

Office of Utility Regulation

# **Reviewing Guernsey Post's Universal Service Obligation**

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Report on the Consultation

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**Office of Utility Regulation**  
Suites B1 & B2, Hirzel Court, St Peter Port, Guernsey, GY1 2NH  
Tel: (0)1481 711120, Fax: (0)1481 711140, Web: [www.regutil.gg](http://www.regutil.gg)

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# 1. Introduction

Since commercialisation, Guernsey Post Limited (“GPL”) has had an obligation to provide customers within the Bailiwick with a universal postal service (referred to hereafter as the USO), providing a uniform, low-cost service on letters and parcels up to 20 kg posted in the Bailiwick.<sup>1</sup>

The existing USO was determined by the States of Guernsey in 2001 at the time of the commercialisation of GPL. As the USO requires the provision of a common uniform service at a common tariff, and since that uniform tariff is below average cost per letter of the service, there is, as a consequence, a cost associated with its provision. In common with most jurisdictions that have USO requirements, GPL has a ‘Reserved Area’ – essentially a monopoly on the provision of services up to a price of £1.35 – which is designed to assist in funding the USO.

GPL has provided a dependable means of sending mail within the Bailiwick and all over the world for many years. It has always relied, however, on using the Royal Mail’s services to carry its mail to the UK and beyond. More recently, Royal Mail has established commercial arrangements between itself and the postal operators in the UK’s Crown Dependencies<sup>2</sup>. This new commercial arrangement for Guernsey has meant that GPL has experienced a significant increase in its cost base and, as a result, its ability to continue providing the USO at its current level given the increased commercial issues being faced in other parts of its business now needs to be reviewed. Therefore, almost five years after the current USO was set by the States, it is appropriate to take stock of how appropriate it remains given the changing environment in the postal sector.

In particular, the DG believes a review is appropriate at this time since the Bailiwick has until recently been a net beneficiary of the previous arrangement with Royal Mail, under which the two operators assumed mail traffic flows between their systems were equal. This situation has now changed. The movement towards traffic-based charges (where postal operators charge for post handed to and from each other – known as the payment of “terminal dues” by postal operators) has meant an increase in the financial payments GPL must make to Royal Mail, since more traffic flows out of the Bailiwick into the UK than in the other direction. In responding to this change in its operating environment there are a number of options potentially available to GPL:

- the company can generate additional volumes and develop new services to increase revenue to cover the additional costs;
- the company can increase tariffs in order to increase revenues;
- the company can seek efficiency savings to mitigate other cost increases; and
- the States can revisit and redefine the Bailiwick’s USO.

Of course these options are not mutually exclusive and it is possible to combine any of these strategic approaches. The first three options are clearly within the remit of

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<sup>1</sup> The Universal Service Obligation was established through a States Direction to the Director General in accordance with section 3(1)(c) of the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001, which set out the obligations and rights of the postal universal service provider. Further details can be found in OUR Document 03/08.

<sup>2</sup> i.e. Guernsey, Jersey and the Isle of Man.

GPL's management and board. The fourth option however is an issue for the States. The OUR therefore initiated this review in order to obtain the views of customers as to what type of postal service they want to have within the Bailiwick. In its consultation document (OUR 06/06) the OUR presented a number of options where potential changes may be made to the USO, which included maintaining the status quo. This "do nothing" option simply means that the increases in GPL's cost base have to be addressed by the three other options listed above. The proposed changes to the level of the USO set out in the consultation paper were not exhaustive and interested parties were invited to submit their own proposals as well.

This report on the consultation is submitted to the Department of Commerce & Employment for its consideration. It would then be a matter for Commerce & Employment to consider taking a Policy Letter to the States of Deliberation to consider any actual change in the existing USO.

## **2. Structure and Responses**

### **2.1. Structure of the Report**

The remainder of this report is organised as follows:

**Section 3** sets out the legislative and regulatory background to the USO and the rationale for the review at the current time.

**Sections 4 to 7** describe the responses to the main options described in the OUR's original consultation paper and the DG's consideration of the issues raised.

**Section 8** presents additional proposals from GPL for changes to the Bailiwick's postal USO.

**Section 9** summarises the main points arising from the review and the DG's recommendations to the Department of Commerce & Employment.

There are also four annexes attached to this paper.

- **Annex A** lists the respondents to the consultation;
- **Annex B** sets out the legislative background to the USO;
- **Annex C** provides international comparisons of USOs in EU Member States drawing upon a report for the European Commission by WIK-Consult; and
- **Annex D** contains a revised wording for the USO based on the recommendations of this report.

### **2.2. Responses**

The OUR received 25 responses to the consultation and a full list of respondents is provided in Annex A to this report. The DG also received a petition to "Save Our Rural Post Offices and Post Boxes" which was signed by over 5,000 people.

In addition the DG is grateful to Postwatch Guernsey for hosting a public meeting at Les Cotils, St Peter Port on 22<sup>nd</sup> February 2006 to launch the consultation.

The DG is grateful for the large response from interested parties who have taken the time to set out their views on the USO which have helped inform the DG's recommendation to the Department of Commerce & Employment. In accordance with the OUR's policy on consultation set out in Document OUR 05/28 – "Regulation in Guernsey; Revised Consultation Procedures", non-confidential responses to the consultation are available on the OUR's website ([www.regutil.gg](http://www.regutil.gg)) and for inspection at the OUR's Office during normal working hours. The petition however is only available for inspection and is not published on the OUR's website.

### 3. The Rationale for Reviewing the USO

#### 3.1. The Current USO<sup>3</sup>

In September 2001, the States issued Directions to the DG that required the DG to issue the first licence to provide universal services to GPL. At the same time the States set out the universal service obligation (“USO”) that should be imposed on GPL which is:

*“... throughout the Bailiwick of Guernsey at uniform and affordable prices, except in circumstances or geographical conditions that the Director General of Utility Regulation agrees are exceptional:*

- *One collection from access points on six days each week;*
- *One delivery of letter mail to the home or premises of every natural or legal person in the Bailiwick (or other appropriate installations if agreed by the Director General of Utility Regulation) on six days each week including all working days;*
- *Collections shall be for all postal items up to a weight of 20Kg;*
- *Deliveries on a minimum of five working days shall be for all postal items up to a weight of 20Kg;*
- *Services for registered and insured mail.”*

*“In providing these services, the licensee shall ensure that the density of access points and contact points shall take account of the needs of users.”*

*“access point” shall include any post boxes or other facility provided by the Licensee for the purpose of receiving postal items for onward transmission in connection with the provision of this universal postal service.”*

#### 3.2. Changes in GPL’s Commercial Environment

The USO was defined by the States in 2001 and since then there have been significant changes in GPL’s operating environment. In particular, the nature of the relationship between GPL and Royal Mail has been moved onto a more commercial footing.

Historically, the Bailiwick’s postal consumers have benefited from the fact that whilst GPL delivered all mail received from Royal Mail and Royal Mail in turn delivered all mail received from GPL, the companies did not in fact charge each other but assumed that the costs “balanced out”. This contractual arrangement implicitly assumed the same volume and type of mail flows in each direction. This resulted in a significant cost saving to the former Post Office Board (prior to commercialisation).

In the past, Royal Mail operated on this basis with the three postal operators in Guernsey, Jersey and the Isle of Man. However, there is significantly more mail going from Guernsey to the UK than in the other direction. With this in mind, Royal Mail, which is now under greater scrutiny by the postal regulator in the UK, Postcomm, than it was prior to the Postal Services Act, and with a resulting need to

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<sup>3</sup> See Annex B for Legislative background to the USO

improve its own financial performance, could no longer justify the effective subsidising of the delivery to the UK of mail from the Bailiwick.

In effect, Royal Mail's customers had been implicitly subsidising the services offered to the Bailiwick's postal customers and the implementation of a proper commercial contract between the two postal operators simply reflected normal commercial arrangements with regard to the payment of 'terminal dues' between USO providers in two separate jurisdictions. This commercial arrangement, which sees both Royal Mail and GPL charge each other for the actual volumes of mail in each direction, therefore results in significant increases in charges to GPL for the services provided by Royal Mail and to GPL's underlying cost base. Since 2000/01, GPL's net payments to Royal Mail have increased from £950k to £4.23m.

Some respondents to the consultation did not see why the local mail prices would have to increase as a result of an increase in terminal dues payable to the Royal Mail. Some also believe that standard business and residential customers are cross-subsidising the bulk mail sector. As a consequence two of the main questions raised by respondents in this regard are addressed in more detail below:

#### **Why do local stamp prices need to rise?**

- An increase in terminal dues payable to Royal Mail means that some of the revenue from all stamp sales for mail to the UK and elsewhere now has to be paid to Royal Mail to pay for the delivery costs associated with Guernsey mail which is delivered in the UK. Historically, the Post Office would have kept all the revenue from mail sent to the UK to fund its local services i.e. the local services were being cross-subsidised by the UK and international mail<sup>4</sup>. With the advent of more cost-reflective terminal dues local services must now pay their way to a greater extent.
- The biggest single customer of the Bailiwick's local delivery service is in fact the Royal Mail and terminal dues are typically determined with reference to local standard tariffs. The calculation of terminal dues is based on a complex international agreement and GPL does not have flexibility to amend its charging regime with Royal Mail unilaterally.

#### **Why should standard residential and business customers subsidise the bulk mail sector?**

- Surprisingly, this was a common perception. However, the reality is in fact the opposite to this. This is a characteristic common of many postal operators. In the UK for example over 50% of Royal Mail's income is generated by the company's top 500 customers. Guernsey is no different except on a much smaller scale. Historically GPL has derived over 50% of its income from its top 10 customers. Traditionally the bulk mail sector has subsidised the standard postal service (and not the other way round) and there continues to be a small – and decreasing – cross-subsidy today.
- The bulk mail sector has faced much higher percentage increases in their prices than the standard retail tariffs since 2004, not in order to continue funding the Bailiwick's USO but to reflect the move towards cost reflective

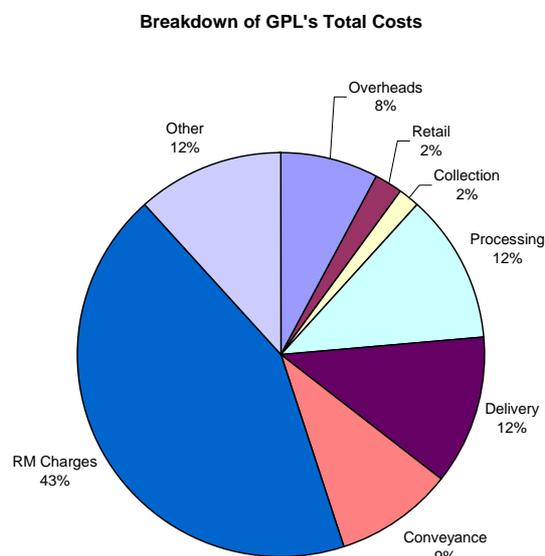
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<sup>4</sup> Whilst this was reciprocated with UK not paying for delivery of Bailiwick mail, the volumes were such that the old arrangements were to Guernsey's advantage.

tariffs and the payment of terminal dues to Royal Mail. GPL has a monopoly in the reserved area in which cross-subsidies are permitted. Since 2004, however, the scope for cross-subsidising the USO through the bulk mail sector has been reduced as these companies have had to compete in their own competitive markets and postage costs become a larger element of their own cost base. The DG recently published a draft decision (OUR 06/08) on bulk mail tariffs which proposed increases in postal costs of between 30%-70%.

Figure 1 below portrays how GPL incurs its postal costs, with Royal Mail’s terminal dues (i.e. payment of UK delivery charges) accounting for over 40% of its total costs. The options set out in the original consultation paper looked at ways of reducing the remaining 60% of the company’s cost base as trade-offs between operating costs and the scope of the postal service within the Bailiwick.

**Figure 1: Breakdown of Guernsey Post’s Total Postal Costs**



### **3.3. Responses to the Changed Commercial Environment**

The Bailiwick has been a net beneficiary of the previous arrangement with Royal Mail and the new commercial arrangements have meant an increase in the financial burden for GPL as terminal dues becomes a major cost stream for the company, accounting for over 40% of its total annual costs. The DG has identified a number of possible responses the company can make in light of these developments. In particular GPL’s management and board can:

- grow its existing business in order to generate additional revenue;
- introduce new services to meet customers’ needs and again generate additional revenue;
- increase tariffs (price increases for services in the USO where GPL is dominant are subject to regulatory scrutiny) in order to increase revenues to cover the additional Royal Mail costs; and of course

- seek efficiency savings in its day to day operations in order to mitigate the increase in other parts of its cost base.

In responding to the changes in its commercial environment, the company is still obliged to provide a minimum service level as specified in the USO. The USO is a requirement defined by the States and change in the USO would require a new direction to the DG from the States.

The OUR initiated this review in order to obtain the views of customers as to what type of postal service they want to have within the Bailiwick. This is the first real canvassing of customers' views on the nature of postal service required by them and provides a very useful assessment of the value and importance placed on the various parts of the postal service. In the consultation paper, the OUR presented a number of options for changes to the existing USO (including the 'do-nothing' or 'maintain the status quo' option) for public consultation. The comments on these options are assessed in the sections below.

## 4. Changes to Daily Collections & Deliveries

### 4.1. The Collection and Delivery Options

The OUR's consultation paper set out two specific changes in this area:

- firstly, moving to five day deliveries and collections in accordance with most EU Member States; and
- more radically, providing five day deliveries for Town only and alternative day deliveries for all other delivery routes (i.e. a two-tier regime).

A third option acknowledged in the consultation paper was simply to maintain the status quo. The estimated annual cost savings of these three options to illustrate the relative impact of each option are shown below:

**Table 1: Summary of Financial Implication of No of daily Deliveries**

Option	Offset in Future Price Increase
Option A – Five-day deliveries & collections	1.8p to 3.1p
Option B – Five day deliveries for Town with alternate-day services for all other rounds.	0.3p to 0.6p
Option G – Maintain the status quo	None

### 4.2. Responses

There was a mixed response to this proposal.

GPL is against both of the change options. GPL estimate that Option A would mean that for Intra-Bailiwick, UK to Guernsey and Jersey to Guernsey mail flows quality would each fall by 13 percentage points to 82%, 65% and 79% respectively<sup>5</sup> for J+1<sup>6</sup>. The impact of option B is more difficult to forecast but GPL estimates that it might have the effect of reducing quality of service by 40 percentage points. GPL believes that any decrease in the quality of the postal service would damage the reputation of Guernsey as an international finance centre and would be the wrong way of responding to the changes in the company's operating environment.

Postwatch Guernsey would, in principle, support a reduction to five day deliveries, provided that there were sufficient savings to be realised from any change to counterbalance the possible 13-14% reduction in quality of service. Postwatch Guernsey believed it might be preferable for customers to recognise they receive a high quality of service over six days and to accept that a higher stamp price was needed in order to maintain that level of service.

St Peter Port Douzaine believes that it is essential that deliveries six days a week continues.

<sup>5</sup> See GPL's latest quality of service report for current service levels [www.guernseypost.com/downloads/quality\\_report\\_04.pdf](http://www.guernseypost.com/downloads/quality_report_04.pdf) & [www.regutil.gg/docs/OUR0510.pdf](http://www.regutil.gg/docs/OUR0510.pdf).

<sup>6</sup> e.g. Instead of 95% of all mail posted within the Bailiwick being delivered the next day only 82% of all mail posted for delivery within the Bailiwick would be delivered the next working day.

However, there was some support for the five day option in particular from the Confederation of Guernsey Industry (“CGi”), whose members considered that this would not be a problem so long as mail sent on a Friday was delivered on Monday within the Bailiwick. Mr Bienvenu also, on balance, supports this option. The Castel Douzaine commented that this option would give the largest financial saving and that Islanders would soon adjust to this reduction in service level.

The St Sampson Douzaine suggests that it might be possible to reduce either collections or deliveries to five days and maintain the other at six days. For example by reducing daily deliveries to five times a week and maintaining six day collections – delivery costs are reduced. As this is the largest element of cost savings it would ensure that mail is still collected and ready for delivery on Monday morning (thus reducing the impact on GPL’s QoS) whilst delivering a real cost reduction opportunity. The DG agrees that this is a sensible additional option that might deliver savings whilst minimising any reduction in quality of service.

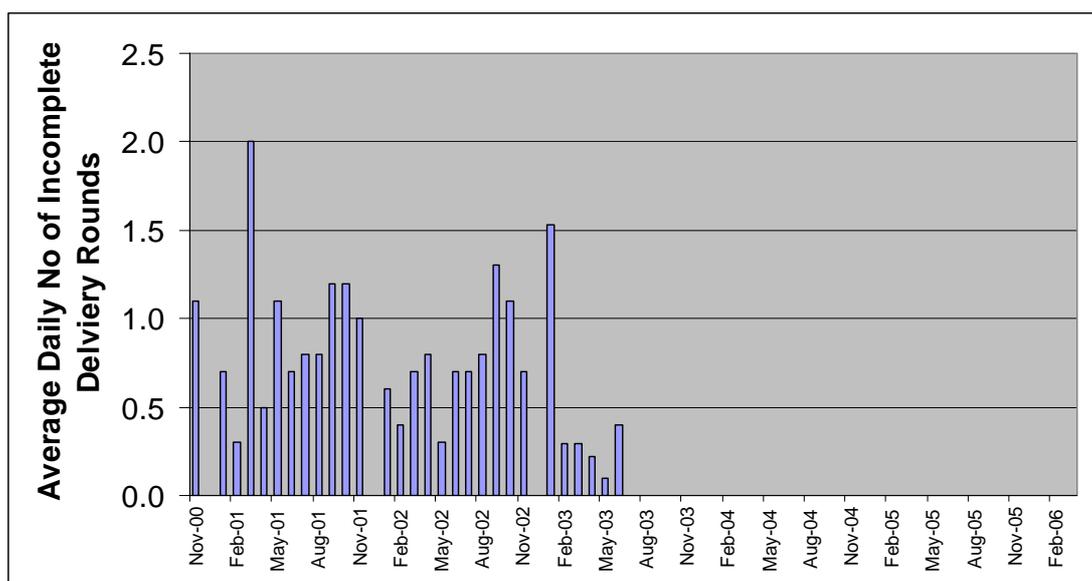
Deputy Brouard does not feel there is much to gain from a reduction in service. However Deputy Brouard commented that he had not noticed any improvement in GPL’s quality of service since commercialisation. Indeed he, along with Deputies Ozanne and Gollop and the St Pierre du Bois Douzaine amongst others, instead commented on the increase in staff numbers since commercialisation. There appears to be a widespread belief that since commercialisation there has been a significant increase in staff and management levels despite the introduction of mechanisation. For example the St Pierre du Bois Douzaine believed the company to be adopting archaic working practices which have contributed towards inefficiencies in the use of manpower. There was general support for the OUR’s efficiency review of the company later in the year which will inform the next price control decision.

The DG welcomes the support for the forthcoming efficiency review. However it is necessary to comment on what appears to be a misconception about GPL’s current and past quality of service and related staff levels.

Although the USO was originally framed against what was perceived to be the Post Office Trading Board’s level of service, prior to commercialisation the Post Office was not fully providing the six day collections and deliveries service it was publicly quoting as its operational standard. In fact, there were not 100% deliveries on all rounds six days a week. Among the reasons for this was that the restriction on staff numbers imposed by the Civil Service Board meant that there was no cover for holidays and illnesses. Therefore, it was common for delivery rounds not to be completed due to insufficient staff numbers.

The scale of the problem is shown in Figure 2. Regrettably there is only limited data for the period up to commercialisation. From November 2000 to September 2001 the average number of rounds with incomplete deliveries was 0.85 per day. Following commercialisation for the period up to November 2002 the average had fallen to 0.79 per day.

**Figure 2: Average Daily Number of Incomplete Rounds Nov 2000 to Mar 2006**



Once the OUR was aware of this problem, the company was required to come into compliance with the States USO and since July 2003, every delivery round in Guernsey has received a daily delivery unless due to exceptional circumstances (e.g. road works on a particular route). This is an extremely high level of service and one which Postwatch in the UK has cited as an example which Royal Mail should also be capable of achieving. In order to deliver this improved service GPL has taken on additional staff the bulk of whom have been in the postal delivery area as shown below:

**Table 2: Breakdown of Increase in Full Time Equivalent (FTEs) Since 2001**

	2002	2006
Postal Operations <sup>7</sup>	167	215
Head Office	40.5	55.2
Retail	12	19.9
Philatelic	5	5.7

Operational staff have increased by 48 FTEs since October 2002 which is over two thirds of the total increase in FTEs. This has been due to staffing required for five day working week agreed prior to commercialisation but not staffed up for and in fact covered by overtime in the past. Additional staff have been taken on to support mechanised support and for the operation of the video coding.

Head Office FTEs have increased by almost 15 across under a number of functions including amongst others customer services, finance and IT. Customer Service FTE has increased by five since October 2002.

<sup>7</sup> Including operations, processing technicians and video coders

Retail workforce has increased by 7.9 FTEs reflecting the transfer of staff at a number of post offices to Crown Office status. In absolute terms, Philatelic has increased by less than one FTE.

In general terms, staffing levels have increased by over 30% since October 2002 in terms of the number of FTE's with staff costs increasing by 28% over the same time period.

GPL argues that taking a simple 'staff-numbers' view of operational efficiency is insufficient when making a step change in corporate operational performance. The overtime had to be paid at premium rates and was entirely dependent on goodwill and extended working hours. Whilst this overtime working was in place there were still significant occasions when deliveries were not achieved and post failed to meet connections into the UK. GPL points out that its remedy for this situation was to implement the two-pronged strategy of improving quality of service and reducing premium rate working through staffing the company appropriately for its workload. GPL contends that this approach is demonstrating success as quality of service performance is the best recorded and costs are better controlled as an increase in staff numbers has also reduced the level of premium rate working.

In summary, GPL is now delivering the USO the States have required it to achieve whilst achieving substantially better quality of service in terms of speed and reliability for standard letter mail<sup>8</sup>. It is also noteworthy that GPL's performance against these targets continues to increase. As with the completion of delivery rounds, there is a cost (and resources required) to achieving this level of service which must be borne in mind when comparing staffing levels in GPL now with that prior to commercialisation. However, based on the responses to the consultation, it would appear that consumers have not really noticed the improvement, but instead have noticed the increased costs and staff numbers which have been incurred to provide the improved level of service.

The more radical suggestion to move to five day deliveries for Town addresses and alternative day deliveries for all other delivery rounds was considered unacceptable by all parties who commented on this particular option (e.g. Postwatch Guernsey, CGi and Mr Bienvenu).

### **4.3. Conclusions**

There was no support for the radical two tier-delivery and collection regime. There was some support for moving to five day deliveries as the basis for the USO but only if there were savings to be realised. The overall feedback would appear to marginally favour maintaining the current six day delivery standard.

However the DG is concerned to note that customers in general do not appear to value the six day deliveries and the improved quality of service as they have in effect not noticed any changes in the quality of service they receive now compared to pre-commercialisation. For example, if no mail is delivered on a particular day, the

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<sup>8</sup> GPL's QoS reports available on its website demonstrate the significant improvements in delivery times of mail since the introduction of independent targets by the OUR.

householder or business may think that it is due to there being no mail for delivery to their address that day rather than no delivery to any address on that particular round. If, in fact, customers are not acknowledging the improved quality of service and six-day deliveries would it be better to revert to a standard European USO of five day deliveries?

In light of the comments received and the DG's concerns, there is a possible variation to the existing USO which would require daily deliveries and collections in terms of a "98% compliance target"<sup>9</sup> instead of the implicit 100% compliance required by the current wording. This would allow for some delivery-round failures and some reduction in staff numbers and hence reduction in annual operating costs with a minimal deterioration in QoS. GPL have estimated that such savings could amount to around 0.3p per letter with quality of service for Intra-Bailiwick, UK to Guernsey and Jersey to Guernsey mail flows falling by only 3 percentage points. However, quality of service to the UK would remain at the current levels. Therefore, suggested wording for this part of the USO could be (with changes to the existing wording highlighted in bold):

- *One collection from access points on six days each week **98% of the time;***
- *One delivery of letter mail to the home or premises of every natural or legal person in the Bailiwick (or other appropriate installations if agreed by the Director General of Utility Regulation) on six days each week including all working days **98% of the time;***

A sensible alternative proposal, raised by the St Sampson Douzaine, would be to reduce daily deliveries to five days a week (i.e. allowing reduced delivery costs), but maintaining the six day collections, which as an activity is not as labour intensive as deliveries, and will also ensure mail posted on a Friday after the last collection time would still be delivered on a Monday, thereby mitigating decreases in service quality. GPL have estimated that this could give savings of 0.8p to 1.8p per letter with quality of service for Intra-Bailiwick, UK to Guernsey and Jersey to Guernsey mail flows falling by 13 percentage points. If this approach was adopted the relevant wording would be:

- *One collection from access points on six days each week;*
- *One delivery of letter mail to the home or premises of every natural or legal person in the Bailiwick (or other appropriate installations if agreed by the Director General of Utility Regulation) on **five** days each week (i.e. normal working days Monday to Friday).*

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<sup>9</sup> For example assuming 68 delivery rounds and 25 working days in a month this would mean that GPL could miss 34 rounds per month ( $68 \times 25 \times (1 - 0.98)$ ) and still be considered as complying with the States USO.

## 5. Changes to the Number of Collection Boxes

### 5.1. The Number of Collection Box Options

GPL currently has nearly 150 post boxes. The OUR's consultation paper set out two options for changes in relation to roadside collection boxes firstly removing 100 boxes from the network and secondly only removing 70 boxes from the network. The reason for these proposals is that by international comparisons Guernsey has a very high density of post boxes per square kilometre. Again, there was also the 'do nothing and maintain the status quo' option. The estimated annual cost savings of these three options are shown below:

**Table 3: Summary of Financial Implication of No of daily Deliveries**

Option	Offset in Future Price Increase
Option C – Removing c100 roadside collection boxes.	Up to 0.2p
Option D – Removing c70 roadside collection boxes.	Up to 0.1p
Option G – Maintain the status quo	None

### 5.2. Responses

GPL does not believe that there is a need for large reductions in the number of posting boxes, apart from those roadside locations for health and safety reasons (approximately 10 collection boxes).

Deputy Le Pelley believes that post box numbers could be significantly reduced with the remainder re-sited to more convenient posting points such as schools, car parks, supermarket stores, petrol stations, public houses etc – well away from the busy and therefore dangerous locations. Indeed, there were a number of comments in support of locations with greater access by vehicles.

The Castel Douzaine notes that the number of post boxes could be reduced and that this could provide savings on collection costs which would benefit consumers.

Postwatch Guernsey indicates that it would support a "significant" reduction in the number of roadside collection boxes, believing 146 roadside collection boxes to be an unnecessarily high number on such a small Island. Postwatch Guernsey would wish to see proposals as to which boxes GPL would remove together, with statistics as to their usage, and whether they were being moved for health and safety considerations. The resulting network would have to provide sufficient coverage for customers' needs. Postwatch Guernsey consider that any review should also take into account whether there are other locations in which boxes could be sited for customers' convenience, again taking into account accessibility on foot, by bus or car.

It also believes that the removal of boxes would very much be a long-term view option, and it would lend itself to a phased process and it may be necessary to increase

the capacity of some boxes. At the same time, it agrees that a reduction in the overall number of collection boxes should also be considered an opportunity: for example, to permit later collection times for next day delivery of local mail (or more boxes with early morning collections for same day delivery). The current 5.30am collection from Monday to Saturday from those boxes at the various retail outlets (and later times for Smith Street and Envoy House) is helpful for many customers.

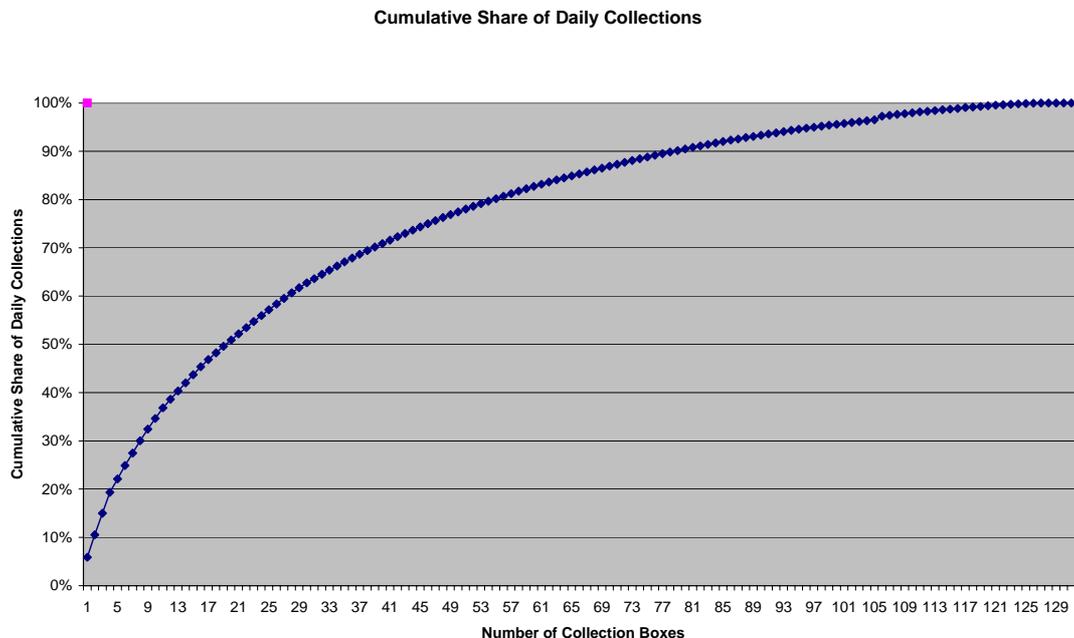
The CGi believes that removing 100 roadside collection boxes would be unacceptable but supports the removal of 50% of the existing roadside boxes so long as the remaining ones were made larger.

Mr Bienvenu believes the roadside collection boxes are a core part of GPL’s service and any reductions should only be undertaken for road safety and obsolescence reasons. Mr Bienvenu suggests that the removal of certain boxes on these grounds should be negotiated and agreed between GPL and the relevant Douzaine.

Deputy Ozanne believes that the number of post boxes could be reduced by around 70, but without further information as to their usage it is difficult for interested parties to comment further. Deputy Ozanne also believes that post boxes in dangerous locations should be removed and, like Postwatch Guernsey, he believes that new sites close to car parks should be established.

Figure 3 below shows that over approximately 80% of daily collections derive from just over 55 of the island’s post boxes. This goes up to 90% of the collections when the 80 most used post boxes are counted. Therefore, nearly 70 post boxes account for only 10% of postal collections.

**Figure 3: Cumulative Share of Daily Collections by Collection Box**



Deputy Brouard believes that there are only small savings to be made from a large reduction in box numbers and that there are some boxes which could be re-sited to better positions. He also suggests that postmen on delivery rounds could also empty

outlying boxes at the same time. The DG does not believe that this latter proposal is likely to achieve substantial benefits, if any, for if the collection boxes were emptied during the delivery rounds instead of during a dedicated collection later in the day then the latest collection times on a given day could be as early as 9.00am. If, on the other hand, they were to be in addition to the normal daily collections, then the postal staff rounds would take longer and the mail collection during the delivery rounds would simply spend more time at Envoy House awaiting processing than awaiting collection in the collection box. There is also an issue with the ability of delivery staff physically to handle mail for delivery and collection.

### **5.3. Conclusions**

The DG continues to believe that there is scope to reduce the number of post boxes on the island, above those already identified as being a risk for reasons of safety. It is therefore a question of how many are actually required by customers. It is unusual for the number of post boxes to be defined in a USO and more normal for the USO simply to refer to the adequacy of the network to satisfy customers' needs, as is currently the case in Guernsey.

Therefore, while the States may specify the number of post boxes that GPL should provide, in the DG's view it is more appropriate to delegate this to GPL as an operational matter to be determined in consultation with consumer representatives. In particular, the DG believes that the parish Douzaine may be well placed to advise on safety issues in their particular parish and, together with Postwatch Guernsey, to advise GPL on the collection box network in Guernsey.

The DG believes that respondents to the consultation have provided a number of valuable suggestions that will help ensure Guernsey's postal network continues to meet the needs of postal users.

In regard to his recommendation, he believes that no change should be made to the wording of the USO at this time. However, while the DG notes that most respondents feel the possible saving is small for this change, given the limited use that is made of a significant number of post boxes, GPL should be encouraged both to reduce further its post office collection box network and to explore the possibility of increasing the number of locations from which later posting can take place. The DG believes that this enhanced level of service will help reduce the impact of reduced posting locations and minimise the adverse impact on customers.

## 6. Changes to Number of Retail Outlets

### 6.1. The Retail Outlet Options

As noted in the consultation document, this part of the USO is not specific with regard to the number of postal outlets. Any decision relating to Post Office closures would be a matter for GPL and the States as shareholder in the first instance. In the original consultation paper, the OUR again set out two specific changes to GPL's retail network namely only providing five post offices or reducing it even further to three post offices but using a mobile post office to serve the more rural areas on the island. Again, the OUR noted that an option available was to maintain the existing retail network on the island. The implications of these options are summarised in Table 4 below.

**Table 4: Summary of Financial Implication of No of Post Offices**

Option	Offset in Future Price Increase
Option E – Retail network comprising five post offices.	0.5p to 0.8p
Option F – Retail network comprising three post offices and mobile post office.	0.9p to 1.0p
Option G – Maintain the status quo	None

Unsurprisingly, this option provoked most interest and response. The OUR was keen to emphasise that this was simply a consultation exercise and it was not for the OUR to decide to close any of the island's post offices. However it was necessary to illustrate to interested parties the implications of certain possible changes given the need to fund Post Offices from some source.

### 6.2. Responses

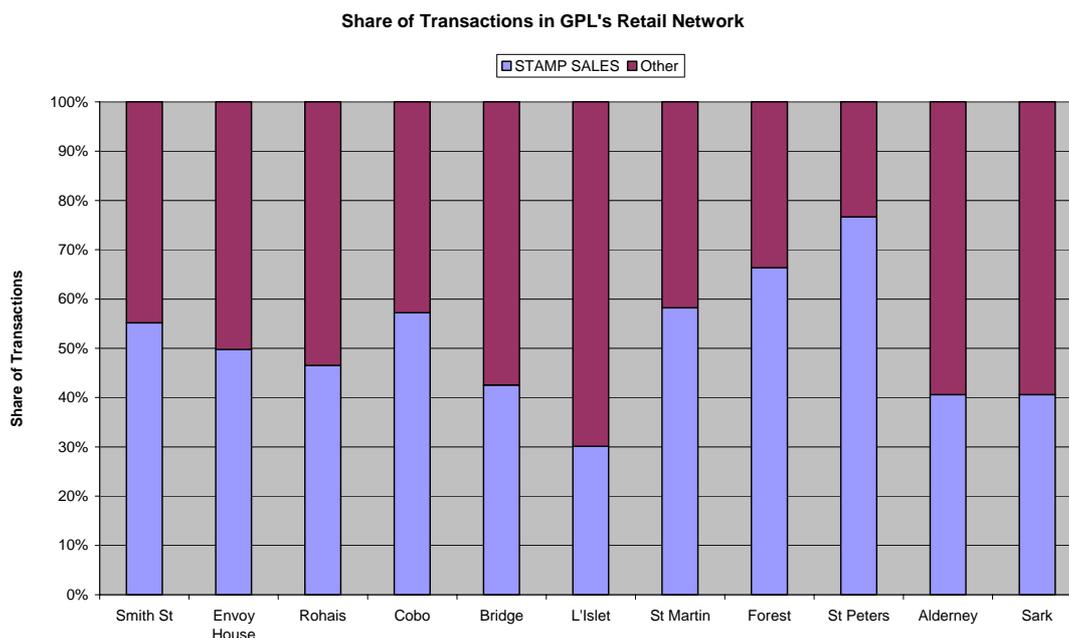
Postwatch Guernsey recognizes that these options were the most radical ones put forward for consideration in the OUR's consultation paper and believes that it might be appropriate to reduce the number of post offices to five (or four sites if a mobile post office was to be introduced) Postwatch's view takes into account the importance of the bulk mail sector to GPL and that rebalancing of tariffs is inevitable with the bulk mail sector not being able to absorb additional price rises to cross-subsidise the local and UK tariffs and the retail network. Postwatch Guernsey believe the key issue in relation to GPL's retail network is that of how it is to be funded. Postwatch Guernsey note that despite the debate at the time when GPL announced it was considering closing L'Islet and the retail network losses since then, there has been no resolution to the funding issue.

Postwatch Guernsey believes that the States could stipulate as part of the USO the number of postal outlets that GPL should retain either by defining the USO in terms of maintaining all the existing outlets or setting a minimum number possibly below the current levels. Postwatch Guernsey recognises the 'social needs' argument for the provision of post offices but does not believe that postal customers should bear the non-postal costs of GPL's retail network. These non-postal services should be self-

funded or, if that is not possible, then the States could consider funding these services either through foregone dividend or direct subsidy.

To illustrate the importance of the ‘social services’ provided by GPL, an analysis of GPL’s total transactions in each of the post offices within its retail network over a 30 working day period is shown in Figure 4 below. This demonstrates for each of the locations the share of stamp sales of all transactions<sup>10</sup> within the outlet. It does not demonstrate the number of customers served within each post office, simply the extent to which each post office is used to provide postal services compared to the other social or non-postal related services they offer.

**Figure 4: Stamp Sales as a Share of Total Transaction in GPL’s Retail Outlets**



The chart shows the varying degrees of importance of the postage stamps across the network with over postage sales accounting for 75% of the transactions for St Peters’ Post Office and only 30% for L’Islet. For the network as a whole, postage sales account for over 50% of all transactions.

GPL said that it would not go as far as either the options consulted upon by the OUR or Postwatch Guernsey’s proposal in relation to the closure of postal outlets, but instead it recommended adopting the States’ Rural Centres strategy, as set out in the States Rural Area plan, as the basis for its retail network. GPL believes that there is scope to rationalise its Retail Network. It also hoped the OUR’s consultation and the NAO report to the States on commercialisation would help inform the process and in particular address the issue of funding of the Retail Network. In the meantime, GPL believes that it has exhausted all opportunities for efficiency savings and the outcome of its own Retail Strategy Review cannot be implemented until the States has determined the new USO under which the Company must operate.

<sup>10</sup> Other transactions include inter alia, States Receipting, Pensions, TV Licences and phone cards.

GPL is opposed to the removal of its rural outlets (outside those identified by GPL itself) and their replacement with a mobile unit, and strongly believes this a backwards step for an island looking to grow its international reputation as part of its strategy to attract industries with high earners for taxation reasons. GPL has significant concerns regarding the viability of a mobile post office in Guernsey, primarily due to the fact that comparisons with UK are not appropriate. The mobile post offices in the UK have been introduced in very remote rural areas<sup>11</sup> and sparse villages<sup>12</sup> which GPL believes are in no way similar to Guernsey.

Instead GPL believes that its own Strategic Review will recommend the retention of three outlets in the urban area focused on the two major retail and commercial centres managed through the States Urban Area Plan. The rationalisation of the rural Retail Network would be in line with the States Rural Area Plan<sup>13</sup> Here a formula based on a set of indicators of sustainability, highlighting the common areas that lie within 500 metres of each indicator, has been adopted to identify Rural Centres. Areas clearly meeting the criteria are at Cobo, St Martins and St Pierre du Bois; GPL believe that these Rural Centres (i.e. Cobo, St Martins and St Pierre du Bois) should be identified within the postal USO, along with Envoy House, Smith Street and the Bridge.

GPL's own Customer Charter requires that customers should be within two miles of a post office. Under its proposals, GPL would provide adequate coverage and in fact focus more provision in the areas of higher density by following the planning guidelines laid down by the States.

GPL recognises that it has to identify more new, profitable products and services to replace those traditional services it used to supply as the "UK Government shop". At the same time, the UK Government is withdrawing many of those services, especially pension payments, offering no compensation to GPL, unlike the subsidies given to the British Post Office by its Government to maintain its sub offices in the UK.

However GPL also maintains that its branches are and can be sustainable. GPL believes that the challenge to support sustainability lies in the development of attractive franchise / agency propositions for existing and new retailers in Guernsey which would help to re-shape the underlying cost structure of the company's retail network.

The OUR also received a petition entitled "Save Our Rural Post Offices", organised by Deputy Brouard, which was signed by over 5,000 people. Deputy Brouard believes that the savings are minimal for a large reduction in service, that the retail network is the very essence of a postal service and that the public has clearly expressed their willingness to pay to maintain the existing network.

The National Federation of Sub-Postmasters ("NFSP") is also opposed to a reduction in the number of retail outlets and believes that these options would have an adverse impact on customers, communities and the sub-postmasters who serve those communities. The NFSP argue that post offices:

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<sup>11</sup> Settlement of less than 3,000 people with a drive time of over 60 minutes to a settlement of 10,000 or more.

<sup>12</sup> The wider surrounding area is sparsely populated.

<sup>13</sup> Rural Area Plan Review No.1

- Provide essential services;
- Play an important role in providing direct support for vulnerable local residents, including elderly and disabled people;
- Act as a focal point for communities; and
- Provide many services for other local businesses.

The NSFP believes that the OUR's review provides an opportunity to assess how the viability of the current network can be maintained. The NFSP believes that the existing business can be grown and maximised and that all sub-offices should be able to provide the full range of postal services. Growth could also be achieved through the introduction of new products and services (e.g. banking and investment in automation) that meet customers' needs and can generate additional revenue, although no comment has been made on the costs associated with this.

Deputy Jones, Minister for Housing, highlighted that Guernsey Post's retail network provided a valuable community service to Housing Department tenants and that almost 70% of the Department's rental income was collected through Guernsey Post's network. Housing therefore was strongly in favour of retaining these community facilities. The Housing Department was surprised to note that Guernsey Post has no obligations to provide community services of this nature and requested that this was considered as part of the consultation exercise.

Mr Bienvenu believed that the estimated reduction in costs was not sufficient to warrant any closures and also believed that mobile post offices would cause road safety problems. Mrs Dudley did not believe that a mobile post office would be acceptable as their usage would be constrained to the times at which the mobile post office was in any vicinity and that this would be inconvenient.

The CGi were in favour of the proposal to reduce the retail outlets to five locations. In addition, whilst the CGi did not approve of the proposal to reduce the number of outlets to three, it believed the mobile post office concept to be a good idea.

Mr and Mrs Atkinson believed that using mobile post offices would not be acceptable, as having set times when the vehicle might be in a certain area might not be convenient.

The Castel Douzaine were opposed to the closure of the Cobo Post Office, as it serves the Castel Parish as well as St Saviours and part of the Vale and St Sampsons. The Douzaine believed a mobile unit for such a large area would not be practicable. At the same time the Douzaine believed that as GPL had made a profit in 2004/05 and this profit should be balanced against the increased costs from Royal Mail.

Similarly, the Vale Douzaine were strongly opposed to any further reduction in the sub-post offices service available in the north of the island. The St Sampson Douzaine appreciated the financial constraints on the operation of Guernsey Post, but was concerned that the social service element of the postal service was being lost and the company's dividend could be used to subsidise the less profitable post offices. The Douzaine also noted that, whilst the OUR was not in favour of cross-subsidisation of services, the rules for cross-subsidisation should be relaxed. The St Peter Port Douzaine believes that a main Post Office with easy access must be

maintained in St Peter Port. Finally the Torteval Douzaine objected strongly to any reduction in current services for the western parishes and in particular wished to retain the current postal services at both St Peters Post Office and Forest Stores.

Mr & Mrs Bowman were specifically in favour of closing L'Islet post office, as GPL was no longer used by catalogue firms. The post office was also used primarily by drivers of cars, van and lorries, which causes danger to pedestrians by thoughtless parking, noise and pollution.

### **6.3. Conclusions**

As set out in the original consultation paper the OUR expected this to be the most contentious of the proposals put forward. In essence, the debate comes down to two issues;

- a) the size of the Bailiwick's retail network (i.e. the number of post offices); and
- b) the funding of that network whatever size it may be.

Each of these issues is addressed in turn below.

#### **Size of Network**

As stated already, any decision on the location of post offices is an operational issue for Guernsey Post and must be framed within the States USO requirements. As expected, the issue of any changes to the existing retail network generated considerable interest from consumers. Deputy Brouard's petition, with over 5,000 signatories, demonstrated the strength of feeling and desire for the island's existing retail network. For ease of reference, the company is currently directed by the States to ensure that (emphasis added):

*“In providing these services, the licensee shall ensure that the density of access points and contact points shall take account of the **needs** of users.”*

The DG considers that the response to this consultation has confirmed the public's willingness to pay for the convenience of local post offices and as such consumers appear to believe the existing network is required to meet their needs. However, as noted by Postwatch Guernsey, it also raises the issue of the funding of the retail network. The OUR's original consultation paper highlighted that this issue is not unique to Guernsey with many retail networks meeting social needs and either making loss or receiving government funding to keep the network intact.

#### **Funding of Network**

At the current time, the DG only allows GPL to recover the costs associated with the postal services provided by its retail network. This is standard practice as it not usual for postal customers to fund the non-postal elements of the retail network. This is one of the reasons why in many other jurisdictions postal operators have been closing post offices<sup>14</sup> in recent years.

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<sup>14</sup> See Postcomm's "Post Office Networks Abroad" Report October 2005 for detailed description of changes in overseas jurisdictions.

At the current time, GPL's retail network is making an annual loss of around £150,000. If the States opt for maintaining the status quo with respect of the size of the retail network, then a decision needs to be made on how the non-postal services provided by GPL are funded. There are a number of options for how this might be achieved which include:

- Where possible, increase charges for the provision of the non-postal services so that the income from these services cover the costs of providing them (e.g. States Receipting); or
- Adopt a similar approach to the UK and provide States funding to the amount of £150,000 per annum to ensure the financial viability of GPL's retail network; or
- The States could forego a dividend of around £150,000 per annum from the company to pay for the retail network<sup>15</sup> – this assumes that the company actually makes a profit.

Alternatively the DG considers that it would be consistent with his and the States' duties, in particular with section 2(c) of the Regulation of Utilities (Bailiwick of Guernsey) Law 2001, to allow increases in tariffs to fund the non-postal elements of the retail network. Section 2 (c) lists one of the DG's and the States duties as being "to ensure that utility activities are carried out in such a way as best serve and contribute to the economic and social development and well-being of the Bailiwick".

As a result, it would be possible for postal prices to be set at a level to cover the costs of providing the social welfare gains from having a postal network which meets the customers' needs. The retail network costs could only be recovered through charges for postal prices which were not in a competitive market, otherwise the cross-subsidy would result in a market distortion which may have an adverse impact on competition. For example, the cross-subsidy of the retail network by Bulk Mail prices would not be possible as the prices for Bulk Mail products would be distorted which would have an impact on Guernsey's Bulk Mail companies' competitiveness in their own markets. Therefore any cross-subsidy would have to be on the standard postal stamp tariffs.

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<sup>15</sup> This assumes the company actually makes a profit, if it makes a loss then the retail outlet net costs increases the company's overall loss.

## **7. Maintain the Status Quo**

### **7.1. The Status Quo Option**

As explained in sections 4 to 6 above, the DG also included for completeness the ‘do-nothing, option – in other words the option to maintain the USO in its current form. This would mean that the company’s response to the changed environment in which GPL’s operates would have to rely on a combination of growing existing revenue streams, introducing new services, greater efficiency savings and higher tariffs. The fact that the payment of terminal dues to Royal Mail accounts for 43% of the company’s total postal business costs means that future price increases are inevitable. To a large degree, respondents’ comments on this option have been summarised in the previous sections, but for completeness any outstanding comments have been summarised and presented below.

### **7.2. Responses**

GPL’s view was that a derogation of service, through a reduction in postal service quality or the scope of the USO, will make only small cost savings in comparison with the more significant elements of the company’s cost base. In particular, GPL believed that if there were any radical changes to the USO there would be a substantial opportunity cost for the business in terms of its management resources having to concentrate efforts on implementing change. Management would have less time available to continue with service improvements, product development and enhancements, and strategic planning, which the company considers to be an unhealthy and retrograde step for the Bailiwick’s postal operator.

The CWU is firmly behind the retention of the USO as it now stands in its entirety. The CWU believes that the closure of sub-offices (which provide an important service to not only the rural community, but also to small businesses), collection boxes, or any reduction in the delivery or retail network is not in the best interests of the Bailiwick’s rural communities and GPL’s customers.

Deputy De Lisle believes that the retail outlets provide a life-line to people and communities throughout the island and that any attempts of rationalisation as set out in the OUR’s original consultation paper should be resisted as they are all front line services and an essential part of local life.

The St Martins Douzaine believes it is preferable to retain the status quo and that no alterations or changes to the existing services provided to the customer should be made. Similarly, St Pierre du Bois Douzaine also strongly feel that there should be no diminution in the level of current postal services.

Generally, CGi membership realises that the current level of service comes at a cost and it is in favour of the review being undertaken, adding that it could perhaps be widened to include areas other than services provided i.e. staff costs. CGi members were very aware that to maintain the current level of service, the cost of postage might realistically have to be increased.

Chamber of Commerce members gave a mixed response, but generally were supportive of maintaining the status quo.

Deputy Le Pelley commented that there appeared to be a general acceptance that if savings could not be made in every sector under review then the postal users would have to pay the necessary balance by way of extra postage. Similarly Mr Bienvenu and Mr Elton both express preferences to maintain the existing USO.

### **7.3. Conclusions**

The DG notes the views preferring to maintain the status quo and leave the USO as it currently is worded.

## **8. Proposed Amendments from Guernsey Post**

### **8.1. Additional Proposals**

GPL also believes that some small changes on the provision of services for vulnerable users and forces serving overseas might be considered worthy of a social obligation.

Guernsey Post supports and recommends revision to the USO in line with the following draft text (additional wording is highlighted in bold for ease of reference).

*The following Universal Postal Service shall be provided by at least one Licensee throughout the Bailiwick of Guernsey at uniform and affordable prices, except in circumstances or geographical conditions that the Director General of Utility Regulation agrees are exceptional:*

- *One collection from access points on six days each week;*
- *One delivery of letter mail to the home or premises of every natural or legal person in the Bailiwick (or other appropriate installations if agreed by the Director General of Utility Regulation) on six days each week including all week days;*
- *Collections for all postal items up to a weight of 20kgs;*
- *Deliveries on a minimum of five working days for all postal items up to a weight of 20kgs;*
- *Services for signed-for insured mail (individual country exclusions apply for cross-border mail)*
- *Reduced fee services for HM Forces (BFPO)*
- *Reduced fee services for the registered blind*

*In providing these services, the Licensee shall ensure that the density of safe and secure access points and Guernsey Post Retail Branches shall take account of the States of Guernsey Urban and Rural Area Plans developed from its Strategic and Corporate Plan; six being the minimum acceptable level for the latter, providing access within 2 miles for the majority of Guernsey residents.*

*“access points” shall include any post boxes or other facility provided by the Licensee for the purpose of receiving postal items for onward transmission in connection with the provision of this universal postal service.*

GPL also expressed the view that, with the liberalisation of the UK postal market forcing upward pressure on the charges faced by the Company to deliver mail in the UK, the Reserved Area funding the USO also needs to be significantly reviewed by the DG concurrent with his deliberations on the USO.

### **8.2. Conclusions**

The DG acknowledges the benefits of GPL’s proposals and considers that it would be sensible to expand the USO as suggested by GPL. The DG understands that this extension would actually incur minimal cost to the company. Therefore the USO could be amended to include:

- *Services for signed-for insured mail (individual country exclusions apply for cross-border mail)*
- *Reduced fee services for HM Forces (BFPO)*
- *Reduced fee services for the registered blind*

The question of the size of the retail network has been addressed at length in section 7 above.

The DG notes the company's views on the size of the reserved area, and will be addressing this issue once the USO Review has been completed. However, given that the possibility that some further cross-subsidisation may be considered to fund the USO, the DG is reluctant to consider reducing the part of the market in which competitors can compete at this time.

## **9. Recommendations**

Upon detailed consideration of the responses to the consultation and the issues raised the DG recommends a number of changes to the existing postal USO. Annex D contains a revised wording of the USO based on the recommendations set out below.

### **9.1. Recommendation 1 – Deliveries and Collections**

On the basis that most traditional domestic and business consumers do not appear to value the enhanced quality of services, the DG recommends that the USO be amended to allow for five day deliveries whilst maintaining six day collections. This would mean that the current text:

*“One delivery of letter mail to the home or premises of every natural or legal person in the Bailiwick (or other appropriate installations if agreed by the Director General of Utility Regulation) on six days each week including all week days;”*

would be replaced by

*“One delivery of letter mail to the home or premises of every natural or legal person in the Bailiwick (or other appropriate installations if agreed by the Director General of Utility Regulation) on five days each week (i.e. normal working days Monday to Friday).”*

### **9.2. Recommendation 2 – PO Collection Boxes**

There should be no change to the wording of the USO with respect to access points at this time. It is unusual for a USO to specify the number of collection boxes that an operator has to provide and this should be an operational matter for GPL to determine in consultation with Postwatch Guernsey and the Parish Douzaine.

### **9.3. Recommendation 3 – Post Offices – Retail Outlets**

The USO should not specify the number of post offices that should be provided by GPL as the Bailiwick’s universal service provider. This is consistent with the specification of USOs in other jurisdictions. GPL should continue to be required to provide access to its network that meets reasonable demands from its customers.

Section 2 (c) of the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001 lists one of the DG’s and the States’ duties as being “to ensure that utility activities are carried out in such a way as best serve and contribute to the economic and social development and well-being of the Bailiwick.” Therefore, the DG recommends that, relying on section 2(c) of the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001, it would be acceptable to allow increases in tariffs to fund the non-postal elements of the retail network. Indeed customers through this consultation have expressed their willingness to pay for this service.

Consequently, postal prices could be set at a level to cover the costs of providing the social welfare gains from having a postal network which meets customers' needs. The retail network costs (but only those which were efficiently incurred) could only be recovered through charges for postal prices which were not in a competitive market, otherwise the cross-subsidy would result in a market distortion which would have an impact on competition. Similarly the cross-subsidy of the retail network by Bulk Mail prices would not be possible as the prices for Bulk Mail products would be distorted, which would have an impact on Guernsey's Bulk Mail companies' competitiveness. Therefore, any cross-subsidy would have to be in the standard retail tariffs.

#### **9.4. Recommendation 4 – Extension of USO**

The USO should be extended as proposed by GPL to include:

- Services for signed-for insured mail (individual country exclusions apply for cross-border mail);
- Reduced fee services for HM Forces (BFPO); and
- Reduced fee services for the registered blind.

#### **9.5. Recommendation 5 – Periodic Review of USO**

The postal USO should not be considered as immutable and may need to be amended in response to changes in the postal market and the Bailiwick's economy generally. The DG therefore recommends that the States either requests or performs its own periodic review of the postal USO at least every five years.

**ENDS/**

## **Annex A – Full List of Respondents**

Mrs C Atkinson  
Mr M Bienvenu  
Mr R Bisson  
Mr & Mrs Bowman  
Deputy A Brouard  
Castel Douzaine  
Chamber of Commerce  
Confederation of Guernsey Industry  
Communications Workers Union  
Mrs C Dudley  
Mr P Elton  
Deputy J Gollop  
Guernsey Post Limited  
Deputy D Jones, Housing Minister  
Deputy D De Lisle  
Deputy M Ozanne  
Deputy T Le Pelley  
National Federation of Postmasters  
Postwatch Guernsey  
St Martins Douzaine  
St Peter Port Douzaine  
St Pierre du Bois Douzaine  
St Sampson Douzaine  
Torteval Douzaine  
Vale Douzaine

## **Annex B – Legislative and Licensing Background**

The Post Office (Bailiwick of Guernsey) Law, 2001 (“Postal Law”) provides that a range of postal activities do not require licensing, ranging from personal private delivery to the delivery of court documents and banking instruments<sup>16</sup>. In addition, any postal services that are provided for a price greater than £1.35 (the “non-reserved services”) can also be provided by any person or business without a licence. All services that are provided for a price of less than £1.35 are deemed to be reserved services, and this is set out in an Order made by the DG in accordance with section 9 of the Postal Law<sup>17</sup>.

The Regulation of Utilities (Bailiwick of Guernsey) Law 2001 (“Regulation Law”) provides for the States of Guernsey to issue States Directions to the DG in relation to:

- the scope of the universal service that should be provided in the postal sector in the Bailiwick;
- the extent of any exclusive privileges or rights in the postal sector;
- the identity of the first licensee in the postal sector; and
- any obligations arising from international agreements.

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<sup>16</sup> Section 1(2) of the Post Office (Bailiwick of Guernsey) Law, 2001

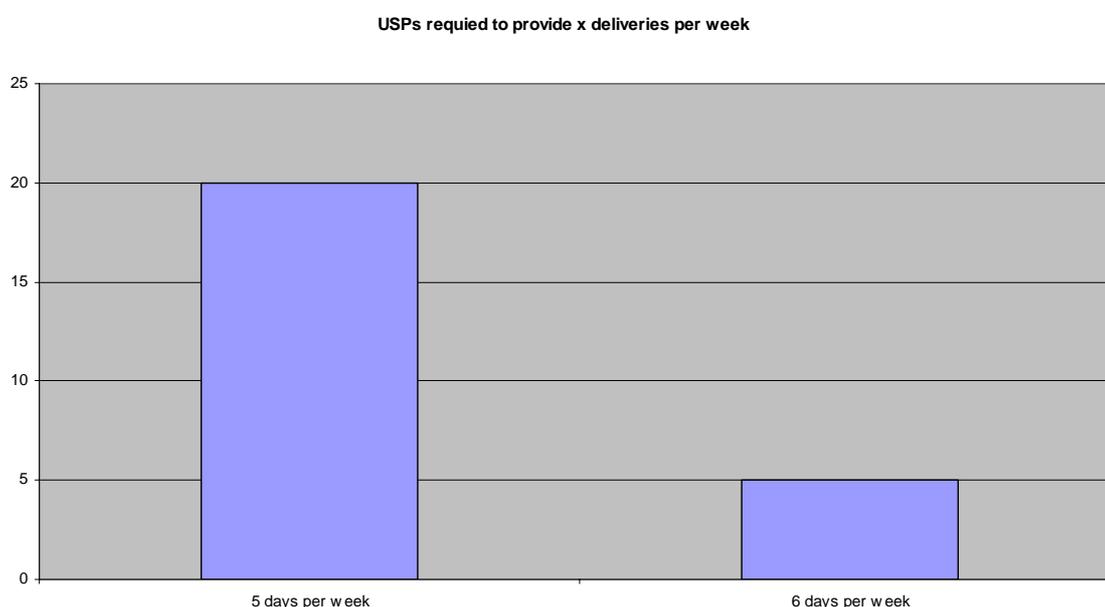
<sup>17</sup> The Post Office (Reserved Postal Services) Order, 2001

## Annex C – International Comparison of USOs<sup>18</sup>

### Daily Delivery & Collections

The Postal Directive (Directive 97/67/EC) requires a member state to ensure at least one clearance and one delivery each working day, not fewer than five days a week, at all points in the national territory save in extraordinary circumstances. National regulatory authorities (“NRAs”) must approve exceptions from nationwide coverage. The minimum service of five day per week is met in all member states. In six member states, Universal Service Providers voluntarily provide six-day delivery although it is not required by law.

**Figure C1: USPs Required to Provide x Deliveries per Week**

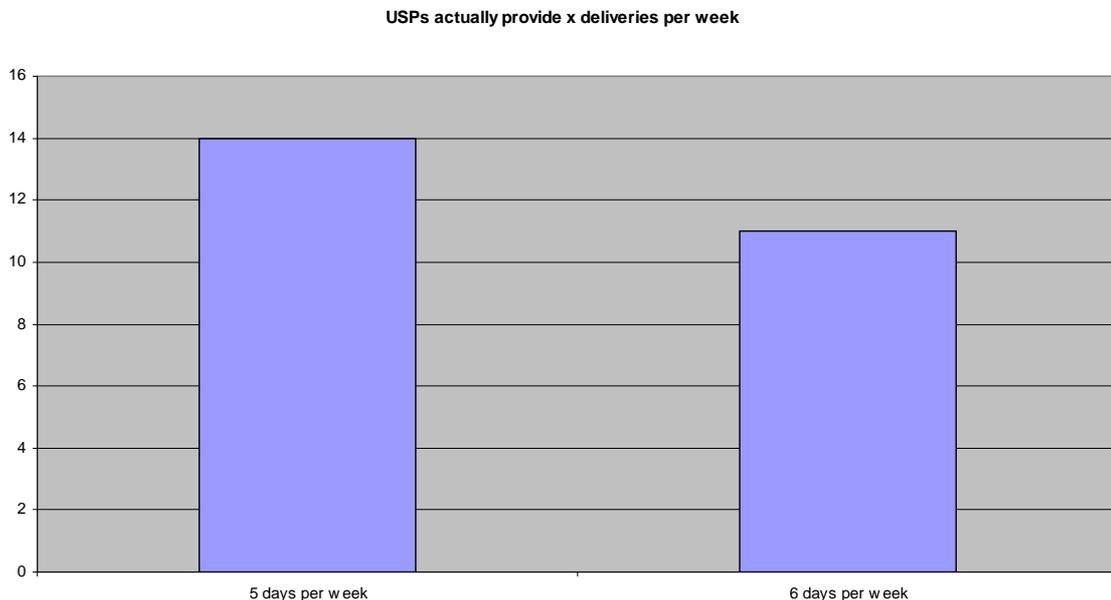


In the majority of member states, collection and delivery is provided at all points in the country. In eleven member states, letter post items are delivered less than five or six times a week to a small share of the population.

While less than one percent of the population is affected in most of these countries, in Greece more than three percent of the population receives universal service fewer than five days per week. With regard to home delivery of parcels, the picture varies. In more than half of the member states, parcels are delivered free of charge to the premises of the recipient. In Spain there is no requirement to deliver parcels at all. In eight member states, home parcel delivery is provided at an extra charge. In the United Kingdom home delivery of parcels is free of charge in most but not all locations.

<sup>18</sup> Data and information extracted from WIK-Consult Final Report to European Commission Main Developments in the European Postal Sector, July 2004

**Figure C2: Number of USPs Actually Providing x Deliveries per Week**



### Postal Outlets and Collection Boxes

The Postal Directive requires that the availability of access points to the public postal network should meet the needs of users and that users should have transparent and non-discriminatory access to the network. Access points include mail boxes and postal outlets. Postal outlets include post offices operated by USP employees as well as postal agencies operated by persons who are not USP employees. In a recent study on quality of service, a main finding was that regulation of access to the postal network varies widely among member states.

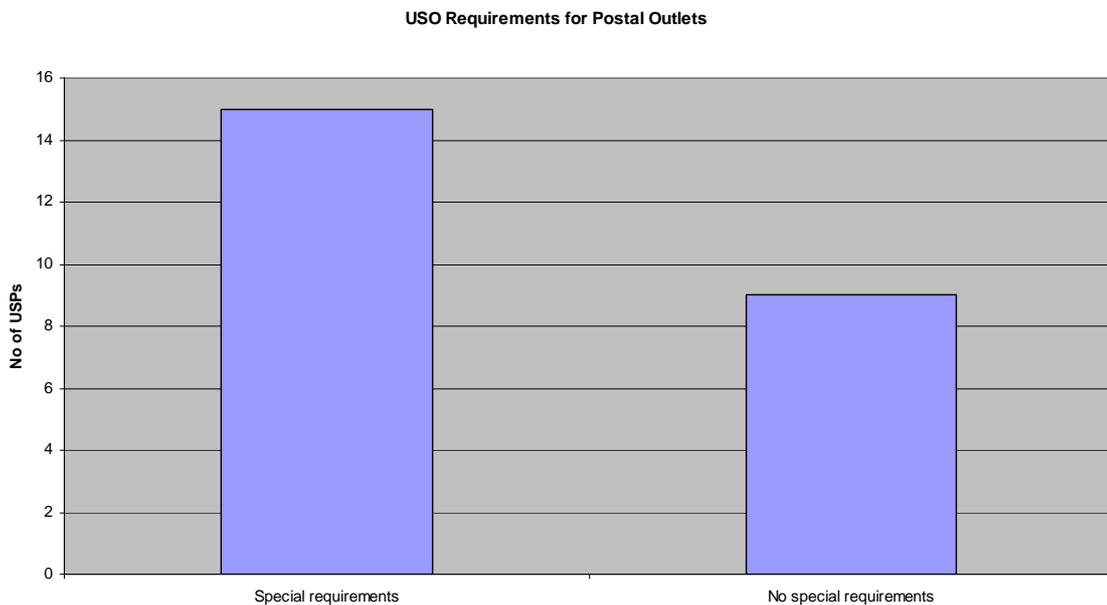
The WIK Study for the European Commission in 2004 found a similar situation. Regulatory requirements relating to the density of access points range from none to detailed guidelines relating the location of access points to density, distance, population, or community-related criteria. In some countries, the minimum total number of postal outlets is fixed. In Germany, even the minimum number of outlets operated with USP staff is defined. In some member states, the USP is prohibited from closing postal outlets due to social reasons. In the majority of the member states (20 of 24), however, there is no rule that prevents the USP from replacing a post office with a postal agency. The figure below provides an overview of the prevalence of specific access requirements for the universal service network.

WIK analysed the number of postal outlets per 10,000 inhabitants in each of the Member States. The range goes from more than 4 postal outlets per 10,000 inhabitants in Ireland 161 to about 1.3 in Malta and Belgium with a weighted average of 2.38 postal outlets per 10,000 inhabitants. For comparison, Guernsey has 5.2 postal outlets per 10,000 inhabitants. Differences in population density and in the degree of urbanization partly explain this variance. WIK also look at the density of the postal access network against an index for the geographic density (combining

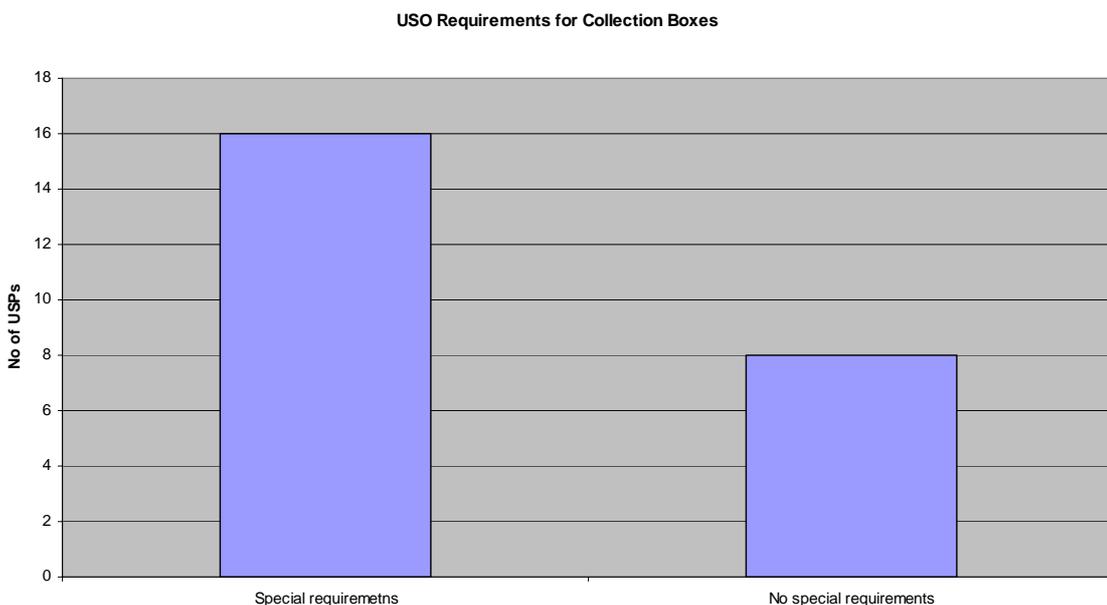
population density and degree of urbanization). They conclude that there is a negative correlation between the density index and the number of postal outlets per 10,000 inhabitants, i.e. with increasing density, the number of postal outlets decreases. Nonetheless, the variance is still very high, indicating that additional factors influence the density of access points (e.g. political and social restraints faced by the USPs).

While the total number of postal outlets within the EU declined by 2.5% between 1998 and 2002, the number of postal agencies increased between 1998 and 2003 by 2%. The net effect, however, has been to reduce the number of postal outlets by almost 1% over this short period.

**Figure C3: USO Requirements for Postal Outlets**



**Figure C4: USO Requirements for Collection Boxes**



## Annex D – Recommended Revised USO

“The following Universal Postal Service shall be provided by at least one Licensee throughout the Bailiwick of Guernsey at uniform and affordable prices, except in circumstances or geographical conditions that the Director General of Utility Regulation agrees are exceptional:

- *One collection from access points on six days each week;*
- *One delivery of letter mail to the home or premises of every natural or legal person in the Bailiwick (or other appropriate installations if agreed by the Director General of Utility Regulation) on five days each week (i.e. normal working days Monday to Friday);*
- *Collections shall be for all postal items up to a weight of 20Kg;*
- *Deliveries on a minimum of five working days shall be for all postal items up to a weight of 20Kg;*
- *Services for signed-for insured mail (individual country exclusions apply for cross-border mail);*
- *Reduced fee services for HM Forces (BFPO); and*
- *Reduced fee services for the registered blind.”*

*“In providing these services, the licensee shall ensure that the density of access points and contact points shall take account of the needs of users.”*

*“access point” shall include any post boxes or other facility provided by the Licensee for the purpose of receiving postal items for onward transmission in connection with the provision of this universal postal service.”*