



Office of Utility Regulation

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Changes to the Guernsey Postal Market Proposed

The OUR is proposing to further liberalise the postal market from April 2010.

Following a review of the company's business, the OUR has published its draft decision on Guernsey Post's tariff changes for 2010/11 and the scope of its monopoly. Among the key proposals are:

- Requiring GPL to reduce payroll and overhead costs;
- Approving the move to PiP based pricing from April 2010;
- Reducing Guernsey Post's reserved area from £1.35 to 65p; and
- The cost of the basic local and UK stamp will remain unchanged, at 36p and 43p respectively.

The reserved area, currently at £1.35, is the protected area in which Guernsey Post has the right to operate as a monopoly.

OUR Director General John Curran said: "The current level of the reserved area is higher than necessary to ensure Guernsey Post, operating efficiently, is able to fulfil its universal service obligation (USO).

"The reserved area set at its current level may act as a barrier to alternative providers willing to provide services to Guernsey customers. Even at this lower level GPL will still retain a monopoly on about 70% of all mail posted in Guernsey and 54% of net revenue. However what it does do is give key customers choice, something that such customers have made clear they would value and helps them mitigate the impact of the tariff changes on their businesses," he said.

Mr Curran said he did not accept the argument that reducing the reserved area might lead to problems such as those experienced by Royal Mail.

"The relationship between Guernsey Post and its unions and staff is, to their credit, significantly more developed than in the UK between Royal Mail and its unions. Further changes to improve Guernsey Post's competitiveness will undoubtedly be undertaken in the spirit of partnership the unions and Guernsey Post have fostered so successfully."

Mr Curran said one of the benefits of reducing the reserved area was that competition would increase the incentives for Guernsey Post to accelerate its efficiency improvements.

The high level efficiency review found that, while some progress had been made in implementing the 2006 efficiency recommendations, it had been slower than might be expected and that costs in some areas were not being controlled sufficiently well.

Mr Curran said the OUR did not think Guernsey Post's request for tariff charges stemmed solely from increased costs with Royal Mail.

"While Royal Mail charges have an obvious impact, some of Guernsey Post's own costs are higher than we would expect," he said.

The review noted that overhead costs which have more than doubled from £2.9 million in 2005/06 to £5.9 million in 2009/10. Average pay per non-operational employee had risen by 49% in the five years between 2005/06 and 2009/10.

"Diversification, rather than the postal business, appears to be driving these cost increases. This diversification strategy has required significant investment some of which has been incurred at head office overhead level," he said.

"While diversification itself is not a concern, the OUR does not believe that postal users should bear the costs of any non-postal activities. Therefore we believe significant scope exists to reduce the level of overhead costs or minimise the level of overheads attributable to the postal business and funded by postal prices."

The OUR believes overtime costs for operational postal staff also remain too high.

"Over the last three years, overtime levels have nearly doubled both in processing and delivery. For example, processing overtime is forecast at 54% of basic pay. These levels are higher than we believe is reasonable and create cost inefficiencies which we question,"

"For example, there are no basic hours scheduled on Saturdays so all scheduled Saturday processing is performed on overtime. Given Guernsey Post has a USO that requires six day delivery this does not seem efficient in our view."

"We believe there are very clear opportunities to reduce costs which we expect GPL to focus on much more over the next year."

The OUR has also given the go-ahead for the introduction of Pricing in Proportion (PiP) from April 2010 which will see a change in how mail costs are calculated; moving from solely weight to weight and size for all mail including local and intra-island mail.

The regulator believes the current way in which Guernsey Post is proposing to implement PiP may be too confusing with too many cost bands and it has proposed Guernsey Post mirrors Royal Mail's approach to PiP with fewer, easily understandable, cost bands.

The OUR's consultation is open now until 20th November. The draft decision is available on the OUR's website at [.regutil.gg](http://www.regutil.gg)

Information for the Editor

About the OUR

The Office of Utility Regulation was established in 2001 to regulate the three utilities of post, telecommunications and electricity in the Bailiwick of Guernsey. The Office is headed up by Director General, John Curran and has five staff.

The role of the OUR is to protect the interests of Guernsey consumers and the economy. It does this by ensuring that customers receive the best in price, choice and quality services in the three regulated sectors, while at the same time ensuring that those sectors are vibrant and robust so that they can positively contribute to and underpin a successful Guernsey economy.

The OUR licenses and regulates telecommunications operators, Guernsey Electricity Ltd and Guernsey Post Ltd. Wherever possible, the OUR promotes the introduction of competition by ensuring that there is fair play and a level playing field between the operators. Where competition is not yet effective or where it is not feasible, the OUR regulates prices and quality of services to end customers. More information is available from the OUR website www.regutil.gg, or by contacting the Office of Utility Regulation on 01481 711120.