



Office of Utility Regulation

Reviewing Guernsey Post's Universal Service Obligation

Consultation Paper

Document No: OUR 06/06

February 2006

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

CONTENTS

1.	Introduction.....	2
2.	Structure and Comments	4
2.1.	Structure of the Consultation Paper	4
2.2.	Comments	4
3.	Legislative and Licensing Background	5
3.1.	Legislation and States Directions	5
3.2.	The Current USO.....	5
4.	The Rationale for Reviewing the USO.....	7
4.1.	Changes in GPL’s Commercial Environment.....	7
4.2.	Responses to the Changed Commercial Environment	7
4.3.	The Regulatory Context for the Review	8
5.	Possible Changes to the USO	9
5.1.	Changes to daily collections and deliveries.....	9
5.1.1.	Option A: Five Day Deliveries and Collections.....	10
5.1.2.	Option B: Five Day Deliveries for Town & Alternate for all other rounds	10
5.2.	Changes to the number of PO Boxes.....	10
5.2.1.	Option C: Removing c100 roadside collection boxes (66%)	11
5.2.2.	Option D: Removing c70 roadside collection boxes (45%)	11
5.3.	Changes to number of retail outlets	11
5.3.1.	Option E: Reducing Retail Outlets to five locations.....	14
5.3.2.	Option F: Reducing Retail Outlets to three locations with a Mobile Post Office.....	15
5.4.	Maintain the Status Quo	16
5.5.	Summary of Options.....	16
6.	The Timetable for the Consultation and the Review.....	18

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 GPL’s Universal Service Obligation or USO), providing a uniform, low-cost service on letters and parcels up to 20Kg posted in the Bailiwick.¹

GPL has provided a reliable 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 everywhere else beyond the UK. More recently Royal Mail has established commercial arrangements between itself and the postal operators in the UK’s Crown Dependencies (i.e. Guernsey, Jersey and Isle of Man). This new commercial arrangement has meant that GPL has experienced a significant increase in its cost base and after five years it is appropriate for consumers to take stock of how well the existing USO meets their needs.

A review is appropriate at this time as since the Bailiwick had been a net beneficiary of the previous arrangement with Royal Mail (i.e. prior to 2001) 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 burden for GPL in its dealings with Royal Mail. In order to respond to this fundamental change in its operating environment – GPL and the States have a number of options:

- 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 to cover the additional costs;
- the company can seek efficiency savings in its day to day operations in order to mitigate the increase in other parts of its cost base; 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 approaches. The first three options are within the remit of GPL’s management and board. The fourth option is an issue for the States. The OUR has 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. The OUR has presented a number of options where changes may be made to the USO. One option is of course to maintain the status quo. This “do nothing to the USO” option simply means that the increases in GPL’s cost base have to be addressed by the three other options listed above.

The response to this consultation will provide the basis of a report to the Department of Commerce and Employment with recommendations, if any, for changes in the Bailiwick’s postal USO. It would then be a matter for Commerce & Employment to

¹ 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.

take a Policy Letter to the States of Deliberation to consider any actual change in the existing USO.

This consultation paper has therefore been drafted by the OUR to canvas opinions in the Bailiwick on a number of possible measures that could be used to redefine the Bailiwick's USO. The DG is grateful both to:

- Postwatch Guernsey for hosting a public meeting at Les Cotils, St Peter Port on 22nd February 2006 to launch this consultation; and
- GPL for providing estimates of the potential cost savings that the options considered in this consultation paper might generate.

The options being proposed in this paper are not exhaustive and interested parties are invited to submit their views on what other options they consider might be considered in this review of the USO. The OUR will be happy to receive such submissions as part of this consultation.

2. Structure and Comments

2.1. Structure of the Consultation Paper

The remainder of this Consultation Paper is organised as follows:

Section 3: sets out the background to the USO;

Section 4: provides the rationale for the review at the current time;

Section 5: outlines the possible changes to the USO, setting out the impact on customers and a broad indication of the possible mitigation in the price increase that might arise. For each option there is a:

- Description of possible changes;
- An indication of the impact on customers; and
- An indication of possible cost savings;

Section 6: details the timetable for the process following this Consultation.

2.2. Comments

The OUR is seeking views on the options set out and developed in this Consultation Paper, from consumers, businesses and any other interested parties. Responses to this Consultation should be submitted by **5pm on 17th March 2006**, and should be sent to:

Office of Utility Regulation
Suites B1 & B2
Hirzel Court
St Peter Port
GY1 2NH

Or by email to **info@regutil.gg**

In accordance with the OUR's policy on consultation set out in Document OUR 05/28 – "Regulation in Guernsey; the OUR Approach and Consultation Procedures", non-confidential responses to the consultation are available on the OUR's website (www.regutil.gg) and for inspection at the OUR's Office during normal working hours.

3. Legislative and Licensing Background

3.1. Legislation and States Directions

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 instruments². 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 Law³.

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.

3.2. The Current USO

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.

² Section 1(2) of the Post Office (Bailiwick of Guernsey) Law, 2001

³ The Post Office (Reserved Postal Services) Order, 2001

“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.”

4. The Rationale for Reviewing the USO

4.1. Changes in GPL's Commercial Environment

The USO described in section 3.2 was defined by the States in 2001. 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 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 from the postal regulator in the UK, Postcomm, and the resulting need to 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.

4.2. Responses to the Changed Commercial Environment

As explained above 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. There are a number of possible responses the company can make in light of these developments. In particular GPL's management and board can:

- develop 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 of Deliberation and change in the USO would require a new direction to the DG from the States. It is therefore appropriate that the OUR undertakes a review at the current time so that this potential response to the change in the company's cost base can be properly assessed.

Of course these options set out above are not mutually exclusive and it is possible to combine any of these approaches.

In summary the OUR has 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. The OUR has presented a number of options where changes may be made to the USO. One option is of course to maintain 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.

4.3. *The Regulatory Context for the Review*

Subsequent to the move by Royal Mail towards terminal dues reflecting actual postal traffic, GPL increased their own letter and parcel stamp prices during 2004 and will be increasing standard retail prices again on 1st April 2006.

However, Royal Mail is also moving towards proportions-based pricing, which will also involve price changes for services between GPL and Royal Mail, particularly for bulk mail. The OUR is currently considering GPL's proposals for increases in prices for bulk mail services, and a decision on these is due to be announced shortly.

The changes in pricing arrangements between the GPL and Royal Mail have and will continue to result in price changes for GPL's services. New prices for standard mail will come into effect on 1st April 2006 and will remain in place until 31st March 2007. The DG anticipates announcing a decision on new prices for bulk mail services shortly, but these prices would also last until 31st March 2007. Once the commercial contract between GPL and Royal Mail is concluded, the OUR expects GPL to submit a further tariff application in the autumn of 2006.

While this consultation is being undertaken in the context of these price changes, with a view to reviewing the levels of USO service desired by GPL's customers, further possible cost savings will be looked at in a detailed independent efficiency audit to be undertaken on GPL in 2006.

5. Possible Changes to the USO

The OUR has identified a limited number of possible variations that could be made to the Bailiwick's universal service that would have a meaningful impact on any subsequent tariff proposals. These fall into two main categories.

Changes to daily collection and deliveries (section 5.1). There are two options under this heading namely:

- collection and deliveries on five days a week instead of six (section 5.1.1); and
- collection and deliveries on five days a week instead of six for Town routes (i.e. St Peter Port) and alternate days elsewhere.

Changes to access points to the network (sections 5.2 and 5.3 respectively). Again, there are two ways of changing service levels in this respect:

- changing the number of PO collection boxes; and
- changing the number of retail outlets within Guernsey.

This is not an exhaustive list of options but an illustration of the types of options that could be considered as possible changes to the USO. The OUR is not only seeking views on what the public and GPL's customers think of these options, but also any other suggestions regarding the USO and postal service in general. Clearly there is also the "do nothing" option (i.e. leave the USO unchanged) but this has implications for costs and therefore prices, which must be understood, but for completeness this is covered in section 5.4 below.

From the categories above, the OUR has established five possible options for change in the universal service. These are detailed below. Potential savings that could be obtained from each option are also given to illustrate the extent to which changes in the USO could offset future price increases. It must be borne in mind, however, that any savings made will have to be seen in the context of the anticipated cost increases being faced by GPL over the next few years resulting from contractual changes with Royal Mail.

5.1. Changes to daily collections and deliveries

Whilst recognising that the Bailiwick is not part of the EU it is interesting to compare the Bailiwick's USO in this regard with the EU Postal Directive and practice in EU Member States. The Directive actually requires Member States to provide daily collection and deliveries five days a week. In implementing the Directive 20 Member States define their USO as requiring deliveries five days a week and only five Member States have a USO that requires deliveries six days a week. In practice six day deliveries are actually provided by postal operators in 11 of the Member States.

The situation in smaller EU countries is summarised below:

- Malta – five day deliveries required, but postal operator provides six;
- Cyprus – five day deliveries required and provided each week;

- Iceland – five day deliveries per week;
- Luxembourg - five day deliveries required and provided each week.

Based on experience elsewhere it seems reasonable therefore to consider the implications of changes to daily collections and deliveries.

5.1.1. Option A: Five Day Deliveries and Collections

Under this option, GPL would withdraw Saturday deliveries & Sunday collections. The implications for customers would be:

- Obviously, no Saturday deliveries;
- Larger volume of mail delivered on Monday
- Mail posted on Friday evening would not be collected until Monday morning.

This option would clearly result in a lower staff requirement for collections and deliveries. There would also be savings on shipments made out of the Bailiwick to the UK with one less shipment to the UK. However, there would be no reduction in sorting requirements (as mail volumes would remain the same) and there would be some increases required in deliveries on Mondays to deal with the increased volumes from the weekend. It is estimated that this option might result in offsetting future increases by between 1.8p and 3.1p per postal item.

5.1.2. Option B: Five Day Deliveries for Town & Alternate for all other rounds

This option would entail the withdrawal of Saturday deliveries for St Peter Port, leaving it with daily deliveries Monday – Friday, and with all other rounds in the Bailiwick moving to deliveries on alternate days. The implications for customers would be:

- A reduction in quality of service outside St Peter Port;
- Possibly unclear (or more complex) posting arrangements for customers posting and / or expecting day-specific items.

This option would result in savings from reduced collection and deliveries throughout the Bailiwick, and shipments out to the UK. Again, however, with mail volumes (and therefore sorting costs) remaining the same, there will be a requirement to increase the number of postal rounds (as two days mail volumes will need to be delivered on one day and existing rounds may become too large to deal with double deliveries) that will offset the reduced service savings. It is estimated that this option might offset future price increases by between 0.3p and 0.6p per item.

5.2. Changes to the number of PO Boxes

With almost 150 roadside collection boxes, Guernsey has a high density of posting points compared to Jersey, the UK and most other postal systems. Research into the use of the island's boxes has shown that there is some scope for reductions in their number with minimal customer inconvenience. Almost 80% of the postal items collected from post boxes come from around 40% of the island's post boxes. Almost 60 boxes have less than 20 items posted in them per day. In addition several are

located on busy roads without any pavement for pedestrians or GPL staff to empty the boxes and therefore poses health and safety concerns and may warrant being closed for this reason.

The USO itself does not actually specify the density of post boxes that have to be provided by Guernsey Post, simply stating that Guernsey Post must take account of customers' needs in providing access to the network.

Table 1 below shows the area in km² covered by each post box in a number of jurisdictions. It does show that Guernsey does have a low average area served by each post box, although Jersey also does have a similarly low coverage.

Table 1: Average Area served by each Post Box (area in km²)

	Guernsey	Jersey	UK	Belgium	Lux'bourg	Netherlands
Post Box density	0.44	0.66	2.0	1.59	2.5	2.2

The DG believes therefore that there is merit in considering whether there is scope to reduce the number of PO collection boxes particularly as the USO does not specify the number of access points but requires GPL to address customers' needs.

5.2.1. Option C: Removing c100 roadside collection boxes (66%)

One option would be to remove almost 100 roadside collection boxes from Guernsey. Possible implications for customers resulting from this option would be:

- Some reduction in the convenience for some of having a post box very nearby, although the plan would be to remove only those boxes least used;
- Service realignments may mean later collection times for the remaining boxes.

Removing two-thirds of the island's boxes would save resources used in collecting from these. However, there may be some one-off expense incurred in installing larger post boxes in some sites that would experience significantly increased mail as a result. It is estimated that this option might offset further price increases by up to 0.2p per item.

5.2.2. Option D: Removing c70 roadside collection boxes (45%)

As described in option C, Guernsey has a high density of posting boxes compared to other states, and there is some scope for reductions and associated savings. The possible implications for customers are:

- Some reduction in the convenience for some of having a post box very nearby, although the plan would be to remove only those boxes least used;
- Service realignments may mean later collection times for the remaining boxes.

It is estimated that this option might offset price increases by 0.1p per postal item.

5.3. Changes to number of retail outlets

Another part of the USO which warrants consideration is the provision of post offices within the Bailiwick. The USO is itself unspecific in regard to the number of retail

outlets GPL as the USO provider should provide within the Bailiwick. As noted above “access points” are loosely defined in the USO and simply requires that GPL as the licensee ensures that the density of access points and contact points takes accounts of the needs of users.

In other jurisdictions there are obligations on the majority of postal operators to provide access to their post office facilities. These obligations may be part of the conditions of the USO or alternatively some governments have entered into contracts or placed legal requirements on the number of post offices required. Obligations can be a requirement to maintain a specific number of outlets (e.g. Australia, Germany and New Zealand) or a specific density of outlets (e.g. Belgium, Finland, France, Hungary, Italy, Netherlands, Norway, Sweden, Switzerland and the UK).

The provision of GPL’s Retail Network is covered in the company’s Customer Charter where the company expresses the view that every Guernsey resident should have a Guernsey Post retail facility within a 2 mile radius of their home. In addition the company endeavours to maintain easy access to stamps outside its retail network. There are currently over one hundred supermarkets, garages, stationers, local stores which stock booklets of stamps for local and UK addresses.

Table 2 below compares the provision of post offices within Guernsey against a number of smaller jurisdictions.

Table 2: Provision of Post Offices in Selected Countries⁴

Industrialised Country	Area of territory (km²)	Number of post offices	Average area per permanent post office (km²)	Population	Average inhabitants per post office
Farøe Islands	1,399	33	42.39	47,000	1,416
Gibraltar	6	3	2.00	28,000	9,294
Guernsey	78	12	6.50	60,000	5,000
Isle of Man	588	31	18.97	77,000	2,475
Jersey	116	21	5.52	88,000	4,190
Liechtenstein	160	12	13.33	34,000	2,850
Small States	2,347	112	21.0	334,000	2,982

The twin issues of the provision and funding of post offices is not just isolated to Guernsey. A Postcomm survey⁵ in 2005 noted that all of the postal operators it examined reported a profit in 2003 or 2004, but that as not all postal operators separate the post office network accounts from other business activities it is not possible to determine in the national network’s are themselves profitable. Some operators however have specifically reported that their networks are unprofitable (e.g. Belgium, Finland, Portugal, Switzerland and the UK).

In the UK there has been a significant reduction in the number of post offices in recent years⁶. Post Office Ltd estimated that there was around 35% over-supply of

⁴ UPU Database

⁵ Postcomm “Post Office Networks Abroad” October 2005

⁶ NAO Report for DTi “Financial Support for Post Offices” February 2005

post offices in urban areas of the UK, contributing to an environment of under-investment, and incurring losses for the company. The Department of Trade and Industry (DTI) in the UK approved Post Office Ltd's plans to close up to 3,000 post offices by the end of 2005 and provided financial assistance of up to £210m with the aim of creating a commercially viable network of urban post offices that provides sufficient access to services.

The National Audit Office has also concluded that a significant number of rural post offices in the UK are not viable businesses and the rural network is heavily loss-making for Post Office Ltd. Recognising the need to balance the DTI's role of shareholder with the wider policy objective of ensuring public access to post office services, the UK Government decided to maintain a rural network at least until 2006. The DTI agreed to provide financial assistance (the Social Network Payment) of up to £150m per annum to meet the Post Office Ltd's costs in keeping open the unprofitable element of the rural network and to promote innovative ways of providing postal services in rural areas.

From a Guernsey perspective it is interesting to note that Postcomm, the UK regulator of Royal Mail, noted that in its advice to the UK government that the problem of the public wanting a local post office, but not using it enough, would get worse in the UK⁷. Postcomm's review of the rural network found that:

- almost all rural post offices cost the company more to run (support costs plus the sub-postmaster remuneration) than the revenue they bring in;
- smallest branches make the largest losses in proportion to the income generated and have the smallest number of customers; and
- the profitable branches (about 10% of total and all of which are in larger rural areas) produce an average net profit of 1p per customer visit for the company.

Postcomm concluded that the UK Government needed to determine the services it wanted from the rural network and then make the necessary funding available. It could not expect Post Office Ltd to fund losses on a network far larger than it needs.

Both Postcomm and Postwatch considered that where customer numbers are insufficient to support a post office, local solutions must be found to provide post office services to disadvantaged groups, who are less able to adapt. Royal Mail's licence from Postcomm stipulates that Royal Mail must provide the public with a minimum standard of access to postal services. To satisfy this standard however, Royal Mail believes that a much smaller rural network of 2,000 access points would suffice and that this number could be sustained without financial support from the Government. Whilst access to services for vulnerable people is clearly of concern to the Government, Postcomm's research suggests that although the loss of a post office may be inconvenient and unwelcome, most people including the vulnerable, do adapt. The UK Government believe that more targeted support aimed at people's needs might be more effective than relying on post offices as a safety net for all vulnerable users.

⁷ Postcomm's Advice on the Future of the Rural Post Office Network, July 2003

The UK Government is due to review the level of its support for the post office rural network early in 2006. To inform this review the DTI asked Post Office Ltd to test new ways of delivering post office services in rural areas. Post Office Ltd has used pilot studies to test new and innovative ways of delivering services, reducing costs and improving revenue streams, maintaining and improving sustainability for sub-postmasters and helping to devise strategic approaches to rural service provision.

Guernsey faces many similar issues, but of course on a much smaller scale. In 2004 in reviewing GPL's first tariff change application the DG adjusted the company's attribution of retail network costs to the postal business by rejecting GPL's argument that the non-performing element of the retail business should be attributed to postal users. The OUR accepted the allocation of retail network costs associated with the resources spent accepting mail, selling stamps and dealing with inward parcels. The DG however was not convinced that GPL had provided sufficient justification as to why postal customers should subsidise the loss making aspects of retail post offices when it is arguable that an efficient operator of the retail business would in any event seek to reduce excess capacity by either increasing non-postal business, thus creating an income stream for the non postal part of the business or reducing the size of the network.

Clearly if the existing retail network is to be provided by GPL and the company has to recover these costs from postal prices then tariffs would be required to be increased.

In sections 5.3.1 and 5.3.2 below the OUR has set out two options regarding possible changes in the provision of retail outlets on the island of Guernsey. The DG does not consider it appropriate to contemplate any reductions in the provision of retail outlets on Alderney, Herm and Sark given the nature of the services currently available on those Islands.

5.3.1. Option E: Reducing Retail Outlets to five locations

Currently, GPL's service standard for provision of its retail network is defined by its own self-imposed Customer Charter – the idea is that each resident should be within a 2-mile radius of a post office (i.e. a manned postal access point). With Guernsey's relatively high population density, in some areas this ensures residents have access to one post office with other residents having access to up to seven because of the over provision. One cost-reducing measure might be to reduce the number of retail outlets in the Bailiwick from nine to five, with the remaining outlets located in areas of high population.

Possible implications for some customers of this option are:

- Greater distance for some users to travel to use a post office facility;
- Some reduction in access for posting large postal items, weighing of mail, purchase of value-added postal services, postal advice and other services such as banking and bill payment;

In 2002 Postwatch in the UK carried out independent research which showed that rural post office closures can have a profound effect on local communities in terms of impacting on independence, affecting community spirit and disadvantaging the elderly, disabled people and those without transport. Specifically Postwatch's research showed that:

- 75% of respondents felt that their local post office was “extremely important” to them;
- 59% thought their local post office was “essential” to their way of live; and
- 92% believed the local post office played “an important role in their community”.

The OUR has no reason to expect anything but similar responses from residents within Guernsey.

In this light it is interesting to note that Postwatch and Postcomm commissioned further independent research during 2005 after a number of rural post office closures to gauge the actual impact of the closures as opposed to the perceived impact. This survey showed that:

- 35% of people who lived in communities where a rural post office had closed felt that they had been affected personally a “great deal” or a “fair amount”.
- 40% had not been affected by the closure;
- 47% felt that the community had been affected a “great deal”; and
- 23% felt that the community had been affected a “fair amount”.

Costs would be saved through reduced facilities and staff. In addition, remaining outlets would be made more financially viable through increased custom. It is estimated that this option might offset price increases by between 0.5p to 0.8p per postal item.

5.3.2. Option F: Reducing Retail Outlets to three locations with a Mobile Post Office

As described above, GPL's current Customer Charter provides that residents should be within 2 miles of a retail outlet. Option F is more radical than the previous one in that it would see a larger reduction in post office outlets on the island, with two main retail outlets remaining open in addition to Envoy House providing a third outlet. As with option E, the services lost through closure would be supplied by one or more mobile post offices which would travel to those areas with no permanent premises. Possible implications for some customers of this option are:

- Greater distance for some users to travel to use a post office facility;
- Potentially, considerable reduction in access for posting large postal items, weighing of mail, purchase of value-added postal services, postal advice and other services such as banking and bill payment.

The provision of a mobile post office would help to address some of the consumers concerns which were outlined in section 5.3.1 above. The DG notes that mobile post offices have in fact been one of the alternative mechanism that the UK's Post Office Ltd have been trialling in a number of parts of its rural areas (including outlets supported by core branches at Enniskillen (Northern Ireland), Wick (Scotland) and Rhydlewis (Wales)). In fact Post Office Ltd has offered its services through post office vans in a limited number of locations for about four years. There have been initial teething problems were found and these have been addressed, but in Postwatch UK's view mobile services do offer a valuable service in areas where fixed branches are unsustainable.

Again, costs would be saved through reduced facilities and staff, although there would be incremental costs in the purchase of a suitable vehicle and the staffing of that resource. In addition however the remaining outlets would be made more financially viable through increased custom. It is estimated that this option might offset price increases by between 0.9p and 1.0p per postal item.

5.4. Maintain the Status Quo

Clearly a further option is simply the “do nothing” option and retain the USO in its existing form and without any changes in daily collections and deliveries, the provision of PO collection boxes and the provision of access points. This would mean that the existing minimum level of service would be maintained. The trade-off would be that any future increase in the company’s cost base would have to be passed onto consumers in higher prices (unless the GPL’s senior management is able to either increase revenues through new products, new services, and growth in postal traffic volumes or greater efficiency savings in its operations). The DG would then have to consider any future tariff application from GPL and would also anticipate any future tariff application to address the rebalancing of tariffs to reflect cost reflective tariffs (in particular any cross subsidy of the standard tariffs by the bulk mail sector).

5.5. Summary of Options

The options described in the previous section are summarised here. Some of these options are mutually exclusive e.g. the States could choose either option A or option B but not both. Some of the options could however be combined, for example interested parties might express a preference for option A, option D and option E. The DG invites all interested parties to comment on any of the options contained in the paper and indeed any additional options that they might identify.

Table 3: Summary of Options

Option	Description	Offset Future Price Increase⁸
A	Five-day deliveries and collections.	1.8p to 3.1p
B	Five-day deliveries/collections for town with alternate-day services for all other rounds.	0.3p to 0.6p
C	Removing c100 roadside collection boxes.	Up to 0.2p
D	Removing c70 roadside collection boxes.	Up to 0.1p
E	Reducing retail outlets to five locations.	0.5p to 0.8p
F	Reducing retail outlets to three locations with a mobile post office service.	0.9p to 1.0p
G	Maintain the status quo.	None

⁸ The offsetting of future price increases is expressed as saving allocated over local, UK and international flats, letters and packets (but excluding bulk mail products). If allocated savings were allocated 100% to local mail the savings would be higher per item. These figures however are estimates and used purely to illustrate the relative magnitude of possible savings.

The figures above demonstrate that on their own any savings they may deliver are unlikely to prevent further price increases in 2007. The DG emphasises that it is important to realise, therefore, that any change in the scope of the USO that may arise and be decided upon by the States following this consultation and any subsequent Policy Letter from the Department of Commerce and Employment is only likely to partially mitigate any price increases in the future.

6. The Timetable for the Consultation and the Review

As explained in section 4.2, considering changes to the Bailiwick's existing USO is one of several possible responses to the changed commercial environment in which GPL operates. The DG anticipates GPL submitting a further tariff application later this year. As part of the DG's consideration of that application he intends to conduct an independent efficiency review of GPL to ensure that the company only recovers efficiently incurred costs from its postal customers.

Responses to this OUR Consultation should be submitted by **5pm on 17th March 2006**. Following consideration of all responses, the OUR will prepare a report to Commerce and Employment with recommendations concerning any changes identified decided upon to the USO. If Commerce & Employment take any results of the consultation forward then the Department would submit a Policy Letter to the States, possibly for the States Meeting in June 2006.

If this means that there are to be any changes to the Bailiwick's postal USO, then this will result in a new Direction to the OUR from the States and both the OUR and GPL would take account of this in setting any new tariffs from 2007 onwards.

GPL would then have certainty on the scope of the underlying postal service which would need to be provided going forward and covered by the company's prices. This would form the basis of the company's forecast costs in the tariff application for new prices which are anticipated to come into effect from 1 April 2007.

ENDS/