

The Privatisation of Royal Mail – Lessons for Australia Post?

Peter Hunt

Background

- Royal Mail seen as a loss making and inefficient business for years
- Very poor management/union relationships
- Attempts to improve management and separate from the state
- Successive Governments wanted to privatise it
- The last Labour Government only retreated when faced with union opposition and the spectre of a large pension deficit liability

The Coalition Government

- After the 2010 Election, the Coalition moved rapidly to sell the business
- Introducing the necessary legislation
- Accepting the £9bn pension liability on behalf of the taxpayer
- Separation of Royal Mail from the loss making Post Office business and allowed for it to be sold as a separate entity,
- 90% of its shares to be privatised and 10% to be held by employees
- The largest ever employee share issue in the UK, and separately Post Office Ltd would be transformed into a mutual

But why privatise Royal Mail at all?

- The argument that Government was no good as a business owner
- The suggestion that it could not manage business as well as the private sector
- The changing competition landscape in Europe
- Parcel trade eclipsing letters
- But the business had for some time been run at arms length from Government
- Professional and well-regarded management in place by May 2010
- Pension liability had to be dealt with by HM Treasury

To help make the case for change

- The need for capital investment in the changing business
- The amount of new capital needed never publicly quantified
- Plausible argument for external investment at a time of restricted government spending
- Benefits of employee ownership
- Much of the argument was conducted from polar ideological opposites

Government help for improving Royal Mail's business

- Split from Post Office in a move that instantly lifted a loss-making burden from the firm
- Postage stamp prices were increased by more than 30% in a single move
- This significantly improved Royal Mail revenues ahead of the planned sale
- By 2012, Royal Mail was a successful and well-run business, posting year-end profits of £211 million
- Government moved swiftly to complete the privatisation in 2013

Trade unions

- Trade unions were opposed to the sale
- They promised national industrial action to derail the Government's plans
- However the sale occurred before any action could legally begin
- 90% of its shares were privatised and 10% held by employees
- This is, the largest ever employee share issue in the UK (separately Post Office Ltd would be transformed into a mutual)

Public Share Offer

- Share offer successfully launched, with 600 million shares sold @ 330p Valuing the business at £3.3billion
- Demand pushed price up to 550p within a week
- Firm worth £5.5billion and major political row with opposition parties
- Suggested an undervaluation of around 30%
- Of 21 City investment banks that supplied early valuations in May 2013, the average ranged from £4bn to £4.8bn
- Shares rose further since, to 588p each in February
- Now 78% higher than the flotation price

The Post Office

- Not to be confused with Royal Mail
- A £1bn turnover business
- 9,000 independent outlets
- Many large urban areas have 'Crown Offices' with approximately 4,000 directly employed post office staff
- The services offered are similar to those in Australian post offices
- Similarly under stress from competition from the internet and online banking

The Post Office

- Post Office Ltd is subsidised by the UK government to provide services on a universal basis
- £640 million for 2015-2018
- On top of £1.7 billion since 2007
- Funding to modernise the business and invest in order to lower the cost base and improve efficiency
- On track to meet break even and produce profits within the next two years

Post Office Mutual

- In process of converting into a mutual
- Held by its stakeholders in the public interest
- A combination of customers, communities, postmasters and staff
- Largest single mutualisation of a public sector operation
- Excellent example of how to create and retain trust in a large business

What has been done?

- Inclusive process with all stakeholders represented and consulted
- Trade unions have played an important role
- Stakeholders helping to craft the new mutual's statement of purpose
- Mutuo provided expertise early on to Government
- Outlining possible structural mutual options
- Process critical in the way it has maintained confidence
- Public service ethos

Are there lessons for those debating the future of Australia Post?

- Commonwealth Government
- Trade unions
- The public

For the Commonwealth Government

- A business does not have to be a PLC to succeed
- Good management, free from government interference, can successfully run public services in the public interest
- Post Office example demonstrates that you can have a commercial edge whilst achieving public accountability
- It is an approach that could have been tried for Royal Mail

For the Commonwealth Government

- Question is how to focus on strong commercial skills whilst maintaining a service ethos
- As opposed to profit maximisation for shareholders
- Mutuals across the world show time and again how this can be achieved Australia has a wealth of mutual business experience to offer
- It should not be ignored in pursuit of an ideological dogma

For the Commonwealth Government

- In the British example - good management freed from direct control can succeed
- It does not require the business to be floated to do this
- Australia Post could be a successful commercial mutual
- Public service ethos hard wired into its management and governance
- If it is sold, make sure that the Australian taxpayer is not short changed
- Engage with Australian mutuals to help shape the future

For Trade Unions

- Lessons are both strategic and tactical
- Strategy:
 - Have the vision to argue for a new type of public service business
 - That cannot be asset stripped and will be maintained for the public good
 - Such as a public service mutual, forever protected for the customers of Australia Post
 - No need to cling to an ideology of nationalized business that will fail both as an argument and vision for the future

For Trade Unions

- Lessons are both strategic and tactical
- Tactically:
 - Whatever course is chosen, the union needs to be smart and ahead of the game
 - Anticipate the steps to be taken by Government
 - Do not get caught reacting too slowly as in the UK
 - Get inside the tent and shape the future
 - Work with Australian mutuals to help shape the future

For the Public

- Who are the owners of Australia Post...?
- A long hard look at any proposals before they are allowed to pass
- Are the politicians and unions are really working in the interests of Australian taxpayers and consumers?
- Without direct engagement from the public in this debate, the outcome is unlikely to serve them well
- You have friends in the Australian mutual sector – work with them

The Mutual Advantage

- A Mutual is more transparent and accountable to the customer base
- With a Mutual the customer can influence management decisions and remove the need for government regulation which may occur when a monopoly is privatised
- Mutualisation is an alternative ownership of Australian utilities and public assets as mutuals are owned and run by the local stakeholders