BIS Department for Business Innovation & Skills

DELIVERING FOR THE FUTURE: A UNIVERSAL MAIL SERVICE AND COMMUNITY POST OFFICES IN THE DIGITAL AGE

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Delivering for the future: a universal mail service and community post offices in the digital age

Presented to Parliament
by the Secretary of State for Business, Innovation and Skills
by Command of Her Majesty

October 2010

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GOVERNMENT COMMITMENTS

- We will safeguard the future of the universal postal service at uniform prices and service levels.
- We will restructure the Royal Mail group so that the futures of Royal Mail and the Post Office are secured on a sustainable basis.
- We are clear that the Post Office is not for sale, and we will create the opportunity for a mutually owned Post Office.
- We are clear that there will be no further programme of Post Office closures.
- We will make available at least 10% of shares in Royal Mail for its employees as part of the privatisation process.
- We will relieve Royal Mail of its enormous historic pension deficit, and secure the existing pensions of employees past and present.

Foreword from the Secretary of State

Without Government action, the universal postal service is under threat. The Government, through the Postal Services Bill, has twin ambitions. First we will safeguard the universal postal service that so many of us rely on. Second we will secure sustainable futures for two cornerstones of our society: Royal Mail and the Post Office.

The UK has been a pioneer of postal services. But the system we have today has been unable to move with the times and now urgently needs far-reaching reform. The UK needs and deserves a mail service that is fit for the 21st century, and a Post Office network able to serve communities across the UK.

This legislation predominantly focuses on Royal Mail – the company that collects and delivers your letters. Royal Mail is the only company capable of delivering the universal postal service throughout the UK, but its market is shrinking as we send more emails and fewer letters.

This situation is exacerbated by the company's enormous pension deficit, a history of poor industrial relations, and inefficient working practices. The company needs investment to allow it to innovate, modernise and adapt further to the changing communications market. Progress has been made, but we need urgently to enable Royal Mail to go further and faster. We need to engage the workforce with a major employee share scheme. The whole postal services sector also needs a proportionate regulatory regime, which enables deregulation where competition is thriving. We cannot ignore these problems any longer.

As for the Post Office, I have already made clear my commitment: it is not for sale and there will be no repeat of the programmes of closures that took place under the previous Government. I want central government to empower those that know the Post Office best, giving communities more of a stake in the future of the assets they value, enabling the largest mutualisation ever proposed by the Government. I shall bring forward a more detailed statement on the future of the Post Office shortly.

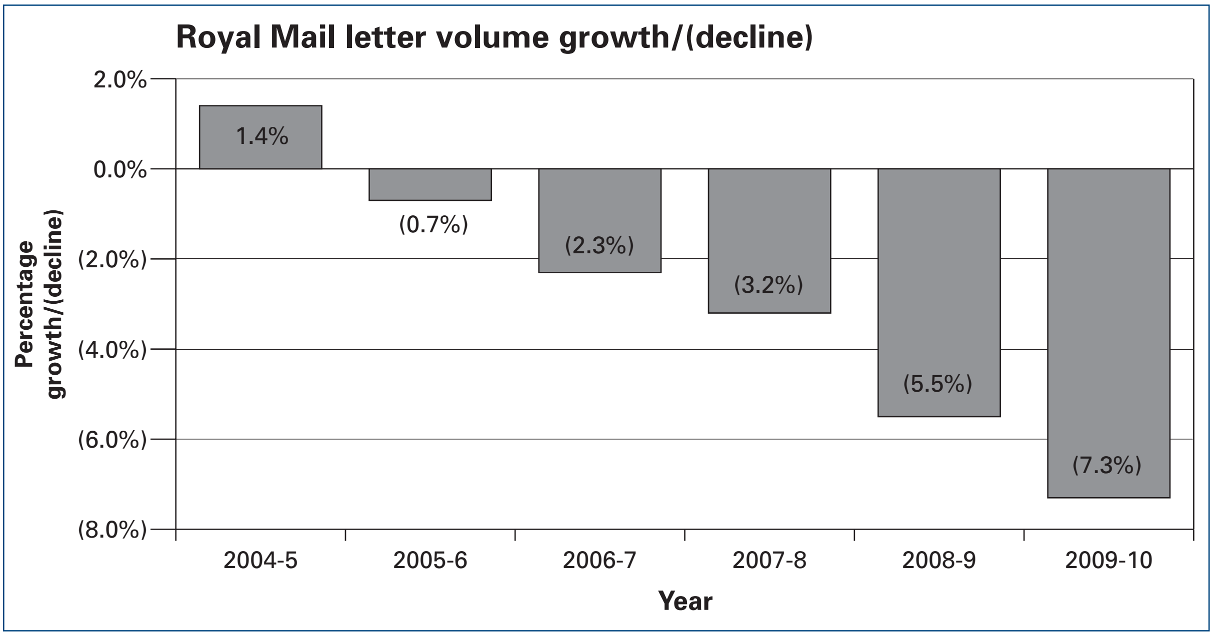
By facing up to the need for reform, a reality that has been ignored for far too long, Royal Mail will at last have an opportunity to become a world-class operator – and the Post Office will finally have a secure and viable future.

VINCE CABLE

PART 1: THE CHALLENGE

Mail in the 21st century

1.1. Posting letters and parcels is an essential part of how we communicate. The mail market in the 21st century, however, is facing an enormous amount of change. There is no avoiding the fact that the mail market is in structural decline as more and more business is done by email and over the internet. Volumes peaked in 2005 at 84 million items per day, but last year, 15% fewer letters were posted than five years before, equivalent to 13 million fewer letters and parcels going through Royal Mail's network every day. Market decline is likely to continue, and letter volumes are likely to decline between 25% and 40% over the next five years.



Source: Royal Mail Annual Report 2010

1.2. Technological changes, however, have also opened up new opportunities for buying and delivering goods which still need to be transported physically – parcels and packets, catalogues and magazines.

1.3. The Government is clear that mail services are still a cornerstone of our economy and society. We want the UK to have an efficient, world-class mail service which complements the online world by serving businesses and people direct to their doors.

1.4. To achieve this, we need the universal postal service. This guarantees the collection and delivery of letters six days a week, from any postbox to any address in the UK, at uniform, affordable prices. It is a key part of our national infrastructure. We are committed to ensuring that businesses and consumers continue to benefit from it.

1.5. For the foreseeable future, Royal Mail will be the only company capable of providing the universal service across the UK, just as it has been since 1840. It alone has the capacity to deliver to all 28 million addresses in the UK six days a week. Today, to ensure the future of the universal postal service the Government has to secure the future of Royal Mail.

Royal Mail and the Post Office

1.6. The Royal Mail and the Post Office are two different businesses, providing different services. Royal Mail is the company that collects and delivers our mail, and is responsible for delivering the universal postal service. The Post Office is the nationwide network of retail outlets through which people access Royal Mail services, as well as a wide range of Government and financial services. We need to ensure that both Royal Mail and the Post Office are equipped to adapt to the different challenges they face. The Government is committed to ensuring a successful future for both companies.

The Hooper Report

1.7. The last Government set up the Independent Review of the Postal Sector, chaired by Richard Hooper, to establish how to maintain the future of the universal postal service.

1.8. The Review published in December 2008, identified that Royal Mail faces substantial problems:

- A letters market facing structural decline;
- Inefficient operations;
- A history of poor labour relations;
- An outdated regulatory framework; and
- A massive pension deficit, out of all proportion with the company itself.

1.9. The Review concluded that this combination of problems cannot be allowed to continue, and threatens the future of Royal Mail and the universal postal service. There was broad consensus across all stakeholders and political parties that the status quo was not tenable.

1.10. The Review proposed a package of measures to address Royal Mail's problems:

- A strategic private sector partner or partners for Royal Mail;
- Government to tackle the pension deficit; and
- A new regulatory framework, recognising that traditional mail now competes with email and other forms of media.

1.11. The Review made clear that all three elements of the package were required to address Royal Mail's fundamental problems and secure the future of the universal postal service.

1.12. Eighteen months on from his original report, this Government asked Richard Hooper to review developments in the postal market. He identified some improvements– a forward-looking Business Transformation Agreement between Royal Mail and the Communication Workers Union, improved relations with the regulator, and a new management team at Royal Mail.

1.13. But overall he found that the situation has worsened with regards to:

- The number of letters being sent;
- Royal Mail's financial situation (with a loss after interest and tax of £320m in 2009/10 compared to £229m in 2008/09);
- The pension deficit (which has grown substantially since the last triennial valuation from £3.4bn to £10.3bn); and
- Increased competition, resulting in the further erosion of Royal Mail's market share.

1.14. Overall Richard Hooper concluded that the future of the universal postal service is even more precarious than in 2008: that Government action is still required to enable private sector investment, relieve the burden of the historic pension deficit and transform the regulatory regime. Only with this package of measures can the future health of the universal postal service be assured.

The public finances

1.15. Since Hooper's original report, another challenge has arisen: reducing the deficit in the public finances. Taxpayers have already made available £3.5bn of funding for Royal Mail since 2001, on top of the £2.9bn provided to support the Post Office network. During that time Royal Mail has not paid any dividends to Government as its sole shareholder. With the enormous pressure on public spending, it is therefore right that we seek to maximise the value of that taxpayer investment and minimise the risk that additional Government funds will be required in the future. These are funds that could be used to provide other essential services – for example in education or health.

1.16. The problems facing Royal Mail mean that the universal postal service is vulnerable, and the risk to the taxpayer should Royal Mail not be in a position to resolve these problems is substantial. If Royal Mail is not given the investment and opportunity to modernise further and deliver efficient, innovative services for its customers, it will not survive in its current form. The taxpayers' historic investment would be lost and very significant emergency funds would be required to maintain a daily postal service. This would be a poor outcome for taxpayers. Action must be taken to ensure that Royal Mail is fit to continue to deliver the services we all need.

We need to act now

1.17. The problems facing Royal Mail, and the risks to the public finances, leave us with no choice if we are to secure the future of the universal postal service. The Government is therefore introducing legislation today which draws heavily on Richard Hooper's recommendations and the Government's wider objectives. Richard Hooper is clear that if his recommendations are taken forward without further delay, and the company modernises to best in class with management, workforce and unions working together, then Royal Mail has a healthy future. The Government shares this view. Mail has an important role to play in the 21st century. The action we are outlining today will ensure that we can all continue to benefit from the postal service.

PART 2: SECURING THE FUTURE OF ROYAL MAIL AND THE UNIVERSAL SERVICE

The Postal Services Bill

2.1. The Bill that we are introducing to Parliament today will provide the legislative framework to secure a sustainable future for the universal postal service.

2.2. To allow us to achieve this ambition, the Bill will bring together and enable Government to act on the key strands of postal policy. It will:

- Allow private sector investment in Royal Mail to bring in commercial disciplines and the potential for new capital;
- Alongside that it:
  - — requires the Government to ensure that there is an employee share scheme, which will hold at least 10% of the equity in Royal Mail in the future; and
  - — enables the transfer of the historic pension deficit to Government, which will involve the creation of a new public sector scheme;
- Make clear that the Post Office is not for sale, but allow for the possibility of mutual ownership in the future; and
- Modernise the regulation of the postal services sector.

Key proposals in the Bill

Private sector investment

In order to achieve an efficient world-class mail service that complements the online world, Royal Mail must modernise. It has already made progress, working with the CWU. But it will need more capital investment in the future in order to pursue the process of continuous improvement, modernisation, diversification, and innovation. In the current fiscal climate, it is unrealistic to expect Government to continue to provide substantial financial support at the expense of other funding priorities. And beyond that Royal Mail needs the commercial confidence and disciplines that private investment will bring. The Bill that is being introduced today will therefore allow for private sector investment by allowing the Government to sell shares in Royal Mail.

2.3. Richard Hooper makes clear that Royal Mail needs access to private sector capital in order to modernise. Private sector capital would be more flexible than Government funding. It can be raised more quickly and it does not require lengthy State Aid clearance from the European Commission.

2.4. As Hooper argues, private sector capital would bring with it private sector disciplines: investors are not going to commit capital to Royal Mail without the confidence that Royal Mail can deliver its strategy in a competitive environment. With its new Board, Royal Mail is now better equipped to compete, but it has further to go and will progress faster with private shareholders. Government is not able to provide the flexible capital or commercial disciplines and pressures Royal Mail needs to succeed. Private capital will also reduce the risk of political interference in commercial decisions.

2.5. The Bill will therefore lift the restrictions that currently exist on the sale of shares in Royal Mail, in order to allow the company to seek the investment it needs.

2.6. We do not believe that there is a need for Government to keep a stake in Royal Mail in the long term, though we may choose to do so. We will retain flexibility so that we can negotiate the best possible outcome, including keeping options open as to whether a trade sale or initial public offering is more appropriate. The extent of private sector investment and the speed and manner at which we begin to divest shares will depend on securing a sustainable future for Royal Mail, getting best value for the taxpayer, and market conditions. This means that we will not be setting targets for how many shares we will sell and by when. However, we do not expect to launch a sale process until after the Bill has achieved Royal Assent. We have committed in the Bill to report to Parliament when we launch a sale process.

2.7. It is clearly too early to estimate the potential proceeds from a sale. The Government is clear that Royal Mail needs to be in a sustainable financial position to ensure it has the capacity to modernise, innovate and grow, and protect the universal service. Selling shares in the company will deliver the commercial disciplines, future profit growth and necessary investment to put Royal Mail in this position. The Government expects to use the proceeds it receives to offset the cost of taking on the company's pension fund deficit.

Employee Ownership

If Royal Mail is going to modernise, it will need to bring its workers along with it. A successful Royal Mail needs to provide opportunities for better engagement and stronger participation for its workers, with the opportunity for them to benefit from the future success of the company. The Bill therefore includes a provision which will require the Government to ensure that there is an employee share scheme, which will hold at least 10% of the equity in Royal Mail in the future.

2.8. Royal Mail has a history of poor industrial relations. Richard Hooper's original report highlighted this as a particular area of concern, and an area that must be addressed as part of the modernisation of Royal Mail. His updated report noted that there have been improvements. The Government welcomes the recent agreement between the company and the CWU on the modernisation of the business. However, the Government believes that employees are likely to be better engaged if they have a stake in their company's future.

2.9. The Bill will help facilitate this by requiring the creation of an employee share scheme, which will hold at least 10% of the equity in Royal Mail in the future. In terms of percentages, it is the largest share scheme of any privatisation – larger than BT, British Gas, or British Airways. This will be the largest employee shares scheme for 25 years in terms of the number of workers who will benefit – second only to the privatisation of BT in 1984.

2.10. The Government firmly believes that this employee share scheme will help to align the incentives of the employees and the company, increasing productivity and innovation. The arrangements for the employee share scheme must be in place at the point of the initial sale of shares in Royal Mail. The exact form of the scheme will be developed alongside the overall strategy for introducing private capital so that it provides the best opportunity for employees to enhance the future prosperity of the company.

Pensions

> The Royal Mail Pension Plan currently has a huge deficit, proportionately larger than that of any other major company scheme in the UK. This must be addressed if the company's modernisation and a private sector sale are to be successful. The security of their pensions is a major concern for the current and former employees of Royal Mail and the Post Office. The Government intends, therefore, to take on responsibility for the historic pension deficit in the Royal Mail Pension Plan, including that of the Post Office's employees. This will be implemented through the creation of a new public sector pension scheme.

2.11. The deficit of the Royal Mail Pension Plan (which includes the Post Office) was valued at £8.4bn as at March 2010. This is lower than the formal triennial trustees' valuation (on which repayments are calculated), which put the deficit at £10.3bn as at March 2009. But it is significantly more than the previous triennial valuation in March 2006, which put the deficit at £3.4bn. The conclusion is clear – the deficit is huge, and it is extremely volatile. Even at £8.4bn, the pension deficit is proportionately larger than that of any FTSE100 company. The pension funds assets, which are valued at £26bn, are dwarfed by its liabilities, which are estimated at £34bn. With net assets (excluding pensions) of only £1.8bn, the pension deficit means Royal Mail is balance sheet insolvent.

2.12. The deficit is a major source of concern for employees, who will quite rightly ask whether the company can afford to repay the deficit, and whether their pensions are safe. The deficit also prevents the company from investing in modernisation: it currently pays approximately £280m a year to reduce the deficit, on top of approximately £550m in regular service payments. Richard Hooper's updated report concludes that the deficit continues to sap cash from the company and poses a significant constraint on Royal Mail's business. Under the recent agreement between the Royal Mail Pension Plan trustees and the company, Royal Mail will be paying off this deficit for the next 38 years. This is far in excess of the typical deficit recovery period for a pension plan and The Pension Regulator has signalled that it has substantial concerns regarding the agreement.

2.13. Royal Mail has taken significant steps to minimise its pension costs itself. It has closed its defined benefit scheme to new entrants. It has modified its scheme for existing members from a final salary scheme to a career-average scheme, and raised the retirement age from 60 to 65.

2.14. However, even with these measures, the current position cannot continue if Royal Mail is to have any funds to invest in its future. The Government is therefore taking action to create a new public sector pension scheme, and to remove the deficit from the company. The Government will take on responsibility for the deficit as part of a deal getting private sector investment into the company.

2.15. There will be a number of beneficiaries:

- The past and present **employees** of Royal Mail. The Government's action will ensure that the benefits employees have earned will be protected. The Government's action will benefit all members of the Royal Mail Pension Plan including those working for the Post Office.
- As **taxpayers**, there will be costs, but we will all benefit too. If the Government does not take on the pension deficit, we will not attract private sector investment into Royal Mail. Richard Hooper is absolutely clear that without that private capital and disciplines Royal Mail will not survive in its current form. Taxpayers' investment in Royal Mail will be lost and we will have to shoulder the costs of providing the universal postal service. The Government is also better able to manage a long-term financial commitment of the size and volatility of the Royal Mail Pension Plan.

2.16. The Government will not take on all the pension liabilities of Royal Mail but will significantly reduce the burden on the company to a level appropriate for a company of its size. The intention is to ensure that the scheme remaining with Royal Mail is fully funded at the point at which Government support is implemented. This will mean it has matching assets and liabilities, and therefore no deficit. This will leave Royal Mail with a manageable pension plan, likely to be around one tenth of its current size.

2.17. Royal Mail and the Post Office will be expected to bear the costs of their own pension obligations for their employees going forward, just as any other company would: they will be responsible for decisions on the future pension entitlements of their employees. This is consistent with Government's overall approach which is to balance the need to tackle the pension deficit with the need to achieve value for money for the taxpayer.

2.18. Any Government action to take on responsibility for the historic pension deficit will only take effect once it has been approved by the European Commission under State Aid rules, as it will involve Government support to a company operating in a competitive market.

The Regulatory Regime

The Government's priority is securing the future of the universal postal service. Richard Hooper is clear that the greatest threat to the universal service comes from falling mail volumes and the impact of digital media. The regulatory regime therefore needs to consider mail as part of the wider communications sector, and ensure that measures are in place to safeguard the universal postal service. The Government wants to see a new regulatory framework for the postal sector and to ensure regulation that is proportionate for the needs of the market, and which allows for rapid deregulation where there is competition. The market has changed considerably. The current provider of the universal service, Royal Mail, needs to be able to operate in a fair and effective market as soon as possible. The Bill will transfer regulatory responsibility for the mail sector from Postcomm to Ofcom and will ensure that Ofcom's primary duty is to exercise its functions in relation to postal services in a way it considers will secure the future of the universal postal service.

2.19. Richard Hooper's updated report concludes that the postal market is in structural decline. He says that mail operators worldwide are forecasting a fall in the letters market of between 25% and 40% over the next five years. Ten years ago competitors could not access Royal Mail's network. Today less than half of all business mail is handled end-to-end by Royal Mail's postmen and women. The regulatory framework needs to be responsive to falling volumes and changing user needs. We need to limit regulation where we can. As Richard Hooper recommended, regulation should be focused on the areas where Royal Mail has a monopoly, with deregulation in other areas, giving Royal Mail more commercial freedom to operate in markets which are increasingly competitive. Richard Hooper was clear: the overall burden of regulation should be reduced.

2.20. As the regulator for the communications sector, Ofcom has a deep understanding of the wider markets in which Royal Mail and other mail operators now compete. The Government believes that Ofcom is best placed to take decisions that reflect the competitive challenges and opportunities for mail within the communications sector, as well as having a statutory obligation to reduce regulation where it is no longer needed. The Bill therefore proposes to transfer regulatory responsibility for postal services to Ofcom and to wind up Postcomm, achieving the twin aims of reforming regulation in the sector and reducing the number of public bodies.

2.21. The Government's priority is to secure the future of the universal postal service. The Bill will give Ofcom a primary duty to exercise its functions in relation to postal services in a way it considers will secure the provision of the universal postal service. Ofcom will also need to have regard to the financial sustainability and efficiency of the universal service which is critical to securing the service in the long-term.

2.22. Protecting the universal postal service – collection and delivery six days a week at uniform, affordable prices – is at the heart of our legislation. These requirements are specified in the Bill and we have no intention of downgrading them.

2.23. In fact, the Bill puts in place new and stronger protections around the service than are currently the case. The Government already has the power to reduce the universal service requirements down to the minimum requirements in the European Postal Directive – five day a week service and no uniform pricing – without requiring a debate in Parliament. The Bill puts in place three new safeguards. First, the Bill provides that no proposal to reduce the minimum requirements of the universal postal service can be put forward until Ofcom has conducted a review of user needs. Second, any proposal to reduce the minimum requirements must be subject to a majority vote in both Houses of Parliament. Third, any reduction in the minimum requirements cannot change the universal nature of the service – the Bill states that the service and the price must be the same across the UK. So, while it is important to retain the flexibility to amend the minimum requirements in case, at some point in the future, people just do not need the present level of service, we must ensure that the right safeguards are in place so that the power is used responsibly and only when of genuine benefit to users. This Bill puts those safeguards in place.

2.24. The focus of the regulatory provisions is to secure the future of a universal service in mail, and as well as setting out the primary duty of the regulator it also gives them the tools to deliver that objective. In particular, Hooper referred to concerns that the universal service could be undermined by other operators 'cherry picking' profitable parts of the USO that otherwise help to fund the delivery of the universal service elsewhere. The Bill gives Ofcom the ability, if it is necessary to do so to secure the universal service, to put conditions on other operators providing services within the scope of the universal service to ensure that there is fair and effective competition in the market. The Bill also seeks to ensure that competitor access, and the terms on which such access is offered, to Royal Mail's services can only be required at economic bottlenecks where access would encourage competition, promote efficiency and be of significant benefit to users. The Government is committed to encouraging competition in the postal services market but it is important that this does not happen at the expense of the universal service.

2.25. Ofcom will also have the power to undertake a thorough review to determine whether the fulfilment of universal service obligations imposes an unfair financial burden on Royal Mail. If Ofcom determine that there is an unfair burden, they will be able to recommend one or more of a range of options designed to reduce or eliminate the burden: a review of user needs to determine whether the minimum requirements of the universal service should or can be amended, subject to the safeguards described above; putting in place a 'compensation fund' to require other mail operators or users to share the financial burden; or investigate whether another operator (or operators) would be able to provide the universal service obligations without, or with less of, a burden.

2.26. We want to ensure that Royal Mail undergoes a proper modernisation process. These safeguards for the universal service must not undermine that process or discourage competition and new entrants to the postal services market. For that reason, Ofcom will not be allowed (unless the Government directs it to do so) to begin the process that could lead to any intervention to alleviate an unfair financial burden imposed by universal service obligations for three years after it assumes regulatory responsibility.

2.27. As an ultimate protection for the universal service, the Bill includes provision for special arrangements should a universal service provider be at risk of entering insolvency proceedings. In such circumstances, the Government, or Ofcom with the consent of the Government, could apply to the court for a postal administration order. If granted the key objective of the administrator would be to ensure that the universal service is maintained. We do not expect ever to have to use these provisions but they provide an additional safeguard for the universal service, recognising its social and economic importance in the UK. This approach mirrors that taken in the energy and water sectors.

2.28. Finally, the Bill reduces the administrative burden on businesses, by scrapping the licensing regime and establishing a more flexible authorisation regime modelled on that in the electronic communications sector. Postal service operators, including Royal Mail, will consequently have more flexibility to innovate.

2.29. The Government has asked Postcomm and Ofcom to work closely together to ensure a smooth transition of the regulatory function and the two regulators have today put out a joint statement on how they intend to do this, which is available at http://www.bis.gov.uk/policies/business-sectors/postal-services/postal-services-bill-2010. This makes clear that they will work together both to secure a smooth transition with minimal disruption for industry, users and staff and also to progress ongoing work to change the current regulatory framework prior to and following Royal Assent of the Bill.

The Post Office Network

> We also want to see a strong and sustainable future for the Post Office network. The Bill makes clear that the Post Office will not be for sale. In addition, there will be no repeat of the previous closure programmes. We want to allow subpostmasters and employees to have a greater say in the future direction of the network. The Bill therefore introduces proposals to enable subpostmasters, employees, and communities to participate in a mutually-owned Post Office in the future.

2.30. The Post Office branch network is unique. It has around 11,500 branches across the country and the majority are privately owned businesses. It operates in places where other retailers do not. It offers services that other retailers do not. Post Offices are often a social hub in their communities. Research in 2009 showed that the public places a social value of at least £2.3bn per year on the Post Office Network. Precisely because of the Post Office's distinct social purpose, we need to treat it differently from the Royal Mail. So the Postal Services Bill will be explicit that the Post Office will not be part of any transaction to bring private capital into the Royal Mail.

2.31. The Government is committed to act as a responsible owner of Post Office Ltd. The last Government carried out two programmes of closures, shutting 5,000 post offices. There will be no programme of closures under this Government.

2.32. However, the Post Office needs to be equipped for the future. Post Office Ltd is currently a subsidiary of the Royal Mail, but Post Office Ltd and Royal Mail are very different companies. We believe that it will be helped to focus on its core mission by separating from the Royal Mail Group. The Bill will therefore include provision for a separation of Post Office Ltd from the Royal Mail group of companies.

2.33. Separation will give the Post Office management greater freedom to focus on growing its revenue and getting the most out of its branch network. A fully constituted board will be able to provide greater oversight, for example through bringing in non-executive directors with more expertise in financial services, telecoms or retail sales – all areas that are important for the Post Office's future.

2.34. Post Office Ltd and Royal Mail will continue to work closely together. Each company needs the other – post offices carried out over three billion mail transactions for Royal Mail last year and the two are closely entwined in the public mind. There will continue be a long-term contract in place between the companies.

2.35. The Post Office faces significant strategic challenges. Customers are turning away from the Post Office – there are now six million fewer customer visits each week than five years ago. We have asked Post Office Ltd to have a fundamental look at how it operates, to make it more relevant for customers and put it on a path to financial sustainability.

2.36. The Government is committed to providing the funding necessary to ensure the financial viability of the post office network. We have already committed to increase its subsidy to £180m for 2011/12, with further funding for future years to be finalised within this autumn's Spending Review.

2.37. Alongside this we are re-thinking the role of Post Offices in delivering Government services. We are working intensively across Government to recreate the local post office as a genuine front office for Government, where local post offices are the natural place for citizens to access face-to face Government services, and where the Post Office has an important role in supporting e-government – for example helping people to access online government services through their local branches.

2.38. More fundamentally, we want to start a debate now about the long-term structure of the Post Office. We are including a provision in the Bill for two alternative ownership structures: either Government holding 100% of the shares in the Post Office Ltd or the Post Office being reconstituted as a mutual.

2.39. The Government ultimately holds all the shares in Post Office Ltd – and this Bill provides statutory protections that we will continue to do so. But we want to encourage fresh thinking on whether the best model for running the Post Office is to have the Government performing the role of shareholder while Post Office Ltd operates commercially at arm's length. Our initial conclusion is that the current model is holding the Post Office network back in important respects. The interests of different stakeholders are aligned poorly: so subpostmasters are pitted directly against Post Office Ltd in negotiating annual pay rates, and subpostmasters have given only limited support to a needed expansion online fearing a diversion of revenue from local branches.

2.40. We propose that, in time, the Post Office could be converted into a mutual structure. 97% of post offices are already privately owned businesses, run by subpostmasters. Under a mutual structure, the ownership and running of Post Office Ltd could be handed over to subpostmasters, Post Office Ltd employees, and even communities, in a similar manner to the John Lewis Partnership or the Co-operative Group. We believe that mutual ownership could be ideally suited for the particular commercial and social functions that the Post Office network provides in communities up and down the country. The experiences of the increasing number of community-run post offices have shown how well the mutual model can work at a local level, allowing communities to tailor the services provided to their particular needs. Such a change at the national level would be a vivid example of the Big Society: empowering those that know the Post Office best, giving communities more of a stake in the future of assets they value.

2.41. However, before making any move to a mutual structure we will conduct thorough consultations so that people can have their say, as both customers and taxpayers. We are also clear that before any changes can be made, the network will need to be put on a more secure financial footing, so that a mutual could build from solid foundations.

PART 3: NEXT STEPS

3.1. As the Hooper report makes clear, there is no time to delay. The policies in the Bill must be implemented, and we must act quickly. But this time, we must also succeed.

3.2. The Bill that has been introduced today is the first step in this process. Our first priority is passing the Postal Services Bill to allow the framework for action. The Government will then bring into force the new regulatory regime. Once the new regulatory regime is in place we will then report to Parliament on the best way to introduce private sector investment into Royal Mail taking into account market conditions and value for the taxpayer.

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