Post Office Card Account; bill payment to broadband internet; stamps to savings accounts.

3 Except where stated otherwise, all financial information is taken from Postcomm's tenth annual report on the network of post offices in the UK

4 This allows account holders to withdraw pension and other benefits in cash at post offices

Over half of all small businesses and almost 20 million customers visit a post office each week. Total revenues for the year to March 2010 were £1,181m, including a £150m Network Subsidy Payment.

The branch network

Post Office Ltd sells its products and services through its network of over 11,500 branches, the majority of which (97%) are owned by independent private operators. These operators or 'sub-postmasters' comprise a wide range of businesses, from a self-standing post office in its own right or a village shop including a post office to a post office housed inside another larger shop. The owners of these businesses range from sole traders to large multiples.

The elements of the current network comprise the following:

- Crown and large franchise post offices, typically located in town centres. There are 373 Crown Post Offices, which are owned and operated by Post Office Ltd, and 425 large franchise post offices operated by franchise partners including WH Smith, the Co-operative, Tesco, SPAR, Londis and Martin McColl. These branches offer the full range of post office services over multiple counters

- Sub-post offices, which make up the majority of the network. There are over 10,000 sub-post offices, mainly run by individual sub-postmasters but including a significant number operated by multiples
- There are over 750 outreach services, which ensure that communities are still able to access post office products and services where a traditional post office is not viable or practical. They take a variety of forms, including mobile post office vans and hosted services in pubs and village halls

The nature of the relationship with the operators of branches

A post office branch can only operate if there is a contract in place with Post Office Ltd. Post Office Ltd determines whether or not to enter into such a contract, and in making this decision it considers, amongst other things, the sustainability of the branch and the effect on the existing network.

There are currently some variations between different historic types of contracts with the operators of branches, but generally speaking, Post Office Ltd provides the products, cash and any equipment required for operating the branch, and the operators (sub-postmasters and franchisees of large post offices) provide the premises and sales staff.

Transactions are carried out on the IT platform provided by Post Office Ltd (known as Horizon Online), and these transactions 'belong' to Post Office Ltd. In other words, the transactions themselves do not form part of the business (appear in the accounts) of the operators. Their interest is in the payments they receive from Post Office Ltd as a result of providing their relevant post office. Sub-postmasters currently receive payment in two ways: (1) a fixed payment, partly intended to support the viability of sub-post offices; and (2) a variable payment based on the volume of transactions carried out.

When sub-post offices are bought and sold, a premium is generally paid to reflect the anticipated income to be received from Post Office Ltd (or good-will). The current contracts are on a rolling basis, which either party can terminate on three months' notice. A sub-postmaster has no contractual right to compensation, but compensation has been paid in previous change programmes.

Broadly, there are therefore two categories of business operating post offices (other than Crown post offices), namely:

1. Independent sub-postmasters, which are small businesses, often, but not always, comprising other retail business. Post office revenue is therefore a significant, if not an essential part of their income, as is the impact of the footfall that the post office brings into their retail premises. The requirement to invest and provide appropriate premises and sales staff to sell post office products and services is an important commitment for them. Their commercial viability and survival is dependent upon having a contractual relationship with Post Office Ltd which generates a sufficient income. It is therefore a symbiotic relationship in that Post Office Ltd is also dependent upon sub-postmasters for maintaining a national network.

The National Federation of SubPostmasters is an independent membership organisation which is recognised by Post Office Ltd to represent sub-postmasters. The majority of independent sub-postmasters are members of the NFSP.

2. Multiples, which are operating both sub-post offices and large post offices under a range of contractual agreements. Post offices are located within their existing stores, and therefore tend to comprise only a portion of their income.

The multiples are less likely to be dependent upon the income from post office sales for the viability of their business. For them, it is important that the post office business fits within their existing business portfolio, and that the income and other benefits it generates (such as footfall) provide an adequate return for the use of the space. For the multiples to continue to want to operate post office branches, the relationship must be commercially attractive.

In addition to access to services via post offices, some services are accessible online and by telephone.

The 'workforce'

Over 50,000 people are involved overall in enabling post office services to be delivered to customers. These include groups of people with varying interests:

- Employees of Post Office Ltd (8,209), including head office staff, accounting support staff, and Crown office staff working in Crown post offices. Many of these are members of and represented by trade unions including CWU and Unite
- Sub-postmasters (9,054) who own and operate their sub-post offices as independent businesses
- Staff employed by independent sub-postmasters and multiples operating post offices (around 40,000).

Current ownership, network obligations and funding

Post Office Ltd is a wholly owned subsidiary of Royal Mail Group Ltd, which is itself owned by Royal Mail Holdings plc. Royal Mail Holdings plc is owned by the UK Government, and the Shareholder Executive manages the Government's shareholding in the company.

As owner of Post Office Ltd, the Government has expressed a commitment to investing in the network, maintaining a network of around 11,500 branches and meeting the Access Criteria established by the previous government to ensure fair access for all. There are six Access Criteria, including the requirement that 99% of the UK population must be within three miles of their nearest post office. Future Government policy towards the Post Office is set out in the document 'Securing the Post Office Network in the Digital Age'.⁵

A statutory regulator (Postcomm) was established in 2000. Postcomm does not directly regulate Post Office Ltd, but its functions include providing information to government on the number and location of post offices, and their accessibility to users of postal services.

The consumer experience of post office services is currently monitored by the statutory agency Consumer Focus. Both the regulatory and consumer representation arrangements are currently in transition.

Historically, Post Office Ltd has received substantial funding from the Government. In the year to March 2010, it received £150m by way of an annual Network Subsidy Payment, and a similar amount was received in the previous two years. The Government has committed to a total of £1.34bn over the next four years in order to modernise the network (see further below).

Social value

Post Office Ltd is a business. However, it is also widely recognised that it has an important social value.

Research conducted by NERA Economic Research for Postcomm in 2009, which asked people and businesses how much they valued the post office network and the services that it provides, found that its social value is at least £2.3bn per year.⁶ The research found that irrespective of how much people earn or where they live, they value and use post offices, particularly the convenience of accessing a wide range of services.

5 See Footnote 1

6 The Social Value of the Post Office Network: Report for Postcomm (NERA Economic Research, 2009)

The requirement to maintain a network with specified access criteria helps to support the continued existence of retail outlets in urban, urban deprived and rural communities. In many rural communities, the post office is the only retail outlet. The continuing availability of services in places where other retailers do not operate is particularly important for the elderly, vulnerable and disadvantaged.

The recognition of this social value is significant in terms of considering the long-term future ownership and governance of Post Office Ltd, and taken with the obligation to adhere to access criteria, provides continuing justification for government financial support.

While this report focuses on mutual options for Post Office Ltd, it is also appropriate to note that a growing number of post office outlets are run on a mutual basis at local level, through their association with community-owned or co-operative shops.

The current business challenges and plans for modernisation

The business has declined significantly in recent years. The number of customer visits per week has fallen from 29 million in 2004 to 20 million in 2009–10, and product revenue has decreased year on year since 2004/05. Mail services overall have been declining as alternatives become more available and popular. Government services have also seen a continuing decline, and new competitors have emerged for the delivery of transactional services. The business has been loss-making (even with government support) for most of the last ten years, only returning to profitability in the last two years. The decline in the business has also affected sub-postmasters, a large minority of whom have an income of less than £30,000 a year from their post offices.

Steps taken to address the declining business have included the development of new businesses, such as telephony and financial services, and a reduction in the size of the network, with nearly 5,000 post offices closed in two closure programmes in 2003/05 and 2007/09. (It has been made clear in policy terms that there will not be any further closure programmes.) The company has implemented tight cost control measures, renegotiating suppliers' contracts and merging its sales and network teams, and introduced a new version of its IT platform which will result in substantial savings.

The future viability of the business depends on reversing the trend of declining customer visits. This means responding to changing customer needs, and providing a more convenient and flexible network where services are available at more convenient times and locations, as well as via the internet.

The modernisation plans are based upon the development, within the overall network of over 11,500 post offices, of around 4,000 Main Post Offices by 2015 and the introduction of the Post Office Local operating model, with 2,000 post offices in this format by 2015. The development of the Main Post Offices includes investment in the larger post offices, in partnership with those who own the business, to bring them up to date to meet higher standards of service. It also means eradicating over the next four years the ongoing losses being made by Crown Post Offices.

The Post Office Local model, which is currently being trialled, is seen as a potentially appropriate model for certain sizes of sub-post offices. This model does away with the impersonal, screened-off "fortress" counter model and provides services in an open plan arrangement, for all the hours that the retail shop is open. It is intended to reduce costs and increase footfall for sub-postmasters, and increase the attractiveness and flexibility of the service for customers. It therefore has the potential to deliver good returns to operators, be more sustainable for Post Office Ltd and offer a more convenient service for customers.

The development of the modernised network will result in changes, including the likely relocation of some post offices. The Government is committed to supporting this modernisation process, and that is the basis for the financial commitment of £1.34bn over the next four years. Clearly the future of Post Office Ltd also assumes a continuing strong relationship with Royal Mail, even though postal services are not expected to be a growth area with the continuing decline in the number of letters being sent.

But the Government is also supportive of two major initiatives to develop the business of Post Office Ltd.

The first is that post offices should act as a Front Office for both central and local government. Given the network's reach, post offices are a natural place for citizens to access face-to-face government services, such as identity verification, the processing of application to a variety of government departments, and payments. Opportunities are actively being considered for Post Office Ltd to participate in delivering services in these areas.

Second, there is support for the continued expansion into financial services, including the development of new products such as access to bank accounts via post offices and building links with credit unions.

A change in ownership and governance structure

In *Securing the Post Office Network in the Digital Age*, the Department for Business, Innovation and Skills sets out that the current model of ownership, where the Government is the shareholder, holds the post office network back. It believes that it aligns poorly the interests of stakeholders, and potentially creates tensions between them in important areas of the business.⁷ It wants to encourage fresh thinking, and it is for this reason that mutual ownership and governance possibilities are being explored.

7 See paragraphs 59 and 60

Purpose

Introduction

Purpose is concerned not so much with what a business does as with why it exists – what is it for? Most businesses are established to provide goods and/or services of some sort, but the purpose question seeks to establish why they are doing so.

For businesses owned by investors, which constitute by far the largest number of businesses in the UK, the answer is simple: to generate a financial return for investors. Most of us are familiar with this approach to business. Although the business is there to provide us with goods and services, that is merely a means to an end, of generating a return for the investors (or profit maximisation).

Mutual businesses have always had a different purpose. They were created because people in communities were being failed by traditional investor-owned businesses and could not get access to basic goods and services at a fair price. They therefore set up their own businesses with the specific purpose of providing themselves with goods and services, without having to pay an investor profit. They were the owners of the business, and they therefore controlled how the business operated and behaved.

There is an important point to be made about profit here. All businesses must make (or try to make) a profit, because if they don't and income is less than expenditure, then they will eventually fail.⁸ All businesses must therefore make a profit in order to survive. The difference between an investor-owned business and a mutual business is this:

- An investor-owned business exists in order to make a profit – that is its reason for existence or purpose – and maximising profits is the aim
- A mutual business by contrast exists in order to provide goods and services; but to survive, it needs to make a profit. It needs to make a profit to invest in the business, expand services and reduce costs. But it does not need to make as much profit as possible, or to include an investor profit in its selling price.

This is a fundamentally important point, because it goes to the very heart of how an organisation trades and how it behaves. The priority for a business owned by investors is its shareholders. Clearly it needs to have regard to customers and employees in order to be successful as a business, but that is secondary to the interests of shareholders. An investor-owned business, we therefore say, exists for private benefit – namely for the benefit of those who wish to invest in that business.

8 The phrase 'not for profit' is unhelpful and misleading

What is the purpose of Post Office Ltd.?

This question was explored in the qualitative research, and when unprompted a range of answers emerged, based around three themes: service provision, social function and profit generation. To an extent, this may simply reflect the interest which those interviewed have in the Post Office – customers and community are likely to see service provision and social function as the purpose, whereas operators (sub-postmasters and multiples) are likely to see profitability and the ability for them to generate an income as the purpose.

When prompted by the statement that its purpose was to run the network as profitably as possible:

- Most agreed that the network should strive not to be run at a loss (which is consistent with the essential point above that to survive, any business must be profit-making)
- A minority thought that profit was the key purpose, but that was in relation to their own organisation – ie as an operator

Most interviewees agreed (and many felt that it was strongly true) that one of the purposes of the Post Office was to provide a network as a social hub for local communities. Some, however, thought that that conflicted to some extent with the need to run profitably.

When prompted by the statement that the purpose was to provide access to government services, there were mixed views and a number of questions. In relation to the purpose of providing a service to enable people to send mail, this was seen as the historic purpose and still important, but likely to become less important.

Overall, there was some uncertainty amongst interviewees about purpose. There was also a sense of transition, both in terms of the development of alternatives to the use of mail services and in terms of a feeling that the purpose (or at least the emphasis) had shifted over time from service, to social function, to profit generation.

Public benefit

Without doubt, Post Office Ltd is a business as much as any of the organisations considered in the case studies. Income is required to exceed expenditure, and the business is required to earn its income. That income includes a subsidy from the Government (£150m in 2010/11 and £180m in 2011/12); but the context for this subsidy is that access and service requirements are imposed on Post Office Ltd to ensure that an appropriate level of accessibility to post offices and their services is maintained for the benefit of the public (the Access Criteria).

There is an inherent public benefit in maintaining a post office network which is accessible to the public. In that sense, Post Office Ltd is more than just a commercial organisation. It operates in places such as deprived urban communities and isolated rural areas where other retailers do not, it offers some unique services and it is a vital service for some elderly, vulnerable and disadvantaged people. Its presence can underpin the continuing availability of other retail activities by providing essential footfall. Where it is the 'last shop in the village', its continuing presence has a significance which goes beyond the purely economic. The network by its existence therefore provides an important and valuable public benefit.

Research on this value was carried out in 2009 by NERA Economic Consulting on behalf of Postcomm, in the form of a quantitative analysis of customers' willingness to pay for the post office network and the services provided by post offices. This is referred to in their report as the 'social value. That value was at least £2.3 billion per year.⁹ In addition, around 3.5 million people signed petitions against branch closures, and this demonstrates that a large number of people have an interest in maintaining the network.

9 NERA Economic Consulting: The Social Value of the Post Office Network Report for Postcomm – 5th August 2009 http://www.nera.com/ext/Image/PUB_Postcomm_Aug2009.pdf

What does the Postal Services Bill say?

The Postal Services Bill makes provision to allow Post Office Ltd to be transferred to or to become a mutual.¹⁰ It only allows this to happen if three conditions are, and will continue to be met. The first condition¹¹ (Condition A) is concerned with purpose, and it reads as follows:

Condition A is that the purpose (or main purpose) for which the body exists is to act for the public benefit by promoting the use by the public of services provided by a Post Office company or at its post office. [Clause 7(2)]

This is a clear statement that the underlying purpose for which the body exists is to act for the public benefit. But what does this mean?

10 Clause 4 does this by imposing restrictions on the issue and transfer of shares in a Post Office company, subject to an exception in terms of transfer to a relevant mutual (defined in clause 7).

11 The other conditions concern who the members are (Condition B) and protection of property and other rights (Condition C), and these are dealt with further below.

There is no precise legal definition of 'public benefit', though the phrase is well known and important in other contexts including the charitable sector (a charity must have charitable aims that are for the public benefit). The precise meaning in the Postal Services Bill will ultimately be a matter for the Secretary of State, who would have to be satisfied that the relevant conditions had all been met before any mutualisation could proceed.

Mutual purpose

Mutual businesses are owned by their members, and their primary focus is on meeting the needs of their members. But anyone can trade with a customer-owned mutual business (you don't usually have to be a member), and importantly in most cases membership is open to anyone. Whilst customer-owned mutuals are therefore focussed on their members, open membership means that they do not trade for private benefit like investor-owned businesses; they are (generally, but not always) more outward-facing and interested in wider public or community benefit. They trade for the benefit of those who need their services.¹²

In other words, customer-owned mutuals such as co-operatives have some sort of social purpose. They are businesses (income must exceed expenditure, and they have to earn their income rather relying on philanthropy), but unlike businesses whose primary purpose is to generate a financial return for private benefit, their purpose is to meet the needs of their members or owners and the wider community who can become members. This can be seen in the case study of the Co-operative Group. Whilst its constitution does not use the language of 'public benefit' (it has a different heritage), it exists for the benefit of anyone who wishes to access its services and/or become a member. Its express commitment to co-operative values and principles effectively require it to serve a social purpose.

The other case-studies illustrate this point further.

NISA-Today's is an example of a producer-owned membership organisation which exists for a private purpose. Its purpose is to provide trading support services to its retailing and wholesaling members (businesses), which helps them to be more successful and profitable businesses. It does not have a social purpose.

The John Lewis Partnership is an example of an employee member-based business. Its stated purpose is the happiness of its members, but this is a private purpose – the business does not set out or claim to trade for the wider public benefit.

12 From their earliest days, co-operatives used part of their surplus to provide educational, cultural and social benefits

An NHS Foundation Trust such as the South Essex Partnership specifically exists to provide NHS services, which are required to be free at the point of delivery. Its constitution is specifically designed to deliver public benefit (it is called a 'public benefit corporation'). Whilst it has staff members as well as public members, within the governance public members are dominant.

For present purposes, it may be sufficient to make some basic observations as follows:

- Whether or not an organisation exists for the public benefit is at least in part determined by its type of corporate structure, and whether or not that structure is bound by some legal requirement to deliver a public benefit. For example a 'public benefit corporation' (the type of legal structure used for NHS Foundation Trusts) is legally restricted to operating for the public benefit. Certain other legal forms such as a community benefit society and a community interest company also have relevant legal restrictions
- The issue goes further than the choice of legal structure, however. It is also important who the owners of the organisation are, because ultimately it is the owners' role to ensure that the corporate purpose is delivered. Whatever the legal structure, if an organisation was owned and controlled by a private group of individuals or organisations, there would be the obvious risk that over time it would tend to operate for the benefit of its private owners. External regulation could play a part in protecting the public purpose (as for example with the regulated utilities), but it might not be sufficient to satisfy a condition about the purpose for which a body exists. As discussed in the next section, getting the ownership right is important in protecting public benefit.

- Satisfying the condition about purpose will go beyond both choice of legal structure and who the owners are. It is also concerned with what the organisation might do. Will it be allowed to distribute profits – and if so, to whom? Are restrictions on the disposal of assets needed? (One of the conditions of the Postal Services Bill specifically addresses this.) If restrictions on particular activities are contained in the constitution, is some mechanism needed to make sure that those provisions are not removed in the future? These issues are all important in establishing whether or not a body exists 'to act for the public benefit' and they will all be considered in the Safeguarding the Future section below.

The main mechanism for securing the delivery of a corporate purpose is the duty imposed on those responsible for running the business – the directors. It is their job, and their legal duty, to ensure that the organisation acts and behaves in a way consistent with its corporate purpose.

But human beings are fallible, and in carrying out their role, directors are and need to be accountable to others who have an interest in making sure that they discharge their responsibility and will hold them to account. Ultimately, directors are accountable to the owners of the business, and that is the area we must consider next. Since it is clear that as a mutual, Post Office must be committed to public benefit, who should the owners be? That will be considered in the next section.

Summary

1. The purpose for which Post Office Ltd exists is to act for the public benefit:
 - This is set out clearly in the Postal Services Bill, and must be secured in any process of transfer into mutual ownership
 - Post Office Ltd has a recognised social value, illustrated in research, and by public support
 - Research for this project supports the view of an underlying public purpose
2. However, Post Office Ltd is a business, and unless it succeeds as a business, it will not be able to continue delivering public benefit.
3. For Post Office Ltd to succeed as a business, the business of operating post offices must be commercially attractive, both to independent sub-postmasters and to multiples.

Ownership

The nature of ownership of a mutual Why ownership is important

Today's society tends to regard the concept of 'ownership' in terms of being able to sell something – whether it be a car, a house or shares in company. We find it difficult to understand how we own something that we cannot sell; but that is the case with mutuals. The members collectively 'own' their mutual. Today's members are the owners or custodians for the time being, and they make the current membership decisions (whether or not to change the constitution, to merge with another society etc.); but they cannot sell the mutual.¹³ They are the 'owners' in the sense that nobody else owns or controls the society. They own it for themselves whilst they continue to be members accessing its services, and for future generations.

If Post Office Ltd converts into mutual ownership, it will change from government ownership to being owned by its members.

As is already clear from the previous section, ownership of a mutual (or indeed any corporate entity) is important because ultimately it is the owners' role to ensure that the corporate purpose is delivered. The main role of owners is to hold to account those who have day-to-day responsibility for running the business. It is therefore important to have the right owners.

The success or otherwise of a corporate entity depends to a substantial extent on whether those given the role of owners have a sufficient interest to use their ownership to hold directors to account, and whether they really drive the organisation to be more efficient and successful. The typical company is a good illustration of this – shareholders often do exercise their right to hold directors to account and to remove and replace them if they are not doing sufficiently well at delivering a return on investment. Shareholders have a clear interest in exercising their rights (having taken the risk of investing, they want to make sure their investment performs); they have clear powers in company law to remove directors.¹⁴

13 To do so would be a destruction of the mutual commitments, or a 'demutualisation'. Where that is legally possible (which it would not be for Post Office Ltd if it became a mutual), the entity becomes something different – usually an investor-owned business trading for private benefit.

14 Directors also have a clear duty to promote the success of the company for the benefit of its members

In other words, in the design of the traditional company, there is a clear alignment between the interests of shareholders and their role in the company; and it generally works very well in driving the business to perform. Whilst the success of every company is down to the individuals involved, the model itself is a highly successful corporate form at delivering its corporate objective (profit maximisation).

So ownership is important to make sure that the intended purpose is delivered. It is important, therefore, to have the right owners to suit the purpose. But the choice of owners also needs to be appropriate for the dynamics of the particular business.

It will also be important to ensure that an 'ownership deficit' is avoided. In some corporate organisations this can occur, where those who are members are not sufficiently interested to be proactive as members, with the result that those exercising power (the directors) have little if any challenge and are not really held to account. The business can (but does not always or necessarily) suffer as a result. Sometimes an ownership deficit can occur because those who are members have lost interest; sometimes it occurs because the organisation has been set up in an inappropriate way with the wrong members/owners.

What is appropriate for Post Office Ltd?

Who are the appropriate owners for an organisation such as Post Office Ltd which has a public benefit purpose?

The starting point is the Postal Services Bill, which enables transfer to a "relevant mutual". The Postal Services Bill requires that the members are to be "(a) persons who have an interest in the use by the public of such [the relevant] services (including employees of the Post Office company and other persons engaged in the provision of post offices), or (b) persons who act on behalf of, or represent, persons within paragraph (a)". This is Condition B which must be satisfied before conversion into a mutual.

In the qualitative research, interviewees were not specifically asked who they thought should be members or owners of Post Office Ltd, as this would not have been a meaningful question to somebody not familiar with mutuals. Instead, they were asked who the Post Office and its future success mattered to; and who should have a say in influencing how the Post Office is run.

On the first question, interviewees spontaneously mentioned customers, communities, sub-postmasters, multiples, government, employees and business partners (particularly Royal Mail). The potential ownership role of those receiving services and those involved in providing the services (employees and operators of post offices) is considered further below. It is clear that the continuing relationship with Royal Mail will be a key part of the future business of Post Office Ltd. There are and will continue to be other important commercial and contractual arrangements with organisations (including government departments) whose services can be offered across the post office network. However, it is assumed that these commercial relationships will continue on a contractual basis, and that these commercial partners will not have a role as owners.

The role of government in this context requires specific comment. It is of the essence of traditional mutual organisations that they emerged from communities, and were neither creatures of nor dependent upon government.¹⁵ There are examples of close association with local and national government, and of mutuals which operate within a statutory framework established by government such as NHS Foundation Trusts, which are discussed further below. However, the starting point for considering mutual ownership is independence from government, both in terms of ownership and operation. The future relationship between Post Office Ltd and government is therefore likely to be a contractual one, in terms of delivering services as the front office of government and a continuing commitment to access criteria and wider public benefit.

In relation to the second question, each interest group put the case for their own involvement, but those most often chosen by others were sub-postmasters (including multiples), customers/communities, and government.

15 For example, one of the principles upon which the international co-operative movement bases its Statement on Co-operative Identity is 'Autonomy and Independence' – see <http://www.ica.coop/coop/principles.html>

These views are important, even if reflecting a relatively small sample. They confirm that both those receiving goods and services and those delivering them are generally seen as having a legitimate role to play in the future of the organisation. Currently, neither customers nor staff generally have a constitutional role in either state owned or privately owned services, so in a sense this is a significant finding. It may simply reflect the fact that all those interviewed were aware of the Government's interest in the future of Post Office Ltd as a mutual, and believed that neither of them could be excluded from that future if it was to have the best chance of success.

It is also interesting to note that amongst the reasons given for why the future success of Post Office mattered, dependence or reliance on it in some way featured strongly (by some customers – especially elderly, vulnerable, unbanked/ cash economy; by communities – post offices anchoring neighbouring shops, helping provide mutually supportive footfall; by sub-postmasters – their livelihood and personal investment; by multiples – they have invested too; and by employees – their livelihood too, though some commented that they had not invested and could find alternative employment).

The dependence point is important. There is a sense in which mutuals are based upon dependence: they only came about when people were driven to self-help because they had no other choice. So dependence is an important driver for member engagement and participation, for the simple reason that members are less likely to be engaged without it.¹⁶ Mutuals are driven by the self-interest of their members, which has to be effectively channelled into collective action through the mutual arrangements.

So who should be the members of Post Office Ltd?

16 There has to be a clear and obvious answer to the question: why would I want to become a member – what's in it for me?

Producer mutuals

There are examples of mutuals set up by providers, such as marketing or producer co-operatives in the agricultural sector, and worker co-operatives in other sectors. Generally these are focused on the interests of producers, farmers, or workers, and they are not necessarily outward or customer-facing in the same way that a consumer-based organisation might be. In reality, an organisation entirely owned and controlled by producers or employees is more likely, and usually intended to look after the interests of producers or employees. (It is fair to say that operators of post offices also have a role in protecting the public interest and are not just involved for their own private benefit. However, as private businesses their overall priority is their own private interest.)

One much-cited example of an employee-owned or led organisation is the John Lewis Partnership. Whilst its ownership structure is actually via a trust arrangement rather than direct ownership by the employees, the underlying purpose of the John Lewis Partnership is the happiness of all its (employee) members. This is a private benefit, not a public one.

Ownership by employees is an appropriate approach where the organisation exists primarily for the benefit of employees. There is an alignment between the interests of the owners and the purpose, such that the owners are likely to drive the organisation to perform – but in delivering a private purpose. We look further below at the John Lewis Partnership in relation to other aspects of its ownership and governance structure.

Ownership by producers can be an effective business model, but where the purpose of the organisation is to act for the public benefit, ownership by producers would not provide a credible basis to protect the purpose. For example, it might be more profitable for operators if there were fewer services offered over the rural network, but this would not be in the public interest.

The organisation would not contain its own mechanism for holding to account those charged with responsibility for delivering the purpose, and some alternative external mechanism would be needed. Ownership of Post Office Ltd exclusively by the workforce (including operators of post offices) is therefore not seen as a viable mutual option.

Customer mutuals

The traditional mutuals (building societies, co-operative societies, friendly societies and mutual insurers) were all set up by customers. They were a self-help initiative by people who needed access to goods and services. As pointed out above, being customer-owned and with open membership, they are (generally, but not always) more outward-facing and interested in wider public or community benefit.

There are examples of member-based organisations where the members are or represent customers and the community, not staff or producers. Whilst this might appear to be a more appropriate basis for ownership of an organisation with a public purpose, it is unlikely to be a viable option for Post Office Ltd.

First, the Postal Services Bill clearly envisages employees and those involved in providing services having an opportunity for membership. Secondly, most businesses are dependent, to a greater or lesser extent, on the performance and commitment of staff for whether they succeed in the long term.

Research supports the view that employee participation in ownership has a positive impact on the business.¹⁷ Where the business has a high level of dependence upon a workforce, as in the case of Post Office which is dependent upon independent operators for the bulk of its sales to customers, there are clearly drawbacks where that workforce is excluded from any constitutional role and does not have an effective voice in the organisation or an ability to influence.

Mixed membership

The approach to this issue by mutuals established in recent years (often referred to as 'new mutuals') is for both customers and producers to be involved as owners. In these organisations, it is common to find the following.

- Separate categories of members for users/customers, and staff
- Sometimes other categories are included, such as the public (ie neither existing users nor staff), carers (ie carers of patients), etc
- Where there are separate categories or constituencies of members in this way, provision is then included for the various constituencies to elect their own representatives from amongst their number for roles in the governance

17 <http://www.employeeownership.co.uk/publications/the-employee-ownership-effect-a-review-of-the-evidence/>

- The comparative influence of the different constituencies can then be balanced at each level of the organisation, to ensure that each constituency has an appropriate level of influence

Ultimately, public interest or public benefit is a balance between a range of differing interests, and that is what the new mutual approach is designed to achieve. It seeks to include the voices of the key interest groups in the ownership arrangements, and to balance their respective influence in the governance in an appropriate way to drive the business forward and to protect the public interest. This is the approach which should be followed in the case of Post Office.

The main constituencies of interest are those on the customer or user side, and those on the delivery side. It seems likely therefore that some balance of these interests would be the most appropriate approach, both to protect the public interest and to secure wider support to drive the business forward.

On the user side, given the direct and indirect importance of post offices within communities, there may be a good argument for recognising both customers and wider community interests. On the delivery side, there are a wide range of people and organisations involved, including Post Office employees, sub-postmasters, multiples and employees of sub-postmasters and multiples.

These have important, but significantly different interests, and it may be appropriate to recognise some or all of them separately as constituencies of members. Their respective interests also need to be balanced in relation to each other.

If the answer for membership of Post Office Ltd is the mixed-membership approach including a range of different interest groups, what form will it take? To explore this question, it is helpful to look at the case studies to see a variety of different mechanisms.

How should ownership be held?

Of the six case studies undertaken, four of them are of potential. Amongst other things, they illustrate three different approaches: (1) direct membership (The Co-operative Group and the South Essex Partnership Trust); (2) representative membership (Glas Cymru); and (3) a trust arrangement (The John Lewis Partnership).

1. Direct membership

The Co-operative Group

The Co-operative Group is a national retail business, including food, pharmacy, travel and financial services. It is constitutionally committed to following co-operative values and principles, which includes open membership and democratic governance.

The members (as is the case with other retail co-operatives) comprise both consumers and staff. Members are not divided into separate consumer and staff constituencies. There are mechanisms within the democratic structure to restrict staff participation to no more than one third, in order to ensure that the society will always remain predominantly consumer-led. However, this approach ensures that individual members of staff can engage in their society's democracy.

Members do not have to be customers (or employees), but it is more than likely that they will be, because an important incentive to becoming a member is the ability to share in the trading profits, which are shared between customers (based on their purchases), staff and the community.

There is a national membership structure covering the whole of the UK and Northern Ireland. Individuals are members locally via Areas, and Areas are grouped into seven Regions, each of which has a Regional Board.

Relevance to Post Office Ltd:

- Illustration of direct membership, where members are the direct owners of the corporate entity
- No subdivision of members by interest (consumers and staff not separated)

**South Essex Partnership University
NHS Foundation Trust**

SEPT is a provider of health and social care services for people with mental health problems and learning difficulties. Because it is an NHS Foundation Trust, its constitutional arrangements are required to follow the fairly prescriptive requirements of legislation.

SEPT has two categories of membership – public membership open to anyone living within a specified geographical area, and staff membership. Public members are sub-divided into seven geographical areas, for the purpose of electing local representatives to the Board of Governors. Staff are subdivided into five classes based on the nature of their role. Although it is possible for NHS Foundation Trusts to have a separate constituency of patient members as well, along with many others SEPT chooses not to do so.

Members derive no personal financial benefit from membership, but it gives them the right to information, a voice in the organisation and representation through their elected representative. Membership offers something to those suffering from mental health issues (and to those who care for somebody suffering in this way). They are likely to have a long-term relationship with the organisation, and the opportunity to influence and have a say beyond simply the patient or service-user role is significant.

Being a member has no impact on accessibility to health services or employment opportunities. Membership is an additional relationship, available to anybody who qualifies (because of where they live or their job).

Whilst members of a foundation trust are the owners in the sense that nobody else owns the trust, the sense of ownership is not as strong as, for example, in a co-operative. However, an important point to make in the present context is that NHS Foundation Trusts are not owned or controlled by the Government. The position is complex given the continuing arrangements for commissioning health services and determining the prices at which services are provided, but essentially an NHS Trust ceases to be owned and controlled by government when it becomes an NHS Foundation Trust. Consequently, ministers are not in a position to comment on or provide information about, the detail of operational management within such trusts.¹⁸

Relevance to Post Office Ltd:

- Illustration of direct membership, where members are the direct owners of the corporate entity, but where the sense of ownership is not as strong as in a co-operative

- Separate constituencies for staff and public (each sub-divided)

2. Representative membership

Glas Cymru

Glas Cymru is the owner of Welsh Water. It was set up to own, finance and manage Welsh Water on behalf of today's customers and future generations. Whilst it does not expressly trade for the public benefit, this is the reality. It is a non-profit distributing organisation which is required to invest trading profits in the business, with no private investors or owners in the traditional sense. Like other water companies, it is also subject to regulation of various aspects of its business, including price and quality.

Up to 200 private individuals may become members; currently there are 82. They are appointed by the Board, on the recommendation of an independent Membership Selection Panel. Members act as volunteers, and they tend to be people with a keen personal interest in the sector, either because of previous service in the industry or due to a health or other public interest. There is no overt aim to represent employees amongst the membership. However, whilst there are clearly people-intensive areas of activity such as maintenance, the ownership and operation of water and waste water services is rather more an asset-intensive business.

18 See http://www.publications.parliament.uk/pa/cm200304/cmhansrd/vo041011/wmstext/41011m02.htm#41011m02.html_spm0

Unusually for a company, the articles of association provide that the members are bound to exercise their rights and powers as members to further the objects of the company (ie they have a legal duty to do so). This effectively makes them guardians or trustees of the company's purpose, for the public benefit. The members are expected to play the role normally played by the shareholders of a company, save that they have no financial interest or any financial gain from doing so. The members also have to approve certain major transactions, as if they were shareholders of a Stock Exchange listed company.

Relevance to Post Office Ltd:

- Representative membership structure
- Duties imposed on members to exercise their rights and powers as members to further the objects of the company

3. Trust arrangement

John Lewis Partnership

It has already been pointed out above that employee ownership would not be appropriate for Post Office Ltd. However, the mechanics of the John Lewis Partnership approach (using a trust) might still be of interest, even if ownership were to involve wider interests.

The business is owned by John Lewis Partnership PLC, and staff are employed by this company or a subsidiary. The shares of PLC are owned by the John Lewis Partnership Trust Ltd, and this company acts as trustee of the settlements established by the founder. The employees or so-called 'Partners' of John Lewis Partnership are not direct shareholders or direct owners of the business¹⁹, but through a separate constitution all partners have the right to cast a vote in electing a Partnership Council. Power is shared between the Chairman, the Partnership Board and the Partnership Council.

Relevance to Post Office Ltd:

- Use of trust to own shares in the business
- Membership via separate constitutional arrangements

Summary

1. Both those delivering the service and those in receipt of it have a role to play in ownership, to provide a balance to protect the public interest, and to secure the engagement and support of both key interest groups (the mixed membership approach).

¹⁹ This was the case at some point in the past, but direct shareholdings are gradually being phased out.

2. In relation to those delivering goods and services, there are a wide range of people and organisations involved, certainly including Post Office Ltd employees, sub-postmasters, multiples and employees of sub-postmasters and multiples. These have important, but significantly different interests, and it may be appropriate to recognise some or all of them separately as constituencies of members. Their respective interests also need to be balanced in relation to each other.
3. Looking at those in receipt of goods and services, given the direct and indirect importance of post offices within communities, there may be a good argument for recognising both customers and wider community interests as possible constituencies of members.
4. The research rightly identifies government as an important player, both politically and given the potential for increased business for Post Office Ltd as a front-office for government. However, since government is seeking to create a form of mutual ownership, independence from government, in terms of ownership and control, will be important, and the continuing relationship is likely to be contractual. Therefore continuing in an ownership capacity seems to be inappropriate.
5. There are a range of possible approaches to ownership/membership including
 - The direct membership of the organisation by individual people, as in the case of Co-operative Group and the South Essex Partnership
 - Representative membership by a limited number of chosen individuals as in the case of Glas Cymru
 - The ownership by a trust, with a separate democratic structure, as in the case of the John Lewis Partnership (but based on a range of interests, not just those of employees or producers)

Governance

What is governance?

Having established that Post Office Ltd exists to act for the public benefit, and that its owners or members should comprise a combination of those receiving its services and those delivering them, the next step is to consider how those owners will exercise influence. What will the governance be?

'Governance' concerns how a corporate entity is organised and controlled. This involves different groups of people or 'organs' (eg members, the board of directors, etc), and the governance arrangements include the composition of each of the organs, how people become part of them and what each organ does.

Putting it another way, governance is concerned with how power is shared within a corporation – who does what, and what the rules are.

These rules tend to be contained in three main sources:

- They are mainly written down in a corporate constitution (articles of association, or rules)
- Some overarching principles may be contained in the legislation under which a particular legal structure is incorporated or created

- Some day-to-day operational matters may be set out in documents created under powers contained in the constitution, such as codes of conduct or practice, standing orders and procedures

Establishing appropriate governance

As set out earlier, an ownership and governance structure is simply a means to an end. It provides a framework to hold and operate a business. First, it is necessary to establish who the owners are (see 'Ownership' above). Once this is decided, the detailed rules of how the organisation is to be organised and controlled can be worked out.

At the heart of governance is a separation of ownership and control. In other words, those who own the organisation do not have control over its day-to-day affairs.

Typically in a simple constitution, 'the many' (members) delegate to 'the few' (a board of directors) responsibility for running the affairs of the entity. Those carrying this responsibility are rather like trustees of the corporation's assets and affairs. They are required by the law to do their job honestly and carefully, and they are normally required to report back to the many, each year, on how they have discharged their responsibilities (annual report and accounts). We usually refer to this reporting back as giving an account for how they have exercised their powers, or accountability.

In a successful corporate model, the few who have been given power to run the affairs are driven by the many to deliver the corporate purpose and the vision of the business. Through the process of accountability, the few are monitored, encouraged, corrected and if necessary replaced to ensure that the purpose and vision are satisfactorily delivered.

In the simplest governance arrangements, governance involves only two organs – the members and the board of directors. In many cases, more elaborate arrangements are needed to ensure the effective operation of the organisation. Establishing appropriate governance arrangements involves two basic objectives:

- First, they must provide the most effective basis for the operation and management of the business. They must not be so cumbersome or expensive that they would hinder it, nor must they be too lightweight or simplistic to adequately control it. Striking an appropriate balance involves taking into account such things as the size and complexity of the business, and cost.
- Second, they must provide an effective mechanism of accountability so that the many are able to hold the few to account. This is vital, because unless this process works, there will be no pressure or drive on the few to make the organisation succeed and achieve its corporate objectives. This requires striking an appropriate balance between the many interfering too much with the operation of the business such that its stability is impaired, and the few having too much power/too little accountability so that they are not corrected when their performance is inadequate.

Givens

The needs of the business usually provide a starting point: it requires a certain number and range of executive directors to run the business. Currently, Post Office Ltd has seven executive directors, and it would broadly be assumed that this would continue to be needed under any form of ownership. The business must be properly managed.

It would also be assumed in a mutual organisation that the members would elect representatives to play a role in governance. Where members are divided into a number of constituencies representing different interests, it would be assumed that each constituency would be able to elect one or more representatives from amongst their number.

The basic question to be answered in designing a mutual governance structure is how the executive directors link to the democratically elected representatives. What are the arrangements under which accountability is secured? How are the executives supported, reviewed and challenged in carrying out their role? Broadly, what are the links between the democratic element and the executive element?

Where the business is large and complex, and particularly when it is operating in a regulated sector such as the financial services sector, it is appropriate and may be necessary to consider whether there is also a need for independent non-executive directors to be appointed.

This issue arises because democratic elections cannot necessarily be relied upon to provide individuals with the necessary qualifications and experience (and, arguably, independence) to provide an effective counterweight to executive directors.

Whilst some large traditional mutual organisations (as discussed below) still operate with an entirely elected board, they may still include arrangements for independent non-executive directors within the governance.

The basic models

There are three basic models of governance. In the simplest model (model 1), there are just two 'organs' of the corporate entity – members and directors. This is the model used by companies, and it is therefore the one that is most familiar.

Members

|

Board of Directors

- Glas Cymru is an example of this structure. Here the directors (currently comprising seven non-executive directors and three executive directors) are appointed by the AGM. This type of arrangement is the norm for companies. It uses a process of appointment of directors in which it is normal for the names of the proposed directors to be put forward to the AGM by the board following a process carried out by a board sub-committee, effectively for ratification by the AGM.

- NISA is another example, where the board comprises 15 members' directors, five executive directors, and three independent non-executive directors. Here the board appoints or recommends for appointment all three categories of directors, subject to certain limited powers of the AGM to appoint member directors nominated by the members, or to fill casual vacancies or appoint additional directors. Whilst NISA is a member-based organisation, it does not claim to be a mutual one, and it trades for a private purpose.
- The Co-operative Group is an example of this. It has a board of 20 elected directors. (Independent non-executives do now feature in the governance of the Co-operative Group, but not at Group Board level – they serve on subsidiary trading boards.) Whilst the co-operative approach looks similar to the simple governance model shown above, in practice it is different because there are no executive directors serving on the board. Day-to-day executive responsibility for the running of the business is delegated to separate executives, who attend board meetings as required, but who are not members of the board.

The standard company approach, where the members effectively approve the appointment of directors who have been selected by a board sub-committee, and which is broadly intended to assure business and commercial competence of directors, is not the way mutuals tend to operate. The mutual tradition is based upon individuals coming forward from the membership and seeking election – preferably in a contested election. This reflects a very different background and type of organisation, where members are users of the service, rather than merely investors with little or no personal involvement in the services provided. In this tradition, the aim is to attract engaged and enthusiastic individuals who seek to champion the interests of customers in the management of the business.

The traditional consumer co-operative approach is based on a board comprising individuals who are all democratically elected by the members.

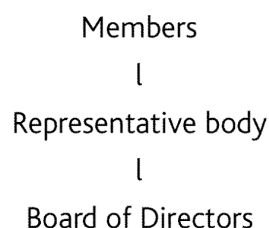
This approach (Model 2) differs from Model 1, as follows.



In this model, the board of directors decides the business and strategy of the society and its businesses, hires and fires the chief executive and oversees the executive function in the delivery of the agreed strategy. But day-to-day responsibility for running the business is delegated to the executive, who report on this to each board meeting.

Whilst this model reflects the historic consumer co-operative approach, the practice of executives not serving on the board is relatively unfamiliar in the business world. It is probably less likely to win support for a large and complex business emerging from the public sector.²⁰

The third model (Model 3) involves a three-tier structure comprising both a representative body and a board of directors.



In this model, the members generally elect the representative body (or a majority of them), and the representative body appoints some or all of the board of directors.

- The South Essex Partnership is an example of this approach. Members elect the majority of the Board of Governors (25 public governors elected by public members, five staff governors elected by staff members) and the remaining governors (12) are appointed by partner organisations including statutory bodies, charitable and voluntary organisations.
- The John Lewis Partnership has some similarities to this model, though it has a number of its own idiosyncrasies.²¹ Individual members or employees elect 80 representatives onto a Partnership Council, which also includes members of the Partnership Board and others who may be appointed by the Chairman. The Partnership Council appoints five members of the Partnership Board, which also includes five executives appointed by the Chairman (who is also an executive, and who is appointed under a different process via the Trust Company), and two non-executive directors.

20 One other sector where it is common for executives not to serve on the board is social housing. For housing associations established following large-scale transfers of housing stock by local authorities, a tradition of 1/3 tenant directors, 1/3 local authority directors and 1/3 independent directors has become established, though this is evolving

21 Including the following: (1) the Chairman nominates his successor, save in exceptional circumstances, and the provisions concerning the Chairman are in the articles of the John Lewis Partnership Trust Limited; (2) the main provisions for the governance arrangements affecting members, the Partnership Council and the Partnership Board are not part of the constitution of an incorporated body

In Model 3, the board of directors has responsibility for the management of the business, but subject to some important rights and roles carried out by the representative body. In the John Lewis Partnership, as well as appointing five members of the Partnership Board, it has the right to discuss, ask questions and make recommendations on any topics that it wishes, and thereby hold the board to account. It also functions more generally as a channel of communication between the board and the members. In the South Essex Partnership, the representative body (board of governors) has a similar role, which also includes the power to appoint and remove the non-executive directors, and to play a part in the determination of future plans.

Perhaps the easiest way of summarising the role of the representative body is as follows:

- Being a formal link between the board and the general membership, in both directions
- Acting as a forum for the debating and assimilation of views from a variety of perspectives, to inform the current and future business
- Monitoring the board in its management of the delivery of services
- Playing an active role in planning future services
- Having some teeth to make sure it plays a real, not a cosmetic role

Of the three models set out above, Model 3 would appear to be the most appropriate for Post Office Ltd. By providing a separate representative body, the potentially wide range of interests involved in making the business succeed would be able to have a voice within the organisation. The representative body might include not just direct representatives of customers, but also consumer groups and representatives of voluntary and charitable organisations.

In this model, the board of directors has clear operational control of the business, which is necessary for it to function efficiently as a business. However, the board of directors has to involve the representative body in certain specified areas such as planning future services and strategy, as well as reporting on a regular basis on the progress of the business. This ensures that the board remains accountable for delivering the purpose.

Some thought needs to be given to the role of the devolved governments and local government. While it would be possible for them to have a permanent presence on the representative body, that might be considered inconsistent with the maintaining overall independence from government influence. An alternative mechanism might be, say, to require the representative body to consult devolved and local government on an annual basis.

Other observations

As in relation the question of ownership, no specific question was asked in the qualitative research about different types of governance, because such a question would require much explanation. However, the questions referred to earlier (who the Post Office mattered to, and who should have a say in influencing how it is run) have some relevance, although they do not contribute any detailed material on the question of governance.

In relation to the reactions from interviewees about the mutual option for Post Office Ltd, one important point which emerged was fear of slower decision-making. This is not an uncommon reaction to the idea of wider interests participating in governance; there is an assumption that decision-making is more complex and cumbersome. This feeling also emerged in the workshop day.

Earlier in this section, it was flagged up that governance must not be too cumbersome, nor slow down the business. The reality is that decision-making in any organisation requires a balancing of different interests.

Whatever the ownership and governance structure, making good decisions requires that a variety of views are listened to. It is important that there are clearly understood boundaries between management and elected representatives.

It does not necessarily follow that where views emerge from within the organisation (as in a mutual), the decision-making process is necessarily slower or, indeed, less effective than when the views have to be obtained from outside the organization. But the governance needs to be right.

Summary

1. Of the three basic models for governance, Model 3 (based on a separate representative body and board of directors) seems to be the most appropriate for a large, complex business moving out of state ownership.
2. The composition of the board of directors, in terms of the executive directors, must reflect the needs of the business. The board should probably include a majority of independent non-executive directors.
3. The composition of the representative body should reflect an appropriate balance of different interests. The following points seem appropriate:
 - The majority should comprise representatives elected by and from the various constituencies of members
 - The representative body could include a minority of individuals appointed by particular specified organisations, for example from consumer groups and the voluntary or charitable sector

- It may be appropriate, in order to protect the public benefit, to ensure that no group of private interests could have an overall majority
- Consideration needs to be given to the role of devolved and local government

Safeguarding the future

The Postal Services Bill

Reference has already been made in section 3 above to one of the conditions (Condition A) which must be satisfied before Post Office Ltd can be converted into a mutual; namely that the purpose for which the body exists is to act for the public benefit. (Condition B has also been referred to, which concerns who the members may be.)

Condition C requires that there are in place “arrangements for the prevention of disposals of property or rights that would be inconsistent with the main purpose”. Conditions A and C give rise to a variety of questions which are concerned with what the organisation might be able to do, and by implication what it may need to be prevented from doing. There are already provisions in clause 4 of the Bill imposing restrictions on the disposal of shares in a Post Office company, essentially limiting any disposal to another relevant mutual and requiring prior authorisation by the Secretary of State. These issues are all important in safeguarding the future.

In particular, the following questions arise:

- Will the organisation be able to distribute any of its profits, and if so, to whom? Would it be allowed to distribute them to members? If yes, would it be allowed to choose to distribute profits to some constituencies (for example employees, sub-postmasters or multiples), and not others (for example, customers)?
- Do the assets need to be protected in some way? Should the organisation be free to deal with assets as it feels appropriate, or is some minimum level of protection needed, for example to prevent the sale of assets and the distribution of the proceeds to members (assuming distributions are permissible)?
- Is protection against demutualisation necessary?
- If it is necessary for the activities of the organisation to be restricted in any particular ways (such as those just referred to) by constraints contained in the constitution, is some mechanism needed to ensure that those constraints are not altered or removed in the future?

These questions will be considered next.

Distributions

Whether or not a corporate entity can distribute a trading or capital surplus to its members is often a defining characteristic of that type of corporate entity.

A company limited by shares can, and indeed would normally be expected to distribute profits to its shareholders, in proportion to the number of shares held by each shareholder. That is the whole point of the exercise – a company raises capital by issuing shares, and the investor invests on the basis of the prospect of the profits likely to be achieved and the dividends which can then be paid.

Where the company chooses not to distribute the profits, but instead to invest in expansion or new business, the shareholder still benefits because this is likely to increase the underlying value of the company. Since a shareholder of a company effectively owns a proportionate share of the underlying value of the company (that is what they would be entitled to on a solvent winding up of the company), inward investment would normally increase the value of the shares.

Mutuals such as co-operatives do not operate in the same way. As already pointed out, mutuals exist in order to provide services rather than to maximise the return for investors. Like any business co-operatives must strive to be profitable; but where they make a trading profit or surplus (the excess of income over expenditure, after provision has been made for all appropriate risks and future investment), that surplus is traditionally returned to the members, on the basis that they have overpaid for what they have bought.

The distribution or dividend is therefore paid not to investors, but to customers, in proportion to how much they have spent.²² In other words, the historical origin of the mutual dividend is not so much a sharing of profits (as in a company) as a mechanism for arriving at a fair price.

Mutuals which have emerged over recent years generally do not have the ability to pay any dividend. For example, NHS Foundation Trusts which operate within a statutory framework cannot pay a dividend to members. Indeed, because healthcare is free at the point of delivery (ie not paid for by the patient) and commissioned by separate statutory commissioners, there is no economic basis on which to pay dividend to users. In other parts of the public sectors where member-based models are emerging, such as social housing and local government, the position is similar, either because the services are commissioned and not being paid for by users, or because the payment of a dividend to a restricted group (ie members) would not be consistent with the purpose for which the organisation existed. Instead, profits are retained and invested in the business.

22 Dividend is normally paid to customers who are members (it is an incentive to becoming a member), though historically and constitutionally dividend is not restricted to customers who are members.

What is appropriate for Post Office Ltd?

The starting point is that the business is currently not generating a profit, and its income only exceeds its expenditure because of the subsidy from Government. Were this to change, or if instead of receiving a subsidy it was in receipt of contractual payments based upon the fulfilment of certain specified requirements, then the question would arise: could any distribution be made? Additionally, Post Office Ltd is in a different position from the public sector examples referred to above where there are separate commissioners. Post Office Ltd is also acting in a commercial environment.

Several points can be made.

1. There would appear to be nothing to prevent Post Office Ltd from paying contractual performance-related payments to employees, sub-postmasters or multiples. Such payments could be conditional on the business overall being profitable. As such they are not distributions, but would be a way of rewarding success.
2. Similar observations could be made in relation to customer loyalty payments.
3. Whether or not the ability to make distributions will undermine the public benefit purpose will be a matter for the Secretary of State to decide before conversion to a mutual could proceed. The ability for the organisation to simply 'give away' profits in a distribution would seem to be difficult to reconcile with a commitment to public purpose, but there may well be a legitimate public benefit in providing some limited rewards to participants in the business such as operators of post offices. It is suggested that any such legitimacy will depend upon (a) parameters to be spelled out in any constitutional provision permitting any distribution; and (b) the process to be followed in making any decision about distribution, which would need to be specifically designed to protect the public interest.
4. It seems likely that the ability to pay any distribution, if that were to be permitted, would need to be restricted to a distribution out of trading profits.

Protection of assets, and preventing demutualisation

There are various ways of protecting assets and preserving their value for the public benefit in the future. One mechanism is by including restrictions in statute, which are enforced by a regulator. This is how NHS Foundation Trusts are prevented from disposing of their publicly funded assets. However, this approach would not be appropriate for Post Office Ltd, as it is unlikely that government would wish to create new regulatory powers.

Another mechanism is to include provisions in the constitution of the entity itself. Such provisions specify, amongst other things, that in a solvent winding up, any capital surplus cannot be distributed to members, but instead must be applied in a particular way, such as transfer to another organisation with similar values and ethos. Such provisions have some value, but are subject to the potential risk that the constitution might be changed to remove them.

In recent years, another approach has been introduced which is intended to protect assets for the future in certain types of corporate entity (community benefit society and community interest company). The so-called 'asset-lock' provisions, together with restrictions on the ability to make distributions, provide a mechanism to give assurance to third parties (lenders or funders, commissioners etc) that funds cannot 'leak' out of an organisation.

Where an organisation is set up for some purpose other than profit maximisation, the concern is that if it is successful and becomes valuable, the organisation becomes vulnerable to predators seeking to unlock that value for private gain (demutualisation). This has happened to a number of building societies, which have been demutualised, a process enabling the members at the time to receive a windfall payment, but one which also results in the destruction of the mutual status and conversion into a company trading for private benefit.²³

The asset-lock arrangements were designed to prevent this, and to enable organisations with a social purpose to be set up, secure in the knowledge that their assets were safeguarded for the future. Such provisions also effectively give protection against the threat of demutualisation, because the assets are put beyond the reach of potential predators.

What will be appropriate in relation to Post Office Ltd?

Clearly, some protection of assets is appropriate to preserve them in the public interest for future generations. It will also be necessary to ensure that Post Office Ltd is not vulnerable to any predator or demutualisation. A number of points can be made.

23 None of the demutualised building societies has survived as an independent organisation – they have all either been taken over by competitors or failed

1. There are already provisions in the Postal Services Bill imposing restrictions on the disposal of shares in a post office company, essentially limiting any disposal to another relevant mutual and requiring prior authorisation by the Secretary of State.²⁴
2. Save in relation to Crown Post Offices, the premises used for the distribution of goods and services are owned not by Post Office Ltd, but by sub-postmasters and multiples. Whilst Post Office Ltd owns substantial assets, the situation is not comparable with NHS Foundation Trusts.
3. The value of assets owned by Post Office Ltd does need some form of protection, particularly if there were to be an ability for Post Office Ltd as a mutual to make distributions. It would be important that distributions were made out of trading surplus only, and any capital assets were preserved for the public benefit for the future. A statutory asset-lock may be an appropriate way to achieve this, and to avoid any threat of demutualisation.
4. The organisation will need to have the freedom to buy and sell property and other assets including businesses, and to enter into joint ventures and other commercial arrangements, if it is to continue to be viable over future decades. If there are to be any constraints upon dealing with assets, they should be no more restrictive than is necessary to protect the continuing public benefit (as is implicit in the Postal Services Bill).

Constitutional restrictions

As is apparent from what has been said above, it is likely that there will need to be some restrictions on what Post Office Ltd will be able to do, if the Secretary of State is to be satisfied that the relevant conditions set out in the Bill have been met. These restrictions are likely at least to include restrictions on the power to make distributions.

A corporate constitution contains its own provisions specifying how changes to that constitution can be made. They would normally require (at least) approval by the general meeting of members, and such approval might require more than a simple majority. It is possible to specify that certain provisions cannot be changed; and it is possible to impose further requirements before making certain changes – for example, requiring the approval of another body such as a regulator, a government department or a statutory body. Statutory asset-lock provisions, once introduced, cannot be removed.

24 Clause 4 of the Bill

It is likely to be necessary to place some constraints upon the ability to amend the constitution in the future, because otherwise it is difficult to see how the relevant conditions can be met. The conditions include a requirement that they are met and will continue to be met.

Organisational culture

Finally, in the context of considering the future of the organisation, it is appropriate to comment on the question of organisational culture.

This subject cropped up in the research undertaken, and also in the workshop with key interested parties. Comments were made about the difficulty of influencing policy, a lack of transparency, top-down models, a lack of involvement in key decisions, and inflexible practices. Different groups felt that they were marginalised, or listened to but ignored.

A move to a form of mutual ownership and governance might appear to be a solution to these issues, but it needs to be recognised that it is not quite as simple as that.

An ownership and governance structure which provides specifically for different interest groups to be actively involved in the running of an organisation provides a framework for a more participative approach; but changing the legal structure does not necessarily (or immediately) change culture. Transition to a mutual structure provides an opportunity for culture change, but to secure such a change the transition needs to be underpinned by appropriate support, training and development.

Some organisations include in their constitutional document a commitment to certain values and principles. For example, in the co-operative movement, express commitments are commonly made to the principles set out in the International Co-operative Alliance's 'Statement of Co-operative Identity'.²⁵

Different organisations approach standards, values and principles in different ways. The formal, written constitutional arrangements are clearly important, but it will take time to make those arrangements meaningful and effective, and to develop an appropriate organisational culture. It will be important, if Post Office Ltd changes to a mutual model, to provide support and assistance, including development and training, in adapting to a different way of working.

25 As referred to above – see <http://www.ica.coop/coop/principles.html>

Summary

1. Distributions – there may well be a legitimate public interest in permitting some limited rewards to be paid out of profits to participants in the business.
 - It will be a matter for the Secretary of State to decide whether this would be compatible with the commitment to public benefit
 - If such distributions are to be permitted:
 - o Parameters will need to set out in the constitution
 - o The process for deciding about such distributions will need to be specified
 - o Such parameters and process will need to properly protect the public benefit
2. Protection of assets – some form of protection of assets will be necessary to safeguard Post Office Ltd for future generations, and to ensure that it cannot be demutualised.
3. Constitutional protections – if certain key constitutional features are needed to protect the public benefit and to safeguard the business for the future, provisions will be needed in the constitution to make sure that those provisions are ‘entrenched’ and cannot be changed by future generations.
4. Organisational culture – a mutual constitution provides a framework and an opportunity for a more participative approach to governance. However, it is insufficient in itself and appropriate support, including training and development, will be needed to assist Post Office Ltd in the transition. The inclusion of a reference to values within the constitution, such as co-operative values including equality, democracy and fairness, can be a helpful way of linking structure to culture.

Summary and recommendations

Purpose

Every business needs a clear purpose that articulates what it is there to do. Only once the purpose is established can we consider the most appropriate organisational form that the business could take.

(from page 26)

1. The purpose for which Post Office Ltd exists is to act for the public benefit:
 - This is set out clearly in the Postal Services Bill, and must be secured in any process of transfer into mutual ownership
 - Post Office Ltd has a recognised social value, illustrated in research and by public support
 - Research for this project supports the view of an underlying public purpose
2. However, Post Office Ltd is a business, and unless it succeeds as a business, it will not be able to continue delivering public benefit.
3. For Post Office Ltd to succeed as a business, the business of operating post offices must be commercially attractive, both to independent sub-postmasters and to multiples.

So Post Office Ltd needs to be a successful business, in order to be able to provide services for the benefit of the public.

Post Office Mutual will need to be incorporated as a body constitutionally committed to trading for the public benefit.

It will be empowered to enter into contracts with sub-postmasters, multiple operators and employees that incentivise and reward their performance.

It will have full power to enter into joint ventures and other commercial relationships.

Ownership

The ownership of a mutual is vested in its members. We must decide who should be the members of Post Office Ltd to take on this responsibility of ownership.

(from pages 36 – 37)

4. Both those delivering the service and those in receipt of it have a role to play in ownership, to provide a balance to protect the public interest, and to secure the engagement and support of both key interest groups.

5. In relation to those delivering goods and services, there are a wide range of people and organisations involved, certainly including Post Office Ltd employees, sub-postmasters, multiple store operators and employees of sub-postmasters and multiples. These have important, but significantly different interests, and it may be appropriate to recognise some or all of them separately as constituencies of members. Their respective interests also need to be balanced in relation to each other.
 6. Looking at those in receipt of post office services, given the direct and indirect importance of post offices within communities, there may be a good argument for recognising both customers and wider community interests as possible constituencies of members.
 7. The research rightly identifies government as an important player, both politically and given the potential for increased business for the Post Office as a front-office for government. However, since government is seeking to create a form of mutual ownership, independence from government will be important, and the continuing relationship is likely to be contractual. Therefore, continuing in an ownership capacity seems to be inappropriate.
 8. There are a range of possible approaches to ownership/membership including
 - The direct membership of the organisation by individual people, as in the case of the Co-operative Group and the South Essex Partnership
 - Representative membership by a limited number of chosen individuals as in the case of Glas Cymru
 - Ownership by a trust, with a separate democratic structure, as in the case of the John Lewis Partnership (but based on a range of interests, not just those of employees or producers)
- So ownership needs to encompass the range of people and businesses who are able to help Post Office Ltd deliver on its purpose. These different constituencies of members will all be represented in a representative body.
- The members will meet annually to receive an annual report and accounts, and otherwise when necessary to approve any change to the constitution.

Governance

Members will have defined roles in the governance of Post Office Ltd. This will depend on their relative importance to it achieving its purpose. What part they and their representatives play in the governance, and how those charged with overall responsibility for running the business are accountable to members and their representatives must be appropriate for Post Office Ltd and decided according to what is most likely to make it succeed as a business.

(from pages 44 - 45)

9. Of the three basic models for governance, Model 3 (based on a separate representative body and board of directors) seems to be the most appropriate for a large, complex business moving out of state ownership.
10. The composition of the board of directors, in terms of the executive directors, must reflect the needs of the business. The board should probably include a majority of independent non-executive directors.
11. The composition of the representative body should reflect an appropriate balance of different interests. The following points seem appropriate:
 - The majority should comprise representatives elected by and from the various constituencies of members
 - The representative body could include a minority of individuals appointed by particular specified organisations, for example from consumer groups and the voluntary or charitable sector
 - It may be appropriate, in order to protect the public benefit, to ensure that no group of private interests (such as operators) could have an overall majority
 - Consideration needs to be given to the role of devolved and local government

So Post Office Ltd will need a robust business governance structure that ensures appropriate roles and responsibilities, management and members.

Safeguarding the future

To have a solid future as a mutual, Post Office Ltd should be set up in such a way that it will stick to its original purpose and the business structure is flexible enough to permit this to evolve.

(from page 52)

12. Distributions – there may well be a legitimate public interest in permitting some limited rewards to be paid out of profits to participants in the business.
 - It will be a matter for the Secretary of State to decide whether this would be compatible with the commitment to public benefit
 - If such distributions are to be permitted:

- o Parameters will need to set out in the constitution
 - o The process for deciding about such distributions will need to be specified
 - o Such parameters and process will need to properly protect the public benefit
13. Protection of assets – some form of protection of assets will be necessary to safeguard Post Office Ltd for future generations, and to ensure that it cannot be demutualised.
14. Constitutional protections – if certain key constitutional features are needed to protect the public benefit and to safeguard the business for the future, provisions will be needed in the constitution to make sure that those provisions are 'entrenched' and cannot be changed by future generations.
15. Organisational culture – a mutual constitution provides a framework and an opportunity for a more participative approach to governance. However, it is insufficient, in itself, and appropriate support, including training and development, will be needed to assist Post Office Ltd in the transition. The inclusion of a reference to values and principles within the constitution can be a helpful way of linking structure to culture.

So Post Office Ltd will be established as a mutual that provides post office services for the benefit of the public, whose profits are primarily re-invested for the public benefit, and whose assets are protected for future generations.

The inclusion of a reference to values within the constitution, such as co-operative values including equality, democracy and fairness, can be a helpful way of linking structure to culture.

Appendix 1

Qualitative research findings

1. Background and research objectives

This research was designed to explore reactions among key stakeholder groups to the idea of in time converting Post Office Ltd (POL) into a mutual.

Within this, we explored:

- Purpose of Post Office Ltd
- Stakeholder identification
- Relationships with Post Office Ltd
- Reactions to mutualisation

All of the interviews were conducted under market research protocol – with anonymity guaranteed to the respondents.

2. Methodology and sample

A broad range of interested parties were consulted. The project was qualitative in nature, and consisted of a series of focus groups and in-depth interviews.

The fieldwork took place in January to February 2011, and was structured as detailed Table 1. below:

Table 1.	
Sub-Postmasters (representing independent retailers)	2 mini-focus groups
Rural Interest – representatives or organisations concerned with rural matters	1 focus group
Communities - representatives or organisations concerned with communities	1 focus group
Business - representatives or organisations concerned with the business interest	1 focus group
'Watchdogs'	2 interviews
Post Office /Royal Mail Management	3 interviews
Multiples	5 interviews
Unions	3 interviews
Local government	Paired interview

In total thirty five people were interviewed in this research.

The interviews were conducted by Steve Williams of Stratosphere Research, and set up by Co-operatives UK in conjunction with Post Office Ltd..

A presentation of the results was given to the project team (including representatives of Co-operatives UK, Mutuo, Post Office Ltd and the Department for Business Innovation and Skills) on 14th of February 2011. This report summarises the findings from this research.

3. Main Findings

3.1 The Problem of Profitability

There was a strong view from the research that it was hard to make money from running branches. This was heard from those directly involved, the sub-postmasters and retailers, but also from representatives of other interest groups who had familiarised themselves with the issues.

A number of factors were believed to be contributing to this situation:

- Increased competition (PayPoint, supermarkets, on-line)
- Loss of ABC1, and younger consumers
- Reduced core payments
- Low level of payments for some transactions
- Loss of business
- Lack of successful new business

3.2 Defining The Purpose: What Is The Post Office For?

When asked on an unprompted basis what the purpose of POL/Post Office was, a range of answers emerged, but mainly grouped around three themes. These are detailed in Table 2.

It should be noted that most interviewees mentioned more than one point.

Table 2.		
Service Provision	Social Function	Profit Generation
A way of providing services (e.g. governmental) and mail	The heart of the community. Especially where other traditional centres of focus have disappeared e.g. village shops	A way of making profit.
Service provision/social function seen by most as the reason why branches/network exists, and reason that customers visit.		Key reason for “being in the game” for multiples and sub-postmasters (“Ends”). For others, seen as necessary basis for offering services but not itself the reason POL exists (“Means”).
A feeling emerged from the research that the purpose, or at least emphasis has shifted over time: from service, to social function, to profit generation		

To understand further how the stakeholders viewed the purpose of POL/Post Office, we explored reactions to a series of statements to explore prompted reactions. These are detailed in Table 3.

The words of some of the stakeholders capture this sense of uncertainty, lack of focus and transition about the purpose of the organisation:

“It has many different purposes to different people, which means a lack of clarity, which causes many tensions”.

“The people see it as a service to the community. They trust the name. The Post Office is there to serve and provide a trustworthy service”.

“It does allow people to send mail but it’s not its primary function. There are so many other places you can do that now”.

“Yes, access to government services is part of its role but the government themselves have tried to push people to do these things online, like vehicle licensing for example”.

Table 3.	
Statement shown	Reactions from the stakeholders
<i>To run the PO network as profitably as possible</i>	<p>Most agreed that the network should strive not to be run at a loss.</p> <p>For a minority, profit should not be important or even a consideration.</p> <p>For another minority, profit was the key purpose (for their organisation).</p>
<i>To provide a network as a social hub for local communities</i>	<p>Most agreed with this statement.</p> <p>Many felt that it was strongly true: a key component of local communities.</p> <p>However, it was seen as to some extent conflicting with the need to run the branches profitably.</p>
<i>To provide access to government services</i>	<p>It was recognised that the Post Office does offer a way of providing such services.</p> <p>However, stakeholders asked why weren't all such services offered? Why was provision "patchy"?</p> <p>Why was Government putting business through "competition" – e.g. PayPoint?</p> <p>Why was POL supporting cheaper options on-line e.g. foreign currency?</p> <p>Thus, the statement was to some extent seen as true, but there were also believed to be inconsistencies and contradictions</p>
<i>To provide a service to enable people to send mail.</i>	<p>This was seen as the historic purpose of the Post Office, and still an important component of the business (in terms of why customers visited and also for profit generation).</p> <p>However, it was believed that there was a shift away from unique provision (i.e. you had to use the Post Office). It was also assumed that it would become less important over time (particularly considering the possible long term implications of Royal Mail separation).</p>

3.3 Who Does The Continuing Success of the Post Office Matter To?

We asked the interviewees who the Post Office, and its future success matters to. This was to help identify relevant stakeholders. Responses can be summarised as follows:

Table 4.		
Future Success Matters To...	It Matters Because	Verbatims
Customers	<p>They use its services.</p> <p>Some rely on it. Especially true of the elderly, vulnerable, unbanked/ cash economy</p>	<p>"At the end of the day, it's for the customers. So it's got to remain relevant to the customers. Because you start with the question why is it there. It's there for services to the customer".</p>
Communities	<p>Usage - people and small businesses within communities use it.</p> <p>Psychology – communities feel the need for a Post Office. It is part of their identity as communities.</p> <p>Interdependence – Post Office branches anchor neighbouring shops, and help provide mutually supportive footfall.</p> <p>Rural communities – where other shops etc have gone, the Post Office may be the key remaining shop.</p>	<p>"Absolutely. The Post Office is a key part of the local fabric".</p>
Sub-Postmasters	<p>It's their livelihood, or part of it.</p> <p>They have personally invested in the branches.</p>	<p>"It matters to a degree to everyone but especially sub postmasters. They've got skin in the game. There has to be a return on their capital investment".</p>

Table 4.		
Future Success Matters To...	It Matters Because	Verbatims
Multiples	<p>They have invested in the Post Office in their own outlets.</p> <p>It is a footfall driver (however, several noted that this could be exaggerated – when Post Offices had been removed, footfall, turnover and profits had not necessarily deteriorated).</p>	<p>“At the moment it feels a bit like running to stand still. If it gets to the point where we’re just breaking even then we’ll have to think about putting something else in. We’d save on all the costs and utilise the space because if it’s had its day I’m afraid it’ll have to go”.</p>
Government	<p>Services are offered through the network.</p> <p>Political considerations: the Post Office is high profile and attracts attention particularly if linked to closures.</p>	<p>“It matters to the Government because they are the main stakeholder”.</p>
Employees	<p>It is their livelihood</p> <p>NB Some stated that employees were less important than other groups as they had not invested and could find alternative employment</p>	<p>“It matters to the employees because it’s their job”</p>
Unions	<p>They represent staff in some areas of the business</p> <p>NB Unions were not in general mentioned spontaneously by interviewees, nor much commented upon.</p>	
Business Partners (e.g. Financial Providers, Royal Mail)	<p>The Post Office can be a key outlet for their services.</p> <p>NB Royal Mail connection seen as exceptionally important (to the Post Office, and to Royal Mail itself currently at least).</p>	

3.4 Who Should Have a Say In Influencing How the Post Office is Run?

Having identified stakeholders to whom the Post Office matters, we explored who should have a say in how it is run.

Essentially, because it was believed to matter to all, all categories were put forward as potentially meriting a say in how the Post Office is run.

However, the interviewees also identified certain groups (that is, besides their own stakeholder group) that should have a say, whereas other groups typically were not mentioned other than by themselves.

All chosen by themselves	Often chosen by others	Less often chosen by others
Key stakeholders put the case for their own interest groups being involved.	Sub-postmasters Customers/communities Government. NB Employees also received mentions, but less.	Less interest in unions and external business partners (eg financial organisations).

Attempts to take the discussion further, into the type of influence or decisions the parties should be involved with were less fruitful.

The sense we had was that this question was interpreted as meaning who should have a seat on the Board of any future mutualised Post Office; they were unwilling or unable to respond to this without seeing more details.

"The thing is, it's a broad church, and there's quite a lot of trying to please all of the people a lot of the time".

"It depends on what you mean by having a say. If that's satisfied by being consulted then any group who claims to have an interest should be consulted. But say in terms of voting rights then it depends on who owns POL".

"The sub-postmasters, the Government because they own it and the community because they're the customers".

3.5 Views On Post Office Ltd: Relationships, Attitudes, Culture

Some of the stakeholders felt that they currently had good current working relationships with POL. They were however a minority.

We should stress that there did not seem to be a problem with Post Office Ltd employees as people. Rather, the problems identified were cultural and structural.

For many, POL was a problematic partner to work with.

In particular, a theme emerged around the culture of the organisation as perceived by outsiders.

Some of the key problematic characteristics as identified by a range of stakeholders were:

- It was difficult to influence POL policy
- There was a lack of transparency around business operations
- Its processes and methods did not reflect a modern business
- They did not feel involved in key decisions which would impact on them.
- Practices were sometimes inflexible and did not make allowances for the different kinds of businesses operating Post Offices
- Information was poorly communicated

To give some specific examples:

- Multiples feel marginalised from key decisions about payments and products.
- Sub-postmasters feel their input into product and service issues is ignored.
- Communities feel their views may be heard but are ignored.

3.6 Reactions To The Mutual Option

All of the people we interviewed were aware of the Government's declared interest in converting the Post Office into a mutual.

Although there were differing degrees of knowledge and understanding of what a mutual is or might be, we did not encounter anyone who was actually misinformed. That is, nobody confused it with other forms of ownership. Many were, however, keen to state that they had a lot more to learn about mutuals in general.

In terms of how the interviewees felt about the idea of in time converting POL to mutual status, we encountered a spectrum of responses.

Enthusiasm – a small number of people were genuinely excited by the idea. These were mainly in the sub-postmaster camp.

Interest – a small number of people saw themselves as positively disposed, but still not convinced. These included for example representatives of communities.

Caution – the most common reaction. Essentially, holding back stating views until they understood more of the details and implications.

Fear – some people were fearful for the position of their own organisations or the people they represented. Examples were some multiples and unions.

Suspicion – for some people, the key was to understand the motives behind the idea; was the Government simply trying to rid itself of a difficult problem?

The majority reaction, then, was of caution and reserve; without knowing more they did not feel able to take a position even in these exploratory interviews.

They wanted clarity and certainty around key issues:

Why.... why does the Government want to mutualise?

What..... what form of mutual?

How.... can it be achieved?

Without specific answers, many remained noncommittal.

3.7 Further Challenges

A number of other issues emerged in the interviews which it was felt would need to be addressed in moving towards the mutual option:

- How would interests be balanced (especially in light of their complexities). What checks and balances would be in place?
- How would current "investors" be rewarded/paid/bought in. That is, sub-postmasters, multiples, others? Would for example the sub-postmasters be paid a form of compensation in respect of their investments in their branches?
- Would there be cross-subsidisation within the mutual? If so, how would this work? Would the more profitable branches in effect subsidise the less or unprofitable branches?
- How could a mutual "right-size"? How would it handle any closures given the mutual structure?
- How could it be made it profitable in preparation for mutualisation? This was seen by many as a necessary precondition for mutualisation.

- How could profitability be retained after mutualisation?
- What are the implications of Royal Mail separation to the future of the potential mutual? What are the implications currently, and what might they be in the future? (Five years time? Ten years time? Thereafter?)
- How much business would the Government put through the network? How "guaranteed" would this be?

3.8 Future Profits

We explored what should happen to profits in a future mutualised Post Office. To some extent, the answers related to the specific interviewee's views on the purpose of the Post Office. It was also felt that the distribution of any future profits might depend on their level and the needs of the business.

The most frequently heard answers were:

- Investment back in the business (which was believed by some to be in need of modernisation, including IT systems).
- Dividends for the members (which begged the question of who the members would be, and what sort of mutual structure would exist).
- Support less profitable branches.
- Support for community projects.

3.9 Hopes and Fears

The interviewees discussed what they hoped would emerge from any mutualisation process, and what they feared might come out it.

The *hopes* expressed were that mutualisation would:

- Rescue the Post Office – which was seen as troubled as it stands now.
- Define the purpose – make it clearer what the Post Office was for.
- Provide a fairer voice for stakeholders.
- Bring greater market understanding and business experience into decision-making by including the stakeholders (especially the sub-postmasters and multiples).
- Lead to finding more profitable new business.
- Provide more scope for local initiatives (to suit community needs/market opportunities).
- Win/keep more Government business.
- Build on the Trust factor that all felt was strongly associated with the Post Office brand.

The *fears* expressed were that mutualisation would:

- Lead to slower decision making – because more interests would be involved.
- Take the problem off Government's hands: passing on the "Hot Potato".
- Result in failure without political back-up.
- Be created without profitability, which was widely seen to be likely to lead to failure.

4. Summary & Conclusions

Three key problems emerged in this research concerning POL as it stands:

1. Declining profitability of the outlets.
2. Lack of a clear sense of purpose.
3. Cultural issues with POL.

The Post Office was seen as mattering to a range of stakeholders but for different purposes and to differing levels. Overall, the sub-postmasters (which to some included multiples), customers/communities and Government tended to be seen as those to whom it mattered most and who thus should have more influence.

The mutual option was widely known about and thought about. Whilst minorities felt strongly for or against, most interviewees were more guarded. Essentially, they wished to know more, and to have answers to key questions:

- How it would be structured? What sort of model? Who would have a say or the most say?
- In what way would it help solve the economic/profitability issue?

In terms of conclusions:

1. There is a need to clarify the purpose of the Post Office. Without an agreed and clear sense of purpose, progress to a mutual may be difficult. There seems to be an opportunity to differentiate between why the Post Office exists, and the profits necessary to pay for it.

That is, it is necessary to determine what is the purpose and what is a way of paying for provision. These two elements seem to have become confused.

2. Develop models in line with the need to:
 - Balance/represent interests.
 - Help achieve business success.

Appendix 2

Analysis of other membership based organisations

Organisation – The Co-operative Group	
Description of business	National retail business operating in several different fields, including food, travel, pharmacy, financial services, funerals, motors and electrical goods. It also has several business-to-business operations including cash in transit
Key data	£13bn turnover, 110,000 employees
Funding	Members' share capital £72m, retained earnings £4,237m, other reserves £179m
Corporate Structure	The Co-operative Group is registered as an industrial and provident society (bona fide co-operative)
Corporate Purpose	<p>The society exists in order to serve its Members by carrying on business as a co-operative in accordance with Co-operative Values and Principles.</p> <p>The society is committed to following Co-operative Values and Principles, serving its individual members and Independent Society members, and treating all people fairly and with respect.</p> <p>Trading surplus or profit may be retained within the society, distributed to Members or others trading with the society, or distributed outside the society in support of one or more causes. Any distribution must be in accordance with the society's Rules and Co-operative Values and Principles.</p>

Organisation – The Co-operative Group	
Public or private benefit?	<p>Whilst the express purpose of the organisation set out in its constitution is “to serve its Members by carrying on business as a co-operative in accordance with Co-operative Values and Principles”, the first of those principles is voluntary and open membership. Furthermore, the goods and services offered by the society are available to anyone.</p> <p>Shares in the society cannot be traded for profit (they can be withdrawn for their face value). Trading profit is shared between or returned to members (as customers – it is a dividend based upon their volume of trade with the Society), employees, and the community. In 2008/09, £107m was shared between members (£74m), employees (£23m) and community (£10m). Historically, the “divi” was really a method of paying money back to customers what had turned out to be an overpayment for what they had bought, hence it was pro rata what they had bought.</p> <p>The Co-operative Group does not really fit within either ‘public benefit’ or private benefit in the traditional sense in which those phrases are used. It exists for the benefit of anyone who wishes to access its services and/or become a member. A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations. Co-operative values include honesty, openness, social responsibility and caring for others.</p>
How is the public benefit secured?	The mechanism by which the Co-operative Group’s commitment to Co-operative Values and Principles is secured is its democratic ownership and governance model.
What is the role of the state?	N/A
Who benefits from the organisation and how?	Members benefit through the opportunity for a dividend (on their trade with the society, or as employees).
Who are the owners?	The Co-operative is owned by its members. There are two categories of member – individuals (which includes both customers and employees) and corporate or Independent Society members.

Organisation – The Co-operative Group	
What is the governance structure?	<p>Independent Society Members</p> <p>Independent Retail Societies elect 5 directors on to the Group Board (candidates must be a Director, Chief Executive or Senior Manager of a an Independent Society member). Voting strength in elections is based on the member society’s qualifying purchases from the society made through the retail buying groups.</p> <p>Individual members</p> <p>Individual members participate in the Society’s affairs via the Area in which they live. Each Area has a Committee.</p> <p>Area Committees</p> <p>There are 48 Area Committees throughout the UK and Northern Ireland. The constituencies are geographically based. Members who meet a minimal trading qualification can stand for election to their local Area Committee and voting is conducted by members in that area on the basis of one member one vote.</p> <p>Area Committees represent the interests of individual members and promote their participation in the society’s affairs, they are local champions of those trading with the society, and they promote Co-operative Values and Principles.</p> <p>Regional Boards</p> <p>There are 7 regional boards, covering each of the society’s trading regions. The Area Committees in each region elect representatives from their own members to sit on the Regional Board.</p> <p>The role of the Regional Board in relation to the business is to receive and monitor trading information; to approve certain management decisions including those relating to certain capital expenditure matters and the closure of core trading units in the Region; and to make recommendations to the Board. In relation to the democratic affairs, the Regional Board has certain specific functions at General Meetings and Regional Members’ Meetings.</p>

Organisation – The Co-operative Group	
What is the governance structure? (cont)	<p>Group Board</p> <p>The Group Board is made up of 15 members elected from the Regional Boards by the Area Committees, and 5 members elected by the Independent Societies. Voting in Group Board elections is on the basis of trade.</p> <p>The Group Board decides the vision and strategy of the society and its businesses, it ensures that the society's businesses and affairs are conducted and managed in accordance with its Purpose and Objects, and in accordance with the best interests of the society and its individual and Independent Society members, it monitors the society's businesses, and it oversees the Group Chief Executive and the other members of the Executive as they carry out their roles</p> <p>Executive management</p> <p>The day-to-day management of the business of the society is delegated to the Group Chief Executive, assisted by the executive. None of the executives are members of the Group Board, but they attend board meetings to report on the progress of the businesses.</p> <p>Direct oversight of the business takes place via three subsidiary boards, the members of which include elected representatives, executives and independent non-executives.</p> <p>The society's management is structured to link into the democratic structures at each level. For example, regional managers attend and report to Regional Boards. There are clear boundaries at all levels between the role of management and the role of democratic decision-making, and the Secretary's role includes ensuring the smooth running of the interface between the two.</p>

Organisation – Glas Cymru	
Description of business	Glas Cymru owns Welsh Water (Dwr Cymru), which provides water and waste water services to 3 million people living and working in Wales.
Key data (2010)	Annual turnover £688m, 220 employees, added nearly 1,600 in 2010 (day-to-day operations and maintenance services).
Funding	Net debt of £2.6b. Gearing of 71%, calculated as net debt as a proportion of its Regulatory Capital Value (£3.7bn) as linked to movements in the RPI and determined by Ofwat.
Corporate Structure	Glas Cymru is a Company Limited By Guarantee .
Corporate purpose?	<p>According to the website, it is a single purpose company formed to own, finance and manage Welsh Water on behalf of today's customers and future generations. The first two provisions of the objects clause in the memorandum of association provide for it to be a holding company, and either itself or through subsidiaries to provide water supply and sewerage services.</p> <p>The memorandum also provides that the income and property of the company must be applied solely towards promotion of the objects, and no part of the income or property can be paid or transferred to the members. The liability of the members is limited to £1 (traditional for a company limited by guarantee). On a solvent winding up of the company, no part of the income or property (capital surplus) can be transferred to the members; instead, it must be transferred to another institution or institutions, as determined by the members, which has/have similar objects to the company and similar prohibitions on distribution of income and property.</p>
Public or private benefit?	As a non-profit distributing business required to reinvest surplus in the business, the company has no private investors or owners in the conventional sense. Its owners are up to 200 private individuals (see further below), but they obtain no personal benefit from their membership, including on a solvent winding-up. Its services are available to all who live within the relevant geographical area, and it is subject to statutory regulation in relation to price and quality. It therefore exists for a public purpose.

Organisation – Glas Cymru	
How is the public benefit secured?	<p>The positive mechanism for protecting the public interest is the Water Services Regulation Authority (Ofwat), which is appointed by, but independent of government. It is accountable to Parliament and the Welsh Assembly. Ofwat is the economic regulator, whose role is to ensure that water companies provide household and business customers with a good quality service and value for money. It does this by limiting prices, making sure bills are kept as low as possible, monitoring performance, taking enforcement action to protect consumers' interests, setting challenging efficiency targets, making sure the companies deliver the best for consumers and the environment in the long term, and encouraging competition where it benefits customers.</p> <p>The Consumer Council for Water promotes and represents the interests of customers in respect of prices, service and value for money. It also investigates customer complaints.</p> <p>The Drinking Water Inspectorate ensures that the water supplied is safe to drink and meets standards set out in Water Quality Regulations. It also investigates consumer complaints and incidents that affect, or could affect, drinking water quality.</p> <p>The Environment Agency Wales monitors and enforces compliance with environmental water quality standards. It also ensures the proper use and management of water resources.</p> <p>The Welsh Assembly ensures compliance with EU and UK legislation by making regulations and issuing statutory guidance. The Assembly also issues guidance to the Director General on the drinking water and environmental quality programmes to be taken into account when setting price limits.</p> <p>As for preventing the derivation of private benefit from the business, this is secured by provisions in the memorandum of association prohibiting distribution to members of trading profit or any capital surplus.</p>

Organisation – Glas Cymru	
What is the role of the state?	The state has no formal role within the constitution or internal governance of the company. Specific duties are imposed upon the Secretary of State by the Water Industries Act 1991. The Secretary of State appoints the members of the board of Ofwat in consultation with the Welsh Assembly Government.
Who benefits from the organisation and how?	<p>According to the website, the company exists for the benefit of its customers and future generations. All financial surpluses generated are retained in the business and reinvested for the benefit of Welsh Water's customers. (This has included in recent years paying an annual 'Customer Dividend' to offset increases in bills). The prohibition of distributions, retention of profits and the requirements (a) that members exercise their rights and powers to further the objects, and (b) that members do not benefit personally from membership all operate to ensure that the company operates for the benefit of customers.</p> <p>There is nothing express protecting the interest of future generations, though the constitutional provisions generally seem designed to protect a long-term public interest.</p> <p>There are express provisions in the articles of association permitting the payment of extra or additional remuneration, whether by way of salary commission or otherwise, to any director who, in the opinion of the board or any authorised board committee, performs services which go beyond the ordinary services of a director.</p>

Organisation – Glas Cymru	
Who are the owners?	<p>The company may have up to 200 members, though the current view of the Board is that fewer are needed – currently there are 82 independent members plus the board (a further 10).</p> <p>The members of Glas Cymru are appointed by the Board following a process of nomination by an independent Membership Selection Panel. The Panel's role is to recommend individuals who have the skills, experience and interest to be effective members. In addition, the Panel seeks to ensure that the company has a balanced and diverse membership which is, as far as possible, broadly reflective of the range of customer and other stakeholder interests served by Welsh Water. The Board may opt not to appoint a recommended member but they cannot appoint anyone who has not been recommended by the panel. Members do not have to be customers of Welsh Water. A member may not be reappointed after they have served for ten years.</p> <p>Are the members the owners of the company? In the sense that there are no other owners, they are. However, they have no entitlement to any personal benefit, whether as a distribution of trading profit or capital surplus. It is therefore a form of 'disinterested ownership', underpinned by the duty of members to exercise their rights and powers to further the objects (see further below).</p>
What is the governance structure?	<p>The Board is responsible for managing the business of the company and may exercise all the powers of the company. The board comprises between 5 and 13 directors, and the number of non-executives must always exceed the number of executives (currently 7 and 3, including a non-executive chairman). Directors, who must be members, are appointed by the company in the general meeting (ie by the members).</p>

Organisation – Glas Cymru	
What is the governance structure? (cont)	<p>According to the Policy and Procedures for the Selection and Appointment of the members of Glas Cymru, the board is accountable to the members for its management of the company. The powers of the members under the articles are basically to:</p> <ul style="list-style-type: none">• Approve major transactions (Class 1 transactions under the Listing Rules)• Approve changes to the constitution• Approve the appointment and re-appointment of directors• Approve the appointment and re-appointment of auditors <p>Although not specified in the articles of association, the members also have the statutory power to remove a director by ordinary resolution.</p> <p>There is no express power in the constitution for members to requisition a meeting, though there is a statutory power for a minimum of 10% of those entitled to vote at a general meeting to do so. The quorum for a general meeting is achieved when the number of independent members present (being at least four in number) exceeds the number of director members present.</p> <p>The Membership Selection Policy states that the role of a member is similar to that of a shareholder in a public limited company, save that a member has no financial interest in the company. It goes on to say that members play this corporate governance role by receiving regular reports on the company's performance and by participating in members' conferences and in general meetings.</p> <p>Members act as volunteers, though they are entitled to be reimbursed for reasonable expenses incurred in fulfilling their duties. Unusually for a company, the articles of association provide that a member is bound to exercise their rights and powers as a member to further the objects of the company. This effectively makes them guardians or trustees of the company's purpose, for the public benefit which goes well beyond the traditional role of members.</p>

Organisation – John Lewis Partnership	
Description of business	The John Lewis Partnership is a retail business operating department stores, supermarkets and convenience stores
Key data (2009/10)	Annual turnover £7.4bn; 72,000 employees (or Partners, as they are called)
Funding	Total equity £1,701.5m, comprising mainly retained earnings of £1,698.7m, share capital of £0.6m; total borrowings (current and non-current) £944m
Corporate structure	The business is owned by John Lewis PLC (PLC and its subsidiaries employ all of the staff), and the controlling shares in PLC are owned by John Lewis Partnership Trust Limited. JLPT is the trustee of two settlements made by John Spedan Lewis in 1929 and 1950, under which he established a business called 'the John Lewis Partnership', to be owned in trust for the benefit of its members who are Partners. Effectively, the founder gave the business to the current and future employees by setting up the trust arrangements. The Partnership is governed by a written constitution, last amended in July 2009, which can only be changed by agreement between two thirds of the voting membership of the whole of the Partnership Council (see further below) and the Chairman.
Corporate purpose	The Partnership's ultimate purpose is the happiness of all its members, through their worthwhile and satisfying employment in a successful business. Because the Partnership is owned in trust for its members, they share the responsibility of ownership as well as its rewards – profit, knowledge and power. The partnership aims to make sufficient profit from its trading operations to sustain its commercial vitality, to finance its continued development, to distribute a share of those profits each year to its members, and to enable it to undertake other activities consistent with its ultimate purpose. In 2009/10 it distributed to its members £151m amounting to a 15% bonus on their gross annual pay.
Public or private benefit?	Private.
How is the public benefit secured?	N/A

Organisation – John Lewis Partnership	
What is the role of the state?	None
Who benefits from the organisation and how?	The John Lewis Partnership exists expressly for the benefit of its employees as made clear in its corporate purpose and illustrated by its profit distribution and its governance structure.
Who are the owners?	<p>The shares in John Lewis PLC (the company which owns the business whether directly or through subsidiaries) are owned by John Lewis Partnership Trust Limited. However, under the terms of the settlements made by the founder, the business is held on trust for the benefit of the members. (JLPT has between 2 and 5 directors, comprising the Chairman and Deputy Chairman appointed under the articles, and 3 directors appointed by the Partnership Council.) The strict (legal) answer to the question is therefore that the owners are the trustees (JLPT). However given the terms of the trust and the democratic arrangements enshrined in the constitution under which power is shared between the Partnership Council, the Partnership Board and the Chairman, there is a sense in which the employees (or Partners as they are called) have a share in the ownership. The phrase 'co-ownership' is referred to in the annual report and accounts to describe this.</p> <p>(At various times, shares have been issued to employees, but these are mainly as a mechanism for distributing the bonus.)</p>
What is the governance structure?	<p>Power in the Partnership is shared between three governing authorities, the Partnership Council, the Partnership Board and the Chairman.</p> <p>The Partnership Council, as the representative body of members of the Partnership, entrusts management of the business to the Partnership Board, which delegates its management authority to the Chairman. The Partnership Board also delegates responsibility for the management and development of the Partnership's core businesses (John Lewis and Waitrose) to the divisional management boards (the divisional Managing Directors are on the Partnership Board).</p>

Organisation – John Lewis Partnership	
What is the governance structure? (cont)	<p>Partnership Council</p> <p>The Partnership Council consists of 80 elected representatives, who are directly elected by the members in each of 80 constituencies. These are split roughly equally between the John Lewis and Waitrose sides of the business. The representation tends to work out at generally one representative for each John Lewis store, and for every four or five Waitrose stores. The Chairman can also appoint other Partners to the Council, whose advice will benefit the Council (though they cannot vote). The members of the Partnership Board are automatically members of the Council, but they do not have a vote either. The main aim of these appointments is to make sure that council's work benefits from the full participation of senior management, and that it has immediate access to specialist knowledge.</p> <p>The role of the Council is to represent partners as a whole. It has the right to discuss, ask questions and make recommendations on any topics that it wishes, and thereby hold principal management to account. It also functions more generally as a channel of communication between management and the partners. The Council can ask the Partnership Board or the Chairman anything it wishes, and they must answer unless doing so would in their opinion damage the Partnership's interest.</p> <p>The Council also decides policy on any kind of partnership expenditure that the Chair refers to it, including matters relating to the use of profit such as discounts, pensions and sick pay. Every six months, the Chair has to meet with Council to discuss the Partnership's progress, trading position and answer questions on any topic that Council wishes to bring up. If the Council decides that the Chair has failed to fulfil, or is no longer a suitable person to fulfil the responsibilities of his office, it may pass a 'Resolution upon the Constitution,' to dismiss the Chairman according to the Articles of Association of JLPT.</p>

Organisation – John Lewis Partnership	
What is the governance structure? (cont)	<p>Partnership Board</p> <p>The Partnership Board is the board of directors of the PLC. The Board comprises 13 directors. The Chairman is a member of the Board (executive chairman) by virtue of his appointment as Chairman of JLPT (see below). Five directors are elected by the Partnership Council. There are 2 independent non-executive directors, one of whom is the Deputy Chairman.</p> <p>There are 5 executive directors appointed by the Chairman, currently comprising the Finance Director, Personnel, the Managing Director of John Lewis, the Managing Director of Waitrose, and the Partners Counsellor. Only the executive directors have a vote on any question decided by the Board.</p> <p>The Partnership Board has the ultimate responsibility for issues of major policy and for allocating the financial and other resources of the business. It decides the Partnership's policy for the prudent and adequate financing and development of the business, and monitors its efficient implementation. In exercising these responsibilities, (amongst other things) it approves the Partnership Strategy and Business Plan, delegates responsibility for the management and development of the core businesses to the divisional management boards, approves and monitors revenue and capital spending, and determines each year the amount of profits that should be reserved for the maintenance and development of the business, and thus the rate at which bonuses may be paid.</p>

Organisation – John Lewis Partnership	
What is the governance structure? (cont)	<p>Chairman</p> <p>The Chairman is nominated by the previous Chairman, in accordance with the Articles of Association of JLPT. He is the senior executive in the Partnership, and ultimately responsible for its commercial performance. He appoints the Deputy Chairman and the executive directors.</p> <p>In carrying out his duties, the Chairman must actively seek to share power with his subordinates, delegating as much responsibility and encouraging as much initiative as possible. He must accept as fully as possible the recommendations of the Partnership Council, and can only reject them in consultation with the Partnership Board.</p> <p>Other</p> <p>There are Divisional Councils, to which the Partnership Council delegates the task of holding the divisional Managing Directors responsible for the delivery of their business plans. There are also Local Forums in branches or other units which carry out at local level the functions that the Partnership Council carries out for the Partnership as a whole.</p> <p>Members</p> <p>According to the constitution, the power of the Partnership Council, the Partnership Board and the Chairman to direct the Partnership's affairs depend on the consent of the Partners, whose opinion is expressed through:</p> <ul style="list-style-type: none"> • Formal arrangements for knowledge sharing • Representative bodies • Personal contact between Partners, both formal and informal <p>There appear to be no provisions for holding members or Partners meetings for constitutional purposes (the Local Forums are mechanism for local participation as described above.)</p>

Organisation – John Lewis Partnership	
What is the governance structure? (cont)	<p>Communication</p> <p>Under the heading of "Journalism", there are provisions in the constitution covering the publication of in-house journals, which cover the affairs of the Partnership, both centrally and locally. They rely upon intelligent co-operation from Partners, and a determination on the part of management to share as much information as possible. Their purpose is open and responsible communication, to encourage well-informed and fair opinion among Partners about their business. They should not comment on controversial matters unconnected with the Partnership. The Chairman takes a close personal interest in whether the journals are fully meeting their objectives.</p>

Organisation - Nisa-Today's (Holdings) Limited	
Description of business	Nisa-Today's is a provider of buying, marketing and distribution services to independent retailers and wholesalers in the food and drink sectors. It operates throughout the UK.
Key data (year to March 2009)	£1.3bn; 217 staff employed in Member Support Services, and over 1,200 directly employed on logistics by distribution partners Bibby and DHL Europe; shareholders interest £23m; operating profit £4.2m; rebates to members from Central Distribution £21m; central distribution out of profit £0.5m.
Funding	Shareholders' funds £23m, bank loans £20m.
Corporate Structure	Company Limited by Shares.
Corporate Purpose	The business is run solely for the benefit of its members. "Many of the usual singular objectives for a company, such as maximising profitability, do not apply to us. Members wish to take benefits in different and more varied ways, and measure the success of the company through the trading support it provides them with, more than the financial return it provides as shareholders." (extract from Chairman's Statement year to March 2009).
Public or private benefit	The organisation is a private company and exists for a private purpose (the benefit of its members). There are commitments in its core values to supporting local communities, reducing its impact on the environment and acting as a socially responsible organisation.
How is the public benefit secured?	N/A
What is the role of the state?	None.
Who benefits from the organisation and how?	Members (independent retailers who operate under the NISA fascia and wholesalers who operate under the TODAY fascia) who have access to a distribution chain, benefit from lower-cost goods and a wider range, support with marketing and advertising, access to advice and training and back office functions. Members receive benefits via rebates and distributions.

Organisation - Nisa-Today's (Holdings) Limited	
Who are the owners?	<p>The owners are the shareholders. Shares in the company may only be allotted to members, and no member may own more than 100 shares. Members are persons, firms or companies which "enjoy an active wholesale or retail relationship with the Company" (determined by the Board). The owners are therefore those businesses with a current trading relationship with the company.</p> <p>The group has a just under 1,000 members (765 retail members operating over 5,000 stores, 450 Nisa-Today's Symbol Group stores, and 228 wholesale members operating 270 depots).</p> <p>Members pay an annual or weekly subscription.</p>
What is the governance structure?	<p>The business of the company is managed by the board of directors, though they may not sell all or part of the business without the approval of the members in general meeting. The board of directors comprises not more than 5 executive directors and not more than 3 independent non-executive directors (who are basically appointed by the board and by AGM to fill a casual vacancy), and not more than 15 Nisa-Today's members directors appointed by the board or by the shareholders at an AGM (if recommended by the board, or on re-appointment, or if nominated by two members).</p> <p>The quorum for board meetings is 11 comprising not less than 6 Nisa-Today's members directors or independent non-executive directors.</p> <p>According to the website, there is a Nisa National Retail Council and a Today's Wholesale Services Council, but it is not clear what role or constitutional powers they have, and there appears to be no reference to them in the company's articles of association.</p> <p>Shares can only be issued to members (see above), with limit on minimum (1) and maximum (100). A trust is maintained to enable the transfer of shares within the Company. Voting strength of the members in general meetings is based on their shareholding (however, as this is limited, it prevents any one dominating and controlling the organisation).</p>

Organisation – South Essex Partnership University NHS Foundation Trust (SEPT)	
Description of business	<p>SEPT is one of the largest and highest-performing NHS providers in the country of health and social care services for people with mental health problems and people with learning disabilities. SEPT acquired Bedfordshire and Luton Mental Health and Social Care Partnership NHS Trust (BLPT) on 1st April 2010.</p> <p>SEPT now provides services in Bedfordshire, Essex and Luton from about 100 locations.</p>
Key data	The enlarged trust serves a population of approximately 1.5 million, has a turnover of £200m and employs 3,500 staff.
Funding	Combining information from the two previous organisations, there is public dividend capital of £98.2m, and a revaluation reserve of £44m.
Corporate Structure	SEPT is a Public Benefit Corporation authorised under the National Health Service Act 2006. (A public benefit corporation is a new type of corporate entity created for the NHS).
Corporate purpose	To serve the community by the provision of goods and services for the purpose of the health service in England.
Public or private benefit?	Public.
How is the public benefit secured?	<p>As an NHS Foundation Trust, SEPT organisation is regulated by an independent regulator 'Monitor' to ensure compliance with its authorisation. This covers a wide range of requirements including governance, financial management and reporting, and a limit on the amount of income it can generate through private healthcare.</p> <p>The organisation must comply with requirements put in place by the Secretary of State and failure to do so can result in enforcement under the act.</p> <p>Assets needed to deliver the required services are protected and may not be disposed of without the permission of Monitor.</p>

Organisation – South Essex Partnership University NHS Foundation Trust (SEPT)	
What is the role of the state?	Although NHS Foundation Trusts were set up as bodies not directly owned and controlled by the state, the state nevertheless retains a significant interest and involvement, through the commissioning process, the setting of prices for services, the appointment of Monitor, and residuary powers on an insolvency. These powers are important because notwithstanding the new form of ownership, the Secretary of State nevertheless retains a statutory duty to secure the provision of a comprehensive health service.
Who benefits from the organisation and how?	<p>The "people of England". The principal purpose of an NHS Foundation Trust is the provision of goods and services for the purposes of the health service in England, and this supports the statutory duty to maintain a comprehensive health service designed to secure improvement (amongst other things) in the physical and mental health of the people of England.</p> <p>The people of England benefit by access to services which must be free of charge, except where the law permits otherwise.</p>

Organisation – South Essex Partnership University NHS Foundation Trust (SEPT)	
Who are the owners/members?	<p>The Trust has two types of members:</p> <p>Public members</p> <p>All people over the age of 12 and living in Bedfordshire, Essex and Luton are eligible to join. The public members are broken down into 7 constituencies based on geography.</p> <p>Staff</p> <p>All staff employed by SEPT on permanent or fixed-term contracts automatically become members (they have to opt out if they do not wish to be a member). Other staff membership includes those working for contracted out services, such as domestic staff, facilities and volunteers who work within the Trust. Staff who are seconded from partnership colleagues and working with the Trust are also automatically eligible to become members. The staff members are one constituency broken down into 5 classes, dependent on job role.</p> <p>(NHS Foundation Trusts are also permitted to have a constituency or constituencies of patient or service-user members. More commonly, as with SEPT, they rely on public constituencies based on residence within a defined geographical area.)</p> <p>The members of a foundation trust are the owners in the sense that the state is not the owner, and there are no other owners. The state still owns public dividend capital, and the Secretary of State has the right to recover assets in the event of insolvency, in order to maintain a continuing health service. Consequently, in a Foundation Trust the sense of ownership by members is not as strong as (for example) in a co-operative.</p>

Organisation – South Essex Partnership University NHS Foundation Trust (SEPT)	
What is the governance structure?	<p>The Board of Directors is responsible for managing the business, and it exercises all of the powers of the Foundation Trust. The Board of Governors has certain specific functions set out below. Members have a limited role.</p> <p>Members</p> <p>Members may attend and participate at members' meetings, vote in elections to and stand for election to the Board of Governors.</p> <p>Board of Governors</p> <p>The Board of Governors is made up of:</p> <ul style="list-style-type: none">• 25 Public Governors (elected by the public member constituencies)• 5 Staff Governors (elected by the different classes of staff member constituencies)• 12 Appointed Governors (from the Local PCTs, Local Councils and Partnership Organisations)

Organisation – South Essex Partnership University NHS Foundation Trust (SEPT)	
What is the governance structure? (cont)	<p>The roles and responsibilities of the Board of Governors are</p> <ul style="list-style-type: none"> • To appoint or remove the Chairman and the non-executive Directors and determine their terms, conditions and remuneration • To approve the appointment (by the non-executive directors) of the Chief Executive • To appoint the auditor • To be presented with the annual report and accounts • To appoint one of their own as the Lead Governor • To provide their views to the Board of Directors on the Foundation's forward planning • To respond as appropriate when consulted by the Board of Directors and undertake functions at the Board of Directors request from time to time • To prepare and review the Foundation Trust's membership strategy • Make recommendations for the revision of the constitution <p>The Board of Governors meets at least twice a year and its meetings are open to members of the public. They are chaired by the Chair of the Foundation Trust.</p> <p>Board of Directors</p> <p>The Board of Directors is made up of:</p> <ul style="list-style-type: none"> • Chair and 5 – 9 other Non-Executive Directors • Chief Executive, Finance Director, a registered medical practitioner or dentist, a registered nurse or midwife, and other executive directors subject to a maximum of 8 executive directors in all. <p>The Chair and Non-Executive Directors are appointed and removed by the Board of Governors. The Chief Executive is appointed and removed by the Non-Executive Directors. The other Executive Directors are appointed and removed by a committee of the Chair, Chief Executive and Non-Executive Directors.</p>

Organisation – South Essex Partnership University NHS Foundation Trust (SEPT)	
What is the governance structure? (cont)	<p>Annual General Meeting</p> <p>Each year, one of the meetings of the Board of Governors is called an Annual General Meeting at which the Board of Directors presents the annual report and accounts to the Board of Governors. The members are invited to attend the AGM where they receive a report from the Governors on steps taken to ensure the membership in the various constituencies is representative and the progress of the membership strategy.</p>

Appendix 3

About the project

The Project Team

Co-operatives UK utilised an experienced project team to facilitate this project, drawing on expertise within the mutual sector complimented with knowledge from both the Post Office and the Department for Business, Innovation and Skills.

Peter Hunt

Peter has been Chief Executive of Mutuo since 2001, which he founded as the first cross mutual sector body to promote mutual governance to opinion formers and decision makers.

Peter has sixteen years' experience in the mutual sector, working with co-operatives, mutuals and employee owned businesses.

In 1999, he was a co-founder and secretary of Supporters Direct, the football supporters' initiative which has gone on to establish over 100 supporters' trusts at professional football clubs.

In 2002 and 2003, he led the Parliamentary team which piloted three Private Members Bills through Parliament, updating Mutual Society Law and encouraging democratic employee ownership. In 2007, he added the Building Societies (Funding) and Mutual Societies (Transfers) Act to this tally.

Since 2004, he has worked closely on a number of public sector structural reforms, including NHS Foundation Trusts, advising both Government and Trust Boards on the adoption of new membership structures.

Amy Jordan

Amy Jordan is a Fast Stream civil servant in the Shareholder Executive.

She was previously private secretary to Edward Davey MP. Amy was assigned to the project to team to act as liaison between the project and the Shareholder Executive.

Cliff Mills

Cliff Mills is a practitioner in the law and governance of co-operative, mutual and membership based organisations. He has advised the UK's leading co-operative retail societies for more than 15 years, played a significant part in the development of mutual society legislation, and established the constitution and governance of a substantial number of NHS Foundation Trusts.

He has worked extensively with Mutuo over the last decade in the development and application of mutual and co-operative models of ownership for public services. These have included social housing, leisure services, education and children's services.

The aim has been to create robust models for large organisations which are trading for a public or community purpose, with an ownership and governance structure based on staff, user and local community membership.

As well as being Principal Associate with Mutuo, Cliff is a consultant with Capsticks Solicitors LLP and Cobbetts LLP.

Clare Oakley

Clare Oakley is a qualified Company Secretary with a background in governance and democracy. She currently works as Regional Secretary for the Co-operative Group, managing member engagement and democracy in the North West of England.

Mark Wright

Mark has spent over 25 years with Post Office Ltd primarily in network related areas. He is currently the External Stakeholder Manager having recently supported the development of the Post Office 11 -15 strategy and funding negotiations with Government.

Mark is also responsible for the development of new operating models such as "Post Office Local" and leads on stakeholder management in respect of "Local Funding" and other network initiatives across the UK.

Other Support

Throughout the project the team utilised the following organisations to provide specialist services:

- Cobbetts provided legal advice where appropriate;
- The Innovation Unit facilitated the stakeholder day;
- Stratosphere conducted the independent research.

The Stakeholders

The project relied heavily on the input from those organisations that have an interest in the Post Office and its future. Whilst this final report may not reflect all their individual views, each of their contributions through both the research and stakeholder day were invaluable in shaping the final conclusions. We, therefore, would like to thank the following organisations:

ABCUL
Age UK
Association of Convenience Stores
Business in the Community
Citizens' Advice Bureau
Communication Workers Union
Consumer Focus
Co-operative Retail Trading Group
Countryside Alliance
DEFRA
Department for Work and Pensions
Essex County Council
Federation of Small Businesses
Martin McColls
National Association of Local Councils
National Federation of Sub Postmasters
One Stop Stores Ltd
Plunkett Foundation
Postcomm
Post Office Ltd
Rural Shops Alliance
Royal Mail Group
Sheffield City Council
Tates Ltd
Unite the Union
WH Smith



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