



Office of Utility Regulation

Postal Services in Guernsey

Report on Findings of OUR Investigation and
Notice of Proposal to issue Directions to Guernsey Post
Ltd under Section 31 of the Post Office (Bailiwick of
Guernsey) Law, 2001

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1 Executive Summary

This document by the Director General of Utility Regulation (“the Director General”) reports on an investigation into a number of postal service failures experienced by customers of Guernsey Post Limited (“GPL”). The investigation was divided into the following three categories;

- Significant delays in the delivery of post over the period of December 2002/January 2003;
- Failure by GPL to provide consistent postal delivery to all addresses in the Bailiwick six days a week; and
- Inadequate customer complaint handling and information provision both during the service difficulties and in general.

Throughout this investigation, the Director General has had regard to the primary objectives of the Post Office (Bailiwick of Guernsey) Law, 2001, States policy as set out in States Directions to the Director General and the obligations on GPL pursuant to its licence issued on 1st October 2001. In summary those objectives are, that;

- Guernsey should have a high quality postal service that meets the minimum requirements set out in the universal service, including, but not limited to, delivery on six days a week; and
- The postal service should be provided in an economically efficient manner so that customers receive value for money and the service is sustainable and viable.

Thus the overarching requirement on the company is to deliver the universal postal service throughout the Bailiwick at the most economically efficient prices. This investigation has concentrated on the service delivery aspect and has not investigated the company’s cost base and its efficiency. These latter matters are appropriate to be considered in the context of pricing policies and levels and the Director General is developing a workstream to address this later in 2003 and during 2004.

1.1 *Finding of Breaches of Licence*

The Director General has concluded that GPL has breached a number of its licence conditions including failure to:

- operate and provide the postal services to a satisfactory standard in accordance with condition 14;
- ensure the accuracy and reliability of information in relation to services in accordance with condition 15; and
- meet the requirement to deliver post to each of the addresses in the Bailiwick on six days each week in accordance with condition 12 and the requirement to deliver a universal postal service as set out by the States of Guernsey in September 2001.

1.2 *Reasons for Breaches of Licence*

The investigation concludes that these breaches have occurred primarily due to a range of systemic shortcomings throughout the company which were thrown into sharp relief when the move to the new post office headquarters and the simultaneous mechanisation of the postal sorting operation happened in December 2002.

In summary the Director General concludes that the problems that the company experienced were due to;

- A general failure to properly forecast, plan and manage a range of functions in the company, including
 - Work flows for the collection, sortation and delivery of mail;
 - Labour resource planning and deployment (including working practices and agreements); and
 - Adequate resourcing and systems for addressing and recording customer complaints.
- The inability of the management and workforce to jointly agree and secure sufficient cooperation from the workforce, at a reasonable cost, to provide the necessary labour to guarantee either the basic level of service, or to cope with the service difficulties encountered at Christmas 2002;
- Inadequate project planning and management, in particular a lack of risk analyses and contingency planning, leading to decisions on a number of issues being based on inadequate information, in particular with respect to the move to Envoy House which triggered the service failure; and
- A failure of the corporate governance systems to identify the problems in the company, scrutinise decisions adequately and identify the need for remedial action in a timely fashion.

1.3 Proposed Directions to the company

Following the procedures set out in the Law, the report sets out a number of directions that the Director General proposes to issue to GPL in the light of these licence breaches. The directions fall into three broad groups; preventative and remedial measures, universal postal service targets and redress to customers. The implementation of the measures set out in the document must be carried out by the company having regard to the need to ensure the efficient provision, in terms of least cost, of the universal service.

1.3.1 Preventative and Remedial Measures

There are a number of detailed Directions to the company which are designed to ensure that GPL puts in place the missing procedures and operational systems, including contingency planning and resourcing plans, to meet its service requirements. These measures, many of which are based on actions that the company has already initiated, will, if adhered to, go towards ensuring that the service failure that occurred at Christmas 2002 does not recur. Failure to implement these measures or further service failures due to similar shortcomings will result in sanctions being imposed.

1.3.2 Universal Postal Service Targets

The company has indicated that there has been an endemic failure to comply with the requirement to provide a universal postal service in that the company has consistently failed to provide delivery to all addresses in the Bailiwick on six days each week over a significant period. The Director General has noted the company's proposals to rectify this situation, and in this case has set targets for GPL to reach compliance with its universal service obligation by 1 June 2003.

The formulation and implementation of measures to achieve this is a matter for the company but GPL is reminded that it has an obligation to implement any measures in an economically efficient manner. As such, any measures that increase GPL's cost base to a detrimental level with respect to existing prices will not be considered appropriate. Failure to achieve the USO targets set will result in the imposition of sanctions.

1.3.3 Redress to Customers

Finally, the Director General considers that the impact of the service failures on customers has not been adequately considered by the company in that GPL has not proposed to provide any specific redress to customers who suffered, or continue to suffer, due to its failure to meet its licence conditions. Given the fact that all postal users in the Bailiwick have been impacted, the Director General proposes to direct the company to provide all customers in the Bailiwick with reduced local postage charges for Christmas mail during the month of December 2003, for a full service, i.e. without any reduced priority or quality of service. Thus customers using the postal service for local Christmas cards in December 2003 will pay less than 50% of the ordinary stamp price for the service. The company shall bear this cost itself and shall not recover the cost through charges for other services.

1.4 Sanctions for non compliance

The Director General must follow the statutory procedures set out in Law before imposing any actions on the company or imposing any sanctions or penalties. However given the seriousness of these failures and the potential impact on Guernsey's economic reputation of any repeat failure, the report also sets out the possible next steps and sanctions that might be imposed by the Director General if the actions and Directions in this report are not complied with or if GPL fails to remedy the deficiencies. In considering these actions the Director General's primary objective is to ensure a viable sustainable and cost efficient postal service for Guernsey that meets the States' policy set out in States Directions and the legislation.

1.4.1 Removal of Exclusive Rights

The States of Guernsey postal policy requires the delivery of a universal service and also requires the Director General to issue to GPL, an exclusive licence insofar as that is necessary to achieve that universal service. Thus GPL is the only operator licensed to provide postal services below a value of £1.35 per item ("the reserved services"). Therefore, in common with postal operators worldwide, it is considered necessary to give the company the exclusive right to provide these services so that it can generate sufficient income to fund the provision of a universal postal service as set out in States Directions.

The removal of this exclusive right and the licensing of alternative operators to compete in the provision of reserved services could simply serve to dilute the company's ability to meet the universal service obligation in the short term, contrary to the policy objective.

Furthermore the licensing of a second operator and the imposition of a universal service obligation on that second operator is also unlikely to be successful where GPL

continued to be able to provide services in the reserved area, because the second operator could also face difficulties in generating sufficient income to fund the efficient cost of providing the universal service.

Therefore the Director General is not currently convinced that this would be the most appropriate action in the circumstances.

1.4.2 Revocation of Licence

In the event that the Director General concludes that GPL is unable to provide the universal service she may consider revoking the GPL licence, and the exclusive right to provide reserved services.

In order to ensure States policy is met it would then be necessary to license an alternative operator to provide the universal service and grant the appropriate exclusive rights to that operator to provide reserved services. This could be done by inviting interested parties from all jurisdictions to submit tenders to provide the Guernsey postal service. Tenderers could be invited to demonstrate their capability of delivering the universal postal service at the most efficient cost, as well identifying any other positive commitments or services they might provide. These could be evaluated with a view to identifying the tenderer that offered the greatest benefit to Guernsey and any commitments could be incorporated into the new licence along with appropriate performance guarantees, compensation payments or other measures where any commitments are not met. GPL could be permitted to tender along with other interested parties.

The Director General is currently minded to consider this option as the most appropriate in the event of continued failure to meet licence obligations.

1.4.3 Imposition of Financial Penalty

The Director General will also consider the imposition of financial penalties in accordance with the Law and the Licence having regard to the primary objective of ensuring a viable, efficient postal service for Guernsey and whether this measure would contribute to that objective.

1.5 Conclusion

In accordance with the legislation, GPL as the licensee, along with other interested parties, are afforded an opportunity to comment on the proposed Directions to GPL. The Director General will consider those comments before publishing her decision to issue any final Directions. Following the making of directions, GPL's compliance will be monitored and the Director General is empowered to invoke the sanctions available in the Law in the event of any failure in compliance.

For the avoidance of doubt, this report in no way fetters the Director General's discretion in relation to the final form of any Directions to GPL, any action the Director General may take in the event of non-compliance with the Directions; or the manner in which any action may be implemented.

2 Introduction

Postal services are of significant importance to any economy, but even more so when the economy is physically isolated as is the case for the Bailiwick of Guernsey. In common with the majority of the world, Guernsey has had a postal service that has been State run and State-owned for some considerable years – prior to 1969 it was run by the UK Government via its wholly-owned postal company Royal Mail, and since then has been run by the States of Guernsey via the Guernsey Post Office Board (“GPO”) and more recently Guernsey Post Ltd (“GPL”).

Postal services in Guernsey have gone through a number of changes over the thirty four years that they have been provided independently from Royal Mail, but over the past three years the pace of change has intensified. With the advent of the internet and e-business, the use of postal services has increased rather than declined as customers order goods to be delivered by post. In fact, in terms of daily mail per head of population, GPL handles significantly more mail items than the UK – 2.3 compared to 1.3 items per capita. Thus the importance of a reliable sustainable postal service has, if anything, increased in the Guernsey economy.

Another change affecting Guernsey is the fact that the postal service in the UK has been facing some very specific challenges as the UK postal sector is opened up to competition and new postal operators are licensed. The universal postal provider in the UK, Royal Mail, has been experiencing difficulties in adapting its operation in preparation for the development of competition and is working to revise how it provides its core business. As GPL services are in effect provided in partnership with Royal Mail, the changes in the UK are of particular importance to Guernsey. GPL has been in the process of negotiating changes to its contract with Royal Mail for the handling of mail items and these negotiations which are scheduled to conclude in the near future, will set out the framework for the working between Royal Mail and GPL for some years to come in terms of prices and services.

Other significant changes locally include the mechanisation of the local postal service and the relocation of the GPL operation to new premises, involving a change in the way GPL carries out its core function including changes to working practices. Also, the Office of Utility Regulation (“OUR”) has commenced a public consultation process in preparation for the imposition of a new Quality of Service regime, including targets, monitoring and measuring and implementation¹ which will affect the daily operations of the company.

Against this backdrop of change, both externally and within GPL, a significant breakdown in customer service occurred in December 2002 and January 2003, which prompted this investigation by OUR. The investigation has focussed on

- identifying the reasons for the service failure;
- establishing the degree to which the failure has been corrected and where this has not been achieved, what further measures are necessary;

¹ See Document OUR 03/04: Guernsey Post: Quality of Service – Consultation Paper

- setting out the key issues that need to be addressed by GPL to ensure that there is no recurrence of the factors leading to the service failure along with an action plan and timetable for those actions; and
- ensuring that there are measures in place that guarantee a firm base line of universal service delivery including measures to ensure the stability and continuity of service in future.

Given the time available, it should be stressed that this is not an operations review of the company and does not purport to provide a detailed blueprint for how to run a postal service. The provision of service remains a core competence and responsibility of GPL.

The rest of this paper is organised as follows:

Section 3 – describes some of the relevant background events including licensing and legislation, the history of the establishment of GPL and the events leading up to the investigation;

Section 4 – sets out the scope of the investigation and describes the process of the investigation;

Section 5 – summarises the Director General’s findings in the investigation into the delayed and backlogged mail over December 2002/January 2003 and sets out various Directions that it is proposed to issue;

Section 6 – summarises the Director General’s findings in the investigation into the customer information and complaint handling processes of GPL during this period and sets out various Directions in this case;

Section 7 – summarises the Director General’s findings in relation to a failure to provide the universal service and includes a proposed Direction;

Section 8 – concludes the paper with an explanation of the next steps as well as setting out another proposed Direction in relation to redress to customers.

3 Background

This section sets out the legal framework within which GPL provides services and OUR regulates those services and goes on to summarise the sequence of events leading to this investigation.

3.1 Legal and Licensing Regime

The Post Office (Bailiwick of Guernsey) Law, 2001 (“the Postal Law”) and the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001 (“the Regulation Law”) together comprise the primary legislative basis for the regulation of postal services in Guernsey. Copies of the legislation are available on the OUR website at www.regutil.gg, and the following paragraphs describe some of the key provisions.

3.1.1 Licensing Framework

The 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, postal services that are provided for a price greater than £1.35 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”. This is defined in an Order made by the Director General in accordance with section 9 of the Postal Law³.

To provide these reserved services, an operator must hold a licence issued by the Director General. Furthermore GPL is the only operator licensed to provide these services in Guernsey. This is so that the company can meet the requirement to provide a specific Bailiwick-wide universal postal service.

The Director General may specify the conditions to be included in a licence issued under the Postal Law. Prior to October 2001, the Director General consulted on the terms and conditions that should be included in a licence issued to GPL. Following this consultation a licence was issued to GPL on 1st October 2001 and the terms and conditions were published on the OUR website⁴.

3.1.2 States Directions

The Regulation Law provides that the States of Guernsey may issue States Directions to the Director General on a number of specific areas, thus setting out overall government policy for the postal sector which the Director General can then implement within the legislative framework described above. States Directions can be issued 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.

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

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

⁴ Document OUR 01/20: Postal Licence Conditions

The Universal Service Obligation

In September 2001, the States issued Directions to the Director General that required the Director General to issue the first licence to provide universal services to GPL. At the same time the States set out the universal service obligation 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.”*

The Reserved Area

Having described the universal service, the States directed that GPL should be provided with the exclusive right to provide reserved services insofar as this is needed to enable and ensure the universal postal service is delivered. The relevant States Direction states:

“The Regulator shall reserve services to be exclusively provided by the Universal Service Provider to the extent necessary only to ensure the maintenance of universal service, and shall review and revise the reserved services from time to time with a view to opening up the Guernsey postal market to competition consistent with the need to maintain the Universal Service”.

In compliance with this Direction, the Director General signed the Post Office (Reserved Services Order), 2001 in October 2001 in which the provision of all services provided for a sum below £1.35 was reserved to GPL in order to ensure the continuity of the universal service.

Thus States policy on the universal service and the degree of competition in the postal market was set out in September 2001. The full text of these directions is available from the government website www.gov.gg where States Resolutions for 2001 are published and in the OUR annual report available at www.regutil.gg.

3.2 Licence Conditions

This section summarises some of the licence conditions that are relevant to the matters raised in this investigation.

Condition 2.1: provides that the Licensee shall enjoy the exclusive right to convey the reserved services as defined by the Director General by Order in accordance with Section 9 of the Postal Law;

Condition 2.3: provides that the Licensee shall notify the Director General of the occurrence of any fact or event likely to materially affect the Licensee's ability to comply with any Condition of the Licence;

Condition 4.1: provides that the Licensee shall provide to the Director General in the manner and at the times required by the Director General, any documents, accounts, returns, estimates, reports or other information required by the Director General;

Condition 5: provides that, in addition to the Conditions set out in the Licence, the Licensee must comply with;

- (a) any obligation imposed on it by the Laws or by any law, regulation, rule or Ordinance, and
- (b) any direction duly issued by the Director General under a Law or by any law, any regulation, rule, Ordinance or the Licence;

Condition 12.1: provides that where so directed the Licensee shall provide in the Bailiwick of Guernsey the Universal Service set out in the States Direction issued in accordance with Section 3.1(b) of the Regulation Law, as amended, modified or replaced from time to time. The Licensee shall comply with any direction given from time to time by the Director General in respect of the Universal Service Obligation; and

Condition 14.1: requires the Licensee to develop and operate the Postal Facilities so as to progressively achieve standards in line with international best practice during the Term;

Condition 15.9: requires the Licensee to submit reports on the application of the consumer code showing;

- (a) the extent to which the Licensee has succeeded in meeting the targets set out in the complaint procedure;
- (b) the compensation that has been paid to Users of Postal Services in relation to complaints that were found to be valid, and why complaints were dismissed; and
- (c) such other matters that the Director General directs should be included in the report.

Condition 15.11: requires the Licensee to ensure the accuracy and reliability of any systems, equipment, data or procedures which the Licensee uses to measure or to track the provision of Licensed Services or for the calculation of related charges.

3.3 Compliance

Compliance with the Licence and the Laws is the responsibility of GPL. The primary objective of the licensing regime is to ensure that GPL has a clear set of rules and to provide tools to enable the Director General to monitor and enforce those rules in both the short term and long term interests of consumers, including having regard to the continuity and viability of the postal service in Guernsey.

In the event that GPL is found to have breached its statutory obligations there is a range of measures that can be adopted. This section briefly summarises those measures which are largely set out in Part VI of the Postal Law.

3.3.1 Actions to Remedy Breach

In the first place, where a licensee is in breach of a licence condition, the Director General, having given notice to the licensee of the breach and of her intention to issue any Directions in relation to the breach and allowed a period for response by the licensee, may issue a Direction to the licensee requiring it to take action to remedy the breach (section 31 of the Postal Law). This provision enables the Director General to require the company to take direct action in relation to customer affecting issues. Thus the regulatory regime, rather than concentrating solely on ex-post “punishment” of failures or licence breaches, can look to the best way to remedy any such failures or breaches in a targeted way.

3.3.2 Direct Imposition of Penalties

Where any Direction has been made under section 31, a failure to comply with that Direction is an offence and the Director General may impose any penalty available under the Postal Law or the licence. Penalties that the Director General may impose directly are set out in section 32 of the Postal Law and include:

- suspension of licence;
- revocation of licence; and
- imposition of a financial penalty on the licensee of an amount up to 10% of the turnover of the company.

The law also provides for the procedure to be followed in the event of a decision to impose a penalty, including notification of and representation by the licensee, and a right of appeal by the licensee against decisions. Thus the regime provides that where direct action fails, penalties may be imposed and recognises a range of such penalties. Clearly financial penalties will impact on shareholder value and cause the company to have to find financial resources to meet any such penalty. Revocation or suspension of a licence are penalties to be considered as extreme measures as this involves consideration of how services might be provided by an alternative licensee.

3.3.3 Criminal Proceedings

Alternatively or in addition to the above, the Director General may take proceedings against the company for breach of licence under section 25 of the Postal Law and if the court finds the company guilty, the penalties that it may impose include:

- on conviction and indictment, imprisonment for a term not exceeding two years, or a fine of an amount to be set by the court, or both; and
- on summary conviction, imprisonment for a term not exceeding six months, or a fine not exceeding level five on the uniform scale or both.

3.3.4 Injunctions

The Director General may also seek an injunction in the Royal Court against a licensee where there is a likelihood of a repeat offence or where there is the possibility of an offence occurring (section 6 of the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001). Such an injunction would be enforceable by the Court and penalties for breach of an injunction would be those available to the Court.

3.3.5 Conclusion

Clearly, a breach of Licence could have a significant effect on consumers, or on competition in the postal market where that were relevant, and the Director General would, in considering the most appropriate penalty, take all relevant matters into account including:

- the effects of the breach and whether those effects could be reversed;
- the seriousness of the breach;
- the degree to which the action by the licensee was reckless or deliberate;
- any action that the licensee took to remedy the breach;
- the period of time for which the contravention continued; and
- all other relevant matters set out in the Laws.

3.4 Events leading to Investigation

3.4.1 Background

As described earlier, the Director General consulted publicly on the terms and conditions that should be included in any licence issued to GPL, and following that consultation, issued a licence to GPL on 1st October and published the terms and conditions on the OUR website⁵. This licence, along with the various States Directions, the legislation and the Reserved Services Order, sets the operating framework for GPL.

There have also been a number of other activities that have taken place over the past year which are of relevance in the context of this investigation, including;

- The GPL relationship with Royal Mail is going through a significant change as Royal Mail seeks to prepare itself for competition in its UK market, and the quality of service that GPL can expect from Royal Mail along with the prices for the services from Royal Mail were under review during 2002. This process is expected to be completed in 2003;
- The mechanisation of the mail sorting process which took place at the end of 2002 changes the methods and capabilities of the company at processing, measuring and monitoring its operations; and
- In January 2003, the OUR launched a public consultation on quality of postal services in the Bailiwick of Guernsey.

⁵ Document OUR 01/20: Postal Licence terms and conditions

3.4.2 December 2002 / January 2003

From the start of December 2002, postal customers within the Bailiwick began to experience degraded service level with respect to delivery times. Key concerns that were raised related to:

- Delays in the delivery of Bailiwick to Bailiwick mail;
- Delays in the delivery of incoming mail from the UK and elsewhere; and
- Alleged late delivery of outgoing mail (to the UK and elsewhere).

The Director General initiated contact with the GPL in early December and received assurances that the arrangements in place for the Christmas period would be adequate to ensure the delivery of all mail. Throughout December further assurances were received that all Christmas mail would be delivered on time. Similar assurances were given to the public and the media.

It was clear by December 25th that not only had all Christmas mail posted by the advertised latest Christmas posting times not been delivered, but there remained a considerable backlog of mail in the GPL sorting office that had not been delivered to addresses. Over this period and going into the new year, customers also experienced considerable difficulty in making contact and communicating with the company and often had to leave messages on voice mail and wait for the company to return their calls.

At the time the OUR considered that it was essential and in the best interests of consumers that GPL focused all available efforts and manpower on resolving the short term operational difficulties in order to alleviate the detriment to postal users as quickly as possible. On 3rd January 2003⁶, the Director General announced her intention to launch a formal investigation into the difficulties, but in the meantime to require daily monitoring of the mail backlog and a number of other measures and for the company to provide regular reports to the public on the progress in delivering the backlog. These measures were designed to provide maximum focus on addressing the immediate difficulties. The backlog was finally cleared on 22nd January 2003.

In published document OUR 01/03 the Director General noted that once the backlog had been cleared, GPL management would be able to assist OUR in its investigation into the causes of the problems that had been experienced over these two months.

Over this period as well as the general dissatisfaction expressed by customers, a number of individual complaints were raised by customers with OUR which the Office pursued with GPL. These complaints were not solely about the delay of the mail, but raised questions and concerns regarding other aspects of the quality of the postal service that had been provided within the Bailiwick over a number of years including amongst others: repeated misdeliveries of correctly addressed mail, problems with redirection services and late deliveries.

⁶ See document OUR 01/03: Postal Quality of Service in Guernsey: Information Notice

4 Scope of the Investigation

4.1 Issues under investigation

The initial purpose of this investigation was to identify the reasons for the systemic delivery service failure that arose in December 2002 and January 2003 at GPL with a view to requiring the company to put in place actions that ensured that these operational problems do not recur in the future and take any other action that might be constructive in restoring services to the public. The OUR's consultation paper on GPL's Quality of Service⁷ which was published on 31 January 2003 addresses a range of other issues that were raised by customers in representations to OUR (see section 3.4.2).

During the monitoring of service delivery that was carried out as part of this investigation, OUR became aware that in addition to the overall service difficulties, GPL was failing to meet its obligation to provide a universal postal service. In particular, GPL was failing to make daily delivery of mail (six days a week) to the 27,000 addresses within the Bailiwick as it is required to in accordance with States Directions and its Licence. Therefore the investigation was broadened to address this issue.

Thus the scope of this investigation is therefore the consideration of:

- GPL's delivery service failure over December 2002 and January 2003;
- GPL's customer complaint handling and information provision during that period and its systems for these functions generally; and
- GPL's failure to comply with its universal service obligation with respect to daily delivery of mail to all households.

In assessing each of these issues the Director General's investigation includes:

- Identification of the reasons for the breakdown in service;
- A review of the steps that GPL proposes to take to ensure that this breakdown in service does not occur again;
- An assessment of the adequacy of GPL's proposals;
- If necessary Directions to the company to take additional actions;
- How the Director General will monitor the implementation of the company's action plan; and
- Any other actions that the Director General considers appropriate in each case.

This investigation concentrates on establishing a postal service that Guernsey needs, economically and socially, and seeks to achieve positive outcomes for postal users, and for the postal market in Guernsey. However, the Director General notes the severity of the impact this failure had on customers and she will take whatever actions might be necessary to safeguard against a further failure. Section 8 contains further information on this issue.

⁷ Document OUR 03/04: Guernsey Post: Quality of Service – Consultation Paper

4.2 Investigation process

4.2.1 December 2002 and January 2003 Investigation

On 3rd January 2003 the Director General wrote to GPL requesting the company to provide a full report on the reasons the delivery difficulties occurred in the first instance and the measures that the company was putting in place to ensure that these delivery service difficulties did not recur.

On 23rd January 2003 GPL provided two reports to the Director General entitled the “Issue and events leading up to postal operation difficulties during Dec 02/Jan 03” and “Report on the Transition move of Guernsey Post Ltd Automation Project.”

Following receipt of these reports, the Director General prepared a detailed list of follow up questions which was put to GPL on the 4th February 2003. GPL responded to this additional information request on the 7th February 2003 with a number of letters and documents. GPL provided a response to one outstanding issue on 19th February 2003 and confirmed its position on the 25th and 27th February 2003. This documentation and information forms the basis for the investigation findings as described in section 5.

4.2.2 Customer Information and Complaint Handling

On 3rd January 2003 the Director General wrote to GPL requesting a full report on the company’s complaint handling and customer information provision processes and systems with particular regard to the breakdown in service over December 2002/January 2003. However related information requests were also in place at the time dealing with general customer care issues. On 3rd February 2003 the company responded with a report on customer complaint handling at GPL which prompted a series of detailed supplementary questions which were relayed back to the company on 6th February 2003. On 20th February 2003, GPL provided its final comprehensive response to the OUR’s investigation. Section 6 addresses this in more detail.

4.2.3 USO Investigation

On foot of information received from GPL, the Director General wrote to the company on 5th February 2003 pointing out that the data provided by GPL for the period 10th January to 30th January, showed that GPL had repeatedly failed to provide one delivery of letter mail to all addresses on Guernsey on six days a week. The information showed that over a period of 18 working days, 17 of GPL’s 67 delivery rounds on the island of Guernsey had between one and three working days without a delivery of mail. OUR requested an immediate explanation and response. GPL responded in writing on 7th February and 14th February. On 18th February 2003 a further information request was sent and GPL responded on 21st February 2003. This area of the investigation is described in section 7.

4.3 Conclusion of Investigation

The Director General would like to thank GPL for its cooperation throughout this investigation and for its efforts in responding to extensive information requests. Furthermore, the Director General believes that the company has made significant progress in identifying the core reasons for the various service failures that are the subject of this investigation, and the actions that the company is now beginning to put in place to remedy those failures are to be welcomed. Each section of this report identifies those actions along with various additional actions that the Director General considers necessary.

The significance of the service breakdown over December 2002 and January 2003 and the systemic nature of the actions required to remedy the causes of the breakdown result in proposals by the Director General to impose requirements on GPL to carry out specific actions in the form of Directions issued under section 31 of the Postal Law and in accordance with Section 5(1)(e) of the Regulation Law. These Directions are at a highly detailed operational level, but the Director General believes that given the conclusions of this report, it is essential that every remedial step that GPL takes, including those that the company has itself identified and initiated, is confirmed by a Direction to the company so that there is a clear mechanism for monitoring and reviewing progress on these matters. These measures are set out in sections 5 and 6.

As a result, failure to comply with any one of these Directions will become a matter subject to the powers of the Director General under sections 31 to 33 inclusive of the Postal Law and all remedies set out in those sections will be available to the Director General in the event of any further failures.

With regard to the failure to provide a universal postal service in accordance with its licence, the Director General considers that progress in remedying this can be measured clearly and transparently by quantifying the number of completed deliveries and successful “calls” on each working day. She therefore proposes to direct the company to meet specific targets, but will not provide detailed operational Directions in this instance. This Direction is set out in section 7 and failure to meet the targets will become a matter subject to the powers of the Director General under sections 31 to 33 inclusive of the Postal Law.

Given that the service failure impacted on all postal users in the Bailiwick, the Director General also proposes to direct GPL to provide certain local mail services at a reduced price during the month of December 2003. This is set out in section 8 where the various remedies available under these sections and the actions open to the Director General are also set out.

Some of the information provided by GPL during this investigation is considered by the Director General to be commercially confidential, particularly information relating to the company’s discussions and negotiations with its commercial partners and its workforce. Where such information has been provided it has not been included in this published report. However, a full version of the report, including the confidential information, has been furnished to the company.

5 Delays and Backlog of Mail

This section of the report starts by summarising the operational problems experienced by GPL over December 2002 and January 2003 and the impact these had on the quality of service provided by GPL. It goes on to identify the key causes that have been identified by the company for the breakdown in service over the Christmas period, along with any additional factors identified by the OUR in its investigation.

5.1 Scale and Impact of Operational Failure

Following the move of the postal operation from Guelles Road to Envoy House at the beginning of December 2002, GPL began to experience operational difficulties in processing inward mail from the UK and local to local mail (i.e. intra Bailiwick mail). Over that first week in December GPL had received over 760,000 mail items (406,000 from Royal Mail and 356,000 from within the Bailiwick), however GPL had only been able to deliver 616,000 items of mail. By Sunday 8th December the backlog of mail awaiting sorting and delivery had risen to 146,000 items. Over the next seven days GPL received 915,000 items for delivery within the Bailiwick, but again was only able to deliver 766,000 items and by Sunday 15th December the backlog had risen to 295,000 items.

In response to rising customer dissatisfaction and concerns, GPL attended a public Consumer Group meeting on the 19th December at the Duke of Richmond Hotel. During the course of this meeting GPL gave a public commitment that all local mail posted by the advertised latest posting times for Christmas would be delivered before Christmas Day. However by the end of that week (Sunday 22nd December) the backlog of mail at Envoy House had risen further to 343,000 items. In the following week, the backlog rose slightly to 354,000 mail items. On December 28th GPL announced, contrary to its statement on the 19th, that it had not been able to deliver all Christmas mail by the 25th.

On Saturday 4th and Sunday 5th January 2003 GPL received from Royal Mail 123,000 mail items and 118,000 mail items respectively (compared with average volumes of almost 61,000 per day during December). With no Sunday delivery that week the backlog of mail peaked at 514,000 mail items. Over the course of the next week GPL received 594,000 mail items and delivered 797,000 items, reducing the backlog of mail to 311,000 which was further reduced in the following week when the operation returned to normal levels.

Over the course of this period all mail leaving the Bailiwick was processed normally by GPL and handed over to either Jersey Post or Royal Mail for delivery. However the problems with inward bound mail impacted consumers and businesses within the Bailiwick in a variety of ways including *inter alia*:

- Many Christmas cards despite being posted by the latest delivery date were not actually delivered until after Christmas and on occasion were not delivered until after Twelfth Night. The delay of cards and presents caused considerable distress and inconvenience;
- Some residents in the Bailiwick also suffered financial loss with credit card statements sent from the UK not arriving in time for payments to be made and

- as a result credit card holders who had not contacted their credit card company to alert them of the problems within Guernsey incurred interest charges; and
- The cash flows of businesses within the Bailiwick were adversely affected as orders, invoices, and payments sent through the post were delayed and not received on time.

In addition to the impact on individuals, the delays in the delivery of post impacted negatively on the overall image of Guernsey as a jurisdiction with the competence and capability to provide a key utility service on which many businesses rely heavily. Many businesses sought alternative means of ensuring their post was transmitted and delivered on time, but in general the Director General believes that the absence of a reliable and efficient postal service had an unquantifiable but definite impact on the overall economy by denting business confidence and the perception of the Guernsey economy generally.

5.2 Reasons for Operational Failure

The OUR has reviewed the various reports and correspondence from GPL in which the company sets out its assessment of the underlying reasons for the operational problems. In addition, the OUR has reviewed extensive background information provided by GPL in response to information requests, including board papers and internal reports.

In summary, it is clear that the service breakdown arose due to a series of factors which occurred simultaneously. The catalyst was the decision to move to the GPL new premises – Envoy House – on 2nd December 2002, just 23 days before Christmas. When combined with various other factors such as; lack of contingency planning, absence of forecasting and planning processes, new working practices, shortage of resources, and mechanisation, the resulting detrimental effects on service quality were felt by all postal users in the Bailiwick.

5.3 Project Management of Move to Envoy House

5.3.1 Contribution to Service Problems

GPL has stated that the move to Envoy House comprised three main projects:

- The construction of the new premises itself;
- The installation of the Siemens mechanisation equipment; and
- The transfer of operations and staff from Guelles Road to Envoy House.

The physical construction and equipping of the new building was managed by King Sturge – consultants appointed early in 2001 – and the handling of this part of the move was concluded successfully in the view of GPL. Similarly, the installation of the mechanisation equipment was provided by the external supplier - Siemens - as part of a standard installation and commissioning package. Once again, GPL considers that this was completed successfully, meaning that the physical aspects of the move were effectively handled and did not in themselves contribute to the delays. However, there were some issues with the mechanisation aspect of the move that, in the Director General’s view contributed to the delays and this is addressed in section 5.4 below.

The third aspect of the move, the actual relocation of the postal operation and staff to Envoy House, was managed directly by GPL. The company acknowledges that the project was carried out without sufficient, if any, formal project management in place. Deficiencies identified include:

- The absence of a standard project management methodology;
- Consequently, a lack of adequate project documentation;
- No risk analyses were carried out to identify potential difficulties in the project; and, as a result
- No contingency plans were put in place to address any problems that might arise in the process.

Consequently GPL recognises that in making the decision to move to new premises the company overestimated its capabilities to implement successfully a major change management initiative.

GPL's explanation is supported by the other documentation and evidence provided to OUR. The Director General agrees that the absence of any proper planning for the move led to the company making a decision to move without sufficient understanding of the potential for the project to be successful. As problems did in fact arise, the lack of pre-planning became obvious when no contingency plans were available to deal with those problems.

5.3.2 Proposed Remedy

GPL has acknowledged this deficiency in the company and has instigated a plan to adopt a standard company-wide approach to project planning using the PRINCE methodology. The company has undertaken to adopt proper project management for all future projects.

The Director General is disappointed that the company did not properly manage a project of this magnitude and believes the lack of overarching project planning and management was a key factor in the breakdown. The introduction of a standard and proven project management process is accepted by the Director General as the most appropriate response and preventative measure in relation to future projects within GPL.

Therefore, in the event of any future service problems GPL will be required to demonstrate how its project management approach was adopted in all projects impacting on service delivery. Given this opportunity to redress the situation, where the absence of appropriate planning causes service problems in the future, this will be considered as a repeat failure and any penalties or sanctions will be applied accordingly.

Finally, the Director General notes that projects of the magnitude of the move to Envoy House are unlikely to occur on a regular basis. However, the adoption of a rigorous project management approach to all projects should be an essential part of the company's operations.

5.3.3 Director General's Conclusion and Proposed Direction

The Director General concludes that GPL has breached condition 14.1 of the GPL licence. That condition requires the company to “*develop and operate the Postal Facilities so as to progressively achieve standards in line with international best practice*”. However, the actions by the company in this instance in fact led to the deterioration in the operation of the Postal Facilities and lowered the standard of service.

Proposed Direction 1

In accordance with Section 31(3) of the Post Office (Bailiwick of Guernsey) Law, 2001, the Director General hereby gives notice of her intention to issue a direction under Section 31(2) of that Law to GPL to require the company to:

- adopt an effective project planning methodology for all projects carried out by the company that affect its provision of Licensed Services; and
- maintain adequate records of all project plans so as to enable the company to demonstrate to the Director General, on request, the approach adopted, the risk analysis undertaken the contingency planning and all other matters relevant to the decision making which affects the provision of Licensed Services; and
- provide to the Director General, on request, copies of the project planning methodology and project plans and such other information as the Director General may request.

The Director General proposes that this direction shall take effect immediately.

For the avoidance of doubt, this is in addition to and without prejudice to condition 15.11 of GPL's licence.

5.4 Mechanisation Project

5.4.1 Contribution to Service Problems

The move to Envoy House also coincided with the installation and operation of new sorting equipment. As mentioned above, GPL consider that the installation and testing of the equipment by Siemens, the manufacturers, was successful. However, some difficulties were encountered with the project which did contribute to the delays, and the Director General believes these arose, once again due to the lack of a rigorous planning process and associated testing, the failure to carry out a proper risk analysis and the absence of contingency planning. This is demonstrated by the sequence of events that took place over December 2002.

First, Siemens indicated that mechanisation equipment should have a read rate of 69% from the Optical Character Recognition (“OCR”) software installed on it and GPL's own acceptance tests at installation confirmed this. These tests involved the trialling of the equipment with outward mail to the UK and inward mail from the UK, both of which achieved results better than the 69% forecast. However, GPL did not conduct any tests on local mail as a stand alone mail stream notwithstanding the fact that the company was aware of the low usage of postcodes for local to local mail despite the company's postcode awareness campaigns earlier in the year. Thus the company did

not adequately plan for and test for factors that it was aware had the potential to impact on its operations.

In the event, due to the low postcode usage the mechanisation equipment was only able to achieve a read rate of 44%⁸. Over half of the mail for delivery in the Bailiwick therefore needed to be sorted manually. This factor, when taken in conjunction with the fact that guaranteed labour available was already low (see Section 5.7 below), contributed to the delays.

Second, the company did not make sufficient use of alternative capabilities within the mechanisation project that might have mitigated the effect of the low postcode usage. In particular, when the OCR facility on the sorting equipment cannot read a postcode on an envelope then there is a “video coding facility” which provides a means for the letter still to be sorted by the machine rather than be rejected for manual sorting. However the video coding facility was not brought into operation prior to the Christmas period. The company states that due to the delay in moving to Envoy House and the reassignment of duties it was not clear to management which postal personnel would be available for the processing section until 30th November which would not have given sufficient time to train the staff. Management had been operating and training on the video coding units, but decided to forego this facility to concentrate their attention on other areas once the backlog emerged.

In addition, there was no contingency plan to enable the facility to be brought into operation at short notice when the problems began to manifest themselves. It is acknowledged that the use of video coding would not have eliminated the problem of rejected mail, but it may have reduced the volume of rejected mail that needed to be manually sorted and which contributed to the backlog of mail. Therefore, whilst one of the primary reasons for moving from Guelles Road to Envoy House was to enable the mechanisation to be deployed in the handling of the Christmas mail it was clear the unavailability of the video coding capability meant that it was not possible for GPL to utilise the mechanisation equipment to its full potential over the Christmas period.

In conclusion therefore, the company experienced low efficiency rates with the equipment on local-to-local mail due to the failure to:

- test the equipment on local to local mail to identify the actual read rates for local mail;
- measure the efficacy of its postcode awareness programme to identify the potential volumes of mail that would be rejected;
- maximise the equipment’s efficiency prior to Christmas 2002 by commissioning the video coding facility, and
- put in place contingency plans, either to raise greater awareness of postcode usage or to deal with the resulting backlog of mail requiring manual sorting.

⁸ In this context it is worth noting that at the start of January 2003 Income Tax returns were sent out by the States and were generally delivered on the next working day causing some public resentment and scepticism. The reason for this was that as a major mailer the States Income Tax Authority was one of the few major posters on the island who had availed itself of the assistance of GPL during 2002 and had obtained the correct postcodes for its customers.

5.4.2 Proposed Remedy

Improving the Quality of the Mail

In order to minimise the volume of rejected mail and realise the benefits of the investment in the mechanisation GPL is now planning a number of initiatives. First, in order to promote the use of postcodes which will improve the “quality” of the mail so that it is readable by the machinery, the company has announced the following steps:

- The publication of a Directory of Postcodes in April 2003;
- Amending the website to make locating postcodes easier; and
- Assisting major mailers with the postcoding of their address and mailing lists.

GPL announced on 19th February 2003 its intention to publish a Directory of Postcodes with an electronic version on CD for the business community and provide a Bailiwick postcode search engine on the updated Guernsey Post website (www.guernseypost.com). GPL has also provided the OUR with a project plan for the publication of the Directory of Postcodes which specifies actions, responsibilities and deadlines necessary for the document to be published in April 2003 and the Director General welcomes this information and believes that, if the plan is followed as specified, the target publication date can be achieved.

GPL believe these actions will encourage postcode usage by a target rate (which they have yet to determine) and to reach that target improvement by a date (which has also yet to be determined) but which GPL acknowledge should be well before December 2003.

Improving the Performance of the Equipment

Second, GPL has identified steps that can be taken to improve the performance of the equipment itself. Specifically, GPL plans to have the video coding facility installed and available for testing using live mail in April 2003. This should ensure that the Siemens equipment is fully operational and using the video coding facility as a back up to the OCR capability, thereby reducing the number of rejected letters.

The Director General does not consider that GPL had sufficient reason for not implementing the video coding facility in time for the move to Envoy House and although the impact is unquantified, believes that the lack of availability of the facility contributed to the service failure.

However, the measures being adopted by GPL, when considered in conjunction with proper planning and monitoring, will contribute towards preventing a recurrence of the problem. The Director General is concerned that when describing these actions, GPL has not identified sufficiently clearly the milestones and deadlines for all of the actions to achieve the required objective, any targets for improved postcode usage or means of measuring this, or a definite implementation date for live use of the video coding equipment.

Therefore the Director General proposes to issue specific Directions on this matter as described below and will require GPL to meet any targets set as a consequence of the Direction as well as imposing a requirement for regular reporting from GPL against these targets.

5.4.3 Director General's Conclusion and Proposed Direction

The Director General concludes that GPL has breached condition 14.1 of the GPL licence. That condition requires the company to “*develop and operate the Postal Facilities so as to progressively achieve standards in line with international best practice*”. However, the actions by the company in this instance in fact led to the deterioration in the operation of the Postal Facilities and lowered the standard of service.

Proposed Direction 2

Therefore, in accordance with Section 31(3) of the Post Office (Bailiwick of Guernsey) Law, 2001, the Director General hereby gives notice of her intention to issue a direction under Section 31(2) of that Law to GPL to require the company to:

- Prepare detailed project plans outlining the main actions, responsibilities and deadlines for;
 - Updating the Guernsey Post website in relation to post code information;
 - Publishing the Directory of Postcodes; and
 - Assisting the major mailers within the Bailiwick with the deployment of post codes through the publication of the Postcode CD.
- Set postcode usage target levels and the deadline for achieving those levels.
- Prepare detailed project plans outlining the main actions, responsibilities and deadlines for installing the video coding equipment and providing the necessary training for staff in order for the equipment to be fully operational.
- Set an implementation date for live use of the video coding equipment.

The Director General proposes that this direction will come into immediate effect.

If the Director General is not satisfied that the project plans, actions and targets are sufficient to remedy this breach, she may direct the company as to the targets that it shall be required to meet.

In order to demonstrate compliance with this Direction, GPL is required under condition 4.1 of its licence to provide the following information to the Director General by 31st March 2003:

- The detailed project plans outlining the main actions, responsibilities and deadlines for;
 - Updating the Guernsey Post website in relation to post code information;
 - Publishing the Directory of Postcodes; and
 - Assisting the major mailers within the Bailiwick with the deployment of post codes through the publication of the Postcode CD.
- The postcode usage target levels and the deadline for achieving those levels.
- The detailed project plans outlining the main actions, responsibilities and deadlines for installing the video coding equipment and providing the necessary training for staff in order for the equipment to be fully operational.
- The implementation date for live use of the video coding equipment.

5.5 Operational Planning

5.5.1 Contribution to Service Problems

The planning and management of mail operations at peak volume times like Christmas is clearly of fundamental importance to the smooth and successful delivery of post, even in the absence of a complex change project taking place at the same time. While a change of the scale that was involved in the move to Envoy House and the introduction of mechanisation is unlikely to occur very frequently, Christmas, and indeed other peak mail volume periods such as Mothering Sunday and Easter, recur regularly. Therefore planning for these types of events is expected to be part of the overall core competence of a postal operator.

However, GPL states that few, if any, of the traditional Christmas planning activities that could be expected in a postal operator, have traditionally been undertaken by either the GPO or GPL over any Christmas period. The company stated that such planning activities were almost entirely lacking in December 2002 and has recognised that it failed to adopt a systematic and rigorous approach to planning and running the Christmas operation. While this is important under any circumstances, it was crucially important when major changes were being introduced at the same time. GPL has stated that planning for the Christmas workload for 2002 was confined to informally negotiating with the CWU to provide the overtime resources necessary to meet the mail volumes on a short term basis.

In addition, in reviewing its operational management systems, GPL has concluded that its existing reporting and control systems were revealed as inadequate and did not constitute a proper base from which to match labour resources with mail volumes.

The Director General considers that GPL has correctly identified the company's lack of operational planning as a serious contributor to the service failure. In particular the absence of proper forecasting and planning placed both management and the workforce in an invidious position when negotiating working practices and resourcing plans for the Christmas period and this is addressed further in section 5.7 below.

5.5.2 Proposed Remedy

In order to correct this factor and ensure there is no repetition of it, GPL has decided to review and change its planning arrangements for future Christmas operations. The review will involve developing a system which will compare with practice in Royal Mail. GPL's timetable for rolling out this operational model is based on the premise by the company that the Christmas planning would need to be addressed and finalised early in September 2003.

GPL has also decided to review and upgrade the mail operations reporting and control systems, in the form of a "Sorting Office Workplan" which will reflect best practice adopted by other operators and should improve the quality of basic operational data and facilitate future planning whilst monitoring compliance against quality of service targets.

The Director General believes the development of proper forecasting and planning procedures for handling mail is crucial to the effective operation of GPL, both at Christmas and other peak mail volume times. She considers that the action being

taken by the company is essential and that effective forecasting and operations management must be in place well before Christmas 2003. Furthermore in order to ensure that Christmas 2003 is properly planned for and managed, she requires further reports from GPL on the implementation of its planning process as described in section 5.5.3.

With regard to the Sorting Office Workplan, GPL has not provided sufficient details on how this project is to be implemented and the deliverables to be achieved. The Director General therefore requires GPL to provide the OUR with a detailed project plan outlining the main actions, responsibilities and deadlines for producing the Sorting Office Workplan.

5.5.3 Director General's Conclusion and Proposed Direction

The Director General concludes that GPL has breached condition 14.1 of its Licence. That condition requires the company to “*develop and operate the Postal Facilities so as to progressively achieve standards in line with international best practice*”. However, the actions by the company in this instance in fact led to the deterioration in the operation of the Postal Facilities and lowered the standard of service.

Furthermore she also concludes that GPL has breached condition 15.11 of the GPL licence which requires the company to “*ensure the accuracy and reliability of any systems, equipment, data or procedures with the Licensee uses to measure or to track the provision of Licensed Services*”.

Proposed Direction 3

In accordance with Section 31(3) of the Post Office (Bailiwick of Guernsey) Law, 2001, the Director General hereby gives notice of her intention to issue a direction under Section 31(2) of that Law to GPL to require the company to implement adequate operational planning systems for all mail handling periods, but in particular to establish a system for peak volume periods that incorporates at least the elements described in section 5.5.2 of this report, and that furthermore meets best international practice.

The Director General intends that this Direction will come into immediate effect and that GPL will be directed that the new systems shall be in place on 30th March 2003 and is used for all peak volume planning in the future.

Furthermore, the Director General proposes to issue a direction under Section 31(2) to direct GPL to develop and implement a Sorting Office Workplan that is comparable to international best practice and to implement and operate that plan by 30th April 2003.

In the event that the Director General is not satisfied with the above plans, she may direct changes to be made to those plans and the company shall comply and implement those changes.

To demonstrate compliance with this direction, in accordance with Condition 4.1 of its Licence, GPL is required to provide the following information by the following dates:

- By 30th April 2003: a summary of the system documentation and a copy of the operational model for planning for peak volumes of mail;
- By 30th September 2003: details of the agreed Christmas planning arrangements (i.e. the matching of forecast mail volumes with resources) for Christmas 2003;
- By 15th January 2004: a report on the implementation of the plan for Christmas 2003;

In addition, GPL is further required to provide the following information relating the Sorting Office Workplan by the following dates:

- By 31st March 2003: a project plan outlining the main actions, responsibilities and deadlines for producing the Sorting Office Workplan; and
- By 30th April 2003: a copy of the Sorting Office Workplan.

If the information above, or such other information as the Director General may require, does not satisfy the Director General of GPL's compliance with this Direction, the Director General may direct the company as to the targets it shall meet and the deadlines for achieving those targets.

5.6 Up Stream and Down Stream Operations

5.6.1 Contribution to Service Problems

The Director General considers that there is another operational matter which contributed to the service problems which, while it is implicitly recognised by GPL, has not been adequately addressed by the company.

It is clear from the events outlined in section 5.1 that there were a number of large influxes of poorly sorted mail from Royal Mail during December 2002 and January 2003. The absence of a forecast or management plan for these influxes of mail effectively contributed, in the Director General's opinion, to the delays in mail delivery. In effect, mail entering the Bailiwick, either directly from Royal Mail (i.e. from within the UK) or via Royal Mail (i.e. from overseas, excluding Jersey) was already several days old by the time it entered GPL's network and would already have been delayed even if GPL had delivered it the day the mail had arrived on the island.

The Director General concludes that this additional factor, which exacerbated the delays to the delivery on inward mail to the Bailiwick, stemmed from the fact that GPL has no quality of service agreement with Royal Mail. This means that Royal Mail has no obligation to a particular service level for mail either originating in the UK for delivery in the Bailiwick or for mail originating in the Bailiwick for delivery in the UK. Furthermore, in preparation for Christmas 2002, GPL did not appear to have in place adequate or any systems to communicate at an operational level with Royal Mail on a daily basis to agree processes and procedures to deal with such the expected volumes of mail.

5.6.2 Proposed Remedy

The Director General believes GPL has identified this as a factor when it proposes, in its Christmas planning system, to include measures to "manage up stream and down stream workflows with Royal Mail". The Director General will, when reviewing the

arrangements put in place, have regard to the measures that have been included to address this.

However the Director General does not consider that GPL has adequately addressed the need to obtain firm service level agreements from Royal Mail to help safeguard against this type of failure in the future.

5.6.3 Director General's Conclusion and Proposed Direction

The Director General concludes that GPL has breached condition 14.1 of the GPL licence. That condition requires the company to “*develop and operate the Postal Facilities so as to progressively achieve standards in line with international best practice*”. However, the actions by the company in this instance in fact led to the deterioration in the operation of the Postal Facilities and lowered the standard of service.

Proposed Direction 4

In accordance with Section 31(3) of the Post Office (Bailiwick of Guernsey) Law, 2001, the Director General hereby gives notice of her intention to issue a direction under Section 31(2) of that Law to GPL to require the company to:

- Develop a negotiation plan for its discussions with Royal Mail or other suitable contractors designed to lead to an agreement to service levels from Royal Mail or other suitable contractors that satisfy the GPL licence conditions;
- Investigate comparisons and precedents for inclusion in those discussions;
- Set a timetable for the achievement of service agreements; and
- Implement a mechanism for discussing and agreeing service parameters in times of peak volume mail with its key partners.

The Director General proposes that this Direction shall have immediate effect.

In order to demonstrate compliance with this Direction, GPL has been required to provide certain confidential information to OUR by 31st March 2003 and on an ongoing basis.

5.7 Labour Resources

5.7.1 Cause of Service Failure

Delivery of post requires the effective deployment of resources. Postal operations are traditionally labour intensive businesses and even with the advent of mechanisation, the core delivery network remains heavily reliant on the deployment of manpower in particular. There were a number of failures in this area that were fundamental to the difficulties encountered over Christmas 2002 in Guernsey. This information is confidential as it relates to negotiations between staff and management.

Overall, the investigation has concluded that the risks associated with the major change programme introduced by GPL were not assessed in advance and contingency plans were not put in place to manage those risks. In addition, the absence of a formal

agreement with the CWU, and earlier management decisions in the year, increased the risks of moving to Envoy House over the Christmas period, particularly given that the New Deal working agreement meant that the business was heavily reliant on the workforce to provide voluntary additional hours. Finally the level of voluntary overtime that was anticipated by the management, early in December in particular, was not forthcoming from the workforce and no alternative was in place to cope with this eventuality.

As a result of these risks and the various other factors identified in this report, when the gap between the volumes of mail waiting to be processed and the labour resources that were available started to widen, management's only strategy was to seek additional overtime which the workforce was not initially willing to provide. Discussions between management and the CWU to address this particular issue were not adequately documented or recorded, and ultimately, without sufficient man hours from the existing CWU work force, or any contingency plans to obtain and deploy alternative resources, the backlog increased and the service breakdown was compounded.

5.7.2 Proposed Remedy

GPL has recognised the absence of appropriate agreements with its workforce as a fundamental problem leading to excessive reliance on voluntary overtime from the workforce. The company has commenced broad based negotiations with CWU and has provided the Director General with confidential information on these discussions.

The Director General considers that planning for and deploying resources so as to be able to deliver the post is the core function of GPL as a postal operator. The agreement of a framework for resolving relevant matters with its workforce is clearly fundamental to that and the measures that GPL is now undertaking are considered to be the minimum required to enable the company to meet its core business objectives and the requirements under its licence.

In order to underpin this, the Director General will require the company to employ a formal documentation process of all discussions with the CWU so that the reasons behind any service difficulties can be clearly identified in future and to develop and fully document contingency plans in the event that the existing workforce does not wish to or cannot provide the resources needed at any particular time.

These measures, along with the proper forecasting and planning for mail volumes are critical to the ability of GPL to improve its operations.

5.7.3 Director General's Conclusion and Proposed Direction

The Director General concludes that GPL has breached condition 14.1 of the GPL licence. That condition requires the company to "*develop and operate the Postal Facilities so as to progressively achieve standards in line with international best practice*". However, the actions by the company in this instance in fact led to the deterioration in the operation of the Postal Facilities and lowered the standard of service.

Furthermore she also concludes that GPL has breached condition 15.11 of the GPL licence which requires the company to "*ensure the accuracy and reliability of any*

systems, equipment, data or procedures with the Licensee uses to measure or to track the provision of Licensed Services”.

Proposed Direction 5

In accordance with Section 31(3) of the Post Office (Bailiwick of Guernsey) Law, 2001, the Director General hereby gives notice of her intention to issue a direction under Section 31(2) of that Law to GPL to require the company by 31st March 2003 to;

- develop a resourcing plan for the postal services that ensures it can meet its core licence conditions and submit this to OUR, identifying all changes needed in this area including actions required to achieve those changes and milestones for those actions;
- set out and implement systems and procedures for documenting and recording all agreements/negotiations and discussions with its workforce;
- prepare and submit to OUR its contingency plans in the event of failure of the discussions with the CWU to secure resources necessary to meet its Licence obligations.

The Director General proposes that this Direction shall have immediate effect.

In order to demonstrate compliance with this Direction, GPL is required, in accordance with Condition 4.1 of its licence, to provide a range of detailed information to the OUR on the implementation of changes in this area. Much of this information is commercially confidential and therefore is not contained in this report. However, the Director General notes that she may direct compliance with all or any specific milestones, actions or other measures, thus ensuring that failure to comply will be subject *inter alia* to the provisions of section 31 to 33 of the Postal Law.

5.8 New Working Practices on Delivery

5.8.1 Contribution to Service Problems

It is clear that the productivity of delivery rounds deteriorated during Christmas 2002/January 2003 due to a range of factors, including the increased volumes of mail that needed to be delivered, the unexpectedly high amount of extra time that needed to be spent on manual sorting of mail, lack of cover for sick and annual leave, and the fact that where rounds were not completed within the core hours of the postal workers, in some cases, mail was returned to the sorting office undelivered that day (this is addressed in section 7 in more detail).

However, one factor that the company identified was that following the revision of the delivery rounds, there may have been inadequate training for some postal workers, particularly those who had “re-signed” to rounds with which they were not familiar. The Director General accepts that this may have been one of the factors contributing to the drop in productivity, but has not received sufficient information from GPL to identify the impact of this factor compared to other factors. She notes that the company identifies various steps taken to reduce the impact of any lack of familiarity with the rounds.

The Director General considers that a proper project plan and risk analysis could have identified this risk factor, adequate monitoring systems could have identified its impact and appropriate contingency plans could have been developed. None of these measures were in place. Furthermore the absence of proper documentation of discussions between management and the Union means that the Director General cannot properly analyse the reasons why agreement was not reached between the parties on a programme or plan to minimise this factor.

5.8.2 Proposed Remedy

The adoption of proper forecasting and contingency planning in accordance with section 5.5, and the proper recording and management of discussions with the CWU in accordance with section 5.7 above are appropriate measures to address this issue in the future.

However, in addition, the Director General is concerned that, while identifying lack of training as a potential factor, GPL does not identify appropriate systems to highlight where there is a need for training or a programme to train existing or new staff. Clearly the successful delivery of the postal service is critically dependent not only on the availability of postal workers to carry out the deliveries, but on productivity levels by round. This productivity can in turn be affected by a range of factors, including lack of familiarity with the rounds. This issue became of particular importance when the Director General began to address the failure by GPL to meet its universal service obligation and therefore this matter is addressed in section 7 later in this paper.

5.8.3 Director General's Conclusion and Proposed Direction

The Director General concludes that GPL has breached condition 14.1 of the GPL licence. That condition requires the company to “*develop and operate the Postal Facilities so as to progressively achieve standards in line with international best practice*”. However, the actions by the company in this instance in fact led to the deterioration in the operation of the Postal Facilities and lowered the standard of service.

The Director General believes that the Directions proposed in Sections 5.5 and 5.7 above and Section 7.7 later in this paper address this issue and does not propose to issue further Directions on this matter at this time.

5.9 Conclusion

In conclusion, GPL has recognised the magnitude and the effect of the service breakdown that occurred in December 2002 and January 2003 and has investigated the causes of that event with a view to preventing a recurrence. The Director General agrees that this was caused by the confluence of events that are summarised in this section and that certain of these events are unlikely to recur frequently, such as the mechanisation project and the move to new premises.

However, many of the deficiencies are a fundamental part of the daily operation of the post office and these will impact on service delivery at all times, particularly peak volume times. These areas, where GPL acknowledges its current limitations, include planning for peak volume periods, normal forecasting and planning, project planning

for any service affecting project, forecasting, planning and managing the deployment of resources, and, critically, arrangements between the management and the workforce to agree and implement adequate resourcing plans as well as the development of contingency plans.

The Director General believes that it is clear that GPL requires a significant change programme simply to meet its existing obligations and has therefore set out in this document, certain very detailed Directions on these matters, and included requirements for reporting and monitoring in relation to the achievement of improvements. In addition, the Director General will shortly conclude a Quality of Service (“QoS”) consultation that will lead to the imposition of QoS targets and measurement and monitoring systems on GPL.

It is the Director General’s view that these measures will provide a mechanism for GPL to remedy its services and meet its minimum licence obligations in the future. However, given the magnitude of the failure to date, the Director General considers that an alternative approach should be specified in the event that GPL does not comply with these directions. This is addressed in section 8 at the end of this paper.

6 Customer Complaints and Information

This section of the report addresses the problems identified in GPL's customer complaint handling process including the company's communication with its customers during the period of December 2002 and January 2003.

6.1 Scale and Impact of Customer Services Problems

During the week commencing 9th December 2002, the OUR received a considerable number of complaints from GPL customers concerning lengthy delays in postal services and a range of other service difficulties. These customers were advised that they should in the first instance contact GPL customer services directly, in accordance with the OUR complaint handling procedures as set out in OUR document 02/32. Details of all complaints received by the OUR were recorded in order for the OUR to follow the progress of these with GPL.

On 11th December GPL was requested to submit a report to the OUR containing the outcome of each complaint received, the percentage of complaints resolved and the percentage outstanding, the average time to resolution of complaints and the percentage that could be attributed to the current delivery problems and the percentage attributable to other underlying issues. On 19th December, the OUR forwarded details of all additional postal complaints received by the office to GPL and the company was requested to provide the OUR with the status of each complaint.

In response GPL informed the OUR that the company was unable to provide all of this information as it was not GPL's current practice to record all telephone enquiries and complaints received and that, with the exceptions of compensation claims all that was recorded by GPL at that time was the type of call received. The OUR expressed its concern that the customer complaint handling systems of GPL were inadequate and explicitly informed the company that it should record sufficient details of complaints received so as to ensure that this information could be tracked and reviewed. In addition, during the ongoing course of this investigation, OUR submitted a series of further information requests to GPL under condition 4 of its Postal Licence. The response to the final of these was received from GP on 20th February, thus completing the basis for this investigation.

Over this period it became clear that;

- In general customers were dissatisfied with the response they received from GPL, and complained variously of difficulty in contacting the company, receiving no information or conflicting information, delays in responses or lack of responses at all; and
- GPL admitted that it did not properly record customer complaints so as to enable proper analysis, tracking and follow up of these complaints.

This section goes on to consider the reasons for these problems and the measures needed to correct them.

6.2 Customer services & complaint handling

During December 2002 and January 2003, the number of customer complaints was very high due to the service failure over this period which has been described in Section 4.1. GPL has stated that the number of calls received in December 2002 was between 3,000 and 4,000 per week compared to the company's forecast for December of 1,500-2,000 per week based on historical data.

Throughout the period it became clear that the complaint handling service provided by GPL was insufficient to deal with the volume of complaints and customers expressed their dissatisfaction specifically with;

- the use of an automated system for complaints which involved leaving messages on voice mail rather than speaking directly to GPL staff;
- the difficulty in making contact with GPL by telephone during this period; and
- the time taken by GPL to respond to customer calls and correspondence.

Section 6.3 deals with concerns about the information actually being provided.

6.2.1 Causes of Difficulties

The significant increase in the volume of calls to the GPL customer services department stemmed from the operational problems experienced by the company at this time which are addressed in detail in section 5 of this report.

As identified in that section, inadequate planning and forecasting contributed to the operational problems and this lack of planning and forecasting would appear to have extended to the issue of planning for a specific level of complaints in the customer service department. Acknowledging that the company did not anticipate the scale of the operational problems, it is a logical conclusion that GPL did not anticipate the demand for customer services that would be required to deal with the complaints that arose.

As a result, the staffing levels of the customer service team were not adequate to deal with the volume of calls that were received during the period in question. Furthermore, there was an absence of any contingency plan in place to deal with higher than normal call loads and as with the operational issues, the company relied heavily on staff to provide voluntary additional hours.

Compounding this difficulty were a number of changes in working practices coinciding with the move to Envoy House which assigned additional functions to the customer services team. Overall therefore the combined effects of;

- the increase in the actual number of calls compared to the forecast volumes arising from the operational difficulties;
 - new working arrangements including the routing of all calls to customer services, and
 - customer service staff needing to leave their desks in order to obtain operational information from operations staff on the sorting floor,
- meant that the customer service team was severely overstretched.

6.2.2 Proposed Remedy

GPL accepts that current staffing arrangements and levels are not sufficiently flexible to guarantee full cover in normal operations and hence would be even more stretched where there is a greater than normal level of calls. The company has therefore conducted a review of the staffing levels and put in place a timetable for appropriate actions which has been provided to OUR. This information is confidential. The company has also initiated some changes to existing work practices.

GPL has also recognised the limitations of the company's telephony system and with regards the "Meeting and Greeting" Policy GPL stated that "the company is working on the termination of the automated call handling as with its previous operation in Guelles Road it will retain the answerphone/voice mail system"⁹. The company has however given no indication of the timetable for the termination of the automated call handling facility or the steps that will be taken to replace it.

The Director General notes the actions that are being taken by GPL in addressing the problems arising from the use of the automated telephony system, the difficulties customers experienced in contacting GPL staff and the time taken by the company to respond to customer calls and correspondence, but also notes that no timetable has been provided for the removal of the automated call handling system.

However the Director General is particularly concerned at the absence of any defined targets for improvement or any monitoring or measurement procedures to track improvements and verify that the measures that the company is taking are effective in resolving the difficulties. Therefore she believes that such procedures should be put in place and appropriate targets set and proposes to include this requirement in a Direction.

6.2.3 The Director General's Conclusion and Proposed Direction

The Director General concludes that GPL has breached condition 14.1 of the GPL licence. That condition requires the company to "*develop and operate the Postal Facilities so as to progressively achieve standards in line with international best practice*". However, the actions by the company in this instance in fact led to the deterioration in the operation of the Postal Facilities and lowered the standard of service.

Proposed Direction 6

In accordance with Section 31(3) of the Post Office (Bailiwick of Guernsey) Law, 2001, the Director General hereby gives notice of her intention to issue a direction under Section 31(2) of that Law to GPL to require the company;

- By 21st March 2003 – to replace the existing automated call handling system with a system that provides callers with immediate contact with a staff member;
- By 21st March 2003 – to submit to OUR a framework for monitoring the performance of the complaint handling system including the criteria that will be used and how GPL's performance will be measured, the target performance that GPL is aiming to achieve and by when; and
- Report regularly to OUR on the performance of the company's customer complaint handling process.

The Director General proposes that this Direction shall have immediate effect.

If the Director General is not satisfied with the criteria, targets or deadlines set out by GPL, she may direct that these shall be adjusted and may specify the adjustments required and GPL shall comply.

In order to demonstrate compliance with this Direction, GPL is required, in accordance with Condition 4.1 of its licence, to provide the following information to the Director General by the following dates:

- By 21st March 2003 – evidence that the automated call handling system has been replaced;
- By 21st March 2003 – a copy of the framework for monitoring the performance of the complaint handling system including the criteria that will be used and how GPL's performance will be measured the target performance that GPL is aiming to achieve and by when; and
- On 21st April 2003 and every month thereafter until further notice, a report on the performance of the company's customer complaint handling process against the defined targets, and
- Any other information that the Director General considers necessary to monitor and ensure compliance.

The Director General may direct compliance with all or any of the milestones, actions or other measures, thus ensuring that failure to comply will be subject *inter alia* to the provisions of section 31 to 33 of the Postal Law.

6.3 Provision of information

Another difficulty encountered by customers was that they appeared to be receiving inconsistent or in some cases contradictory information from GPL customer service staff. In addition customers did not receive sufficient information through other channels of communication to enable them to understand the difficulties in the postal services and the probable resolution timescale.

GPL was therefore asked to explain the reasons for this and to provide a comprehensive report on the usage of communication channels with customers during the period in question, along with any steps proposed to improve this.

6.3.1 Causes of Difficulties

As noted in section 5 the company had inadequate day to day operational management information systems and consequently the customer service team was not receiving accurate or consistent information to pass onto to customers in response to specific queries. Staff often had to leave their desks in order to get answers to questions from operations staff on the floor and may have received different information from different sources in operations, hence the multiple messages that were being communicated to customers.

GPL identified nine channels of communication to achieve both targeted and mass communication with its customers including:

- The customer service team (by telephone, letter and email);
- Retail outlets;
- Postal delivery staff;

- Guernsey Post's website;
- PO Box Areas (i.e. using the PO Box area at Envoy House to provide information to PO Box users);
- Sales Team;
- Customer email database (a daily update is sent to those business users and bulk mailers who request this service);
- Local media; and
- The company's various user groups (Consumer Council, Post Office Users Committee and Bulk Posters Group).

For much of December and January GPL relied almost entirely on the customer service team for communicating with the public. In reviewing these events GPL accept that the company's communication channels were poorly utilised and states that this was a management decision at the time.

During January 2003, GPL responded to requests from the OUR (and communication with its shareholder, the Advisory and Finance Committee) and commenced the provision of daily operational updates to the print media. This provided postal users with a minimum level of information about the backlog in mail and allowed users to track the progress in clearing the backlog during this period.

6.3.2 Proposed Remedy

GPL introduced daily meetings between customer services and operations in order to exchange information formally and since 27th January have been issuing daily briefing notes to customer service staff which are also copied to the sales team and retail network to ensure that the information available is for customers is consistent and up to date.

Of the nine channels of communication available to the company, GPL have described changes to the customer service team's working practices (referred to in section 6.2.2 and above) and the use of the Guernsey Post website to promote the use of Postcodes (see section 5.4.2). The company's website has recently been updated and redesigned but the company has not identified any other opportunities to communicate with its customers via the website. Similarly the company has not identified any improvements to its use of retail outlets, postal delivery staff, PO Box areas, sales team, customer contacts, local media and the various user groups.

The Director General notes the improvements to communications both within the company through the introduction of the daily meetings and briefing notes and with customers through the revised website. However the Director General does not believe that these steps are adequate particularly with respect to the various user groups, website and local media. The Director General believes that GPL could make better use of its website in particular by publishing useful information such as arrival times of incoming mail and estimated impact on delivery rounds, notification of any rounds that will receive an afternoon delivery and other time sensitive information that directly affects customers. GPL could obtain customers' views and information requirements directly through a short period of consultation in order to make such measures as meaningful as possible. This would have the added advantage of reducing pressure on the customer services staff.

6.3.3 The Director General's Conclusions and Proposed Direction

The Director General concludes that by failing to ensure that information in relation to the services it provides is consistent and accurate, GPL has breached condition 15.11 of its licence. The Director General notes the measures that are being put in place to remedy this but believes that the company must also put in place the mechanisms to communicate the more accurate information to its customers.

Proposed Direction 7

In accordance with Section 31(3) of the Post Office (Bailiwick of Guernsey) Law, 2001, the Director General hereby gives notice of her intention to issue a direction under Section 31(2) of that Law to GPL to require the company;

- By 30th April 2003 – to have conducted and concluded a consultation with its customers on how GPL's website, amongst other media, can be used to satisfy their customers' information requirements;
- By 30th May 2003 – to submit to OUR an implementation plan on how the company intends to improve the dissemination of information and communication with its customers.

The Director General proposes that this Direction shall have immediate effect.

In order to demonstrate compliance with this Direction, GPL is required, in accordance with Condition 4.1 of its licence, to provide the following information to the Director General by the following dates:

- By 30th April 2003 – copies of the GPL consultation document and summaries of the responses received by GPL;
- By 30th May 2003 – the communication implementation plan arising from the findings of the consultation.

6.4 Internal Systems

At the outset of the investigation, it became clear from GPL's responses to questions from OUR, that GPL was not adequately recording details of customer complaints in a manner that would allow proper analysis of the types of complaints, full follow up, resolution and any other necessary actions to be taken. OUR made a number of requests to GPL to record this information, including a specific request at a meeting with the Chairman and Managing Director on 3rd January 2003. Notwithstanding this, GPL continued to fail to record the relevant information.

GPL claimed that it was not possible to record and retain this information until new systems were in place on 13th January 2003. Consequently, GPL was not monitoring its performance against published criteria in its Customer Charter (i.e. acknowledge an enquiry within two working days of receipt and aim to resolve problems concerning domestic services within 10 working days¹⁰.) As a result GPL was unable to:

- analyse the profile of complaints;

¹⁰ GP Customer charter can be found on www.guernseypost.com

- prove that complaints have been resolved or not;
- quantify the complaints resolved and those outstanding;
- track progress with resolving complaints; and
- monitor the time taken to resolve the complaints.

In particular on 4th February 2003 OUR required GPL to submit a written report to the Director General in accordance with condition 15.9 of its licence on the application of the Customer Charter over the past six months showing the extent to which GPL succeeded in meeting the targets set out in the complaint procedures; the compensation that has been paid each month to users of postal services in relation to the complaints that were found to be valid, and why complaints were dismissed. GPL was informed that for the avoidance of doubt the company should provide documentary evidence of response times to resolution of all complaints received by all manners of communication, email, telephone and written complaints.

GPL's response to this information request, on 20th February 2003, included a summary report for each month from August 2002 to January 2003 showing the total compensation paid against submitted claims, the total number of claims received and the total number of claims dismissed. GPL stated that additional information requested by OUR could not be provided cost effectively. Thus GPL failed to comply with condition 15.9 of its licence.

6.4.1 Causes of Difficulties

The Director General believes that GPL's inability to record this information was a direct consequence of a decision by the company not to implement procedures and systems to monitor the company's performance with respect to resolving complaints, notwithstanding a request to do so. For the avoidance of doubt, the Director General does not consider that such monitoring and recording was not possible in the absence of new computer systems and simple manual recording could have been implemented in this period to address this problem.

6.4.2 Proposed Remedy

On 13th January GPL customer complaint handling switched to new Customer Relationship Management ("CRM") software which enables GPL to record details of each complaint against the complainant's postcode and so build up a history against delivery addresses and by contact at each address. GPL intends to run the existing compensation claim system ("Solve and Respond") in parallel with the new CRM software for a short period of time. The introduction of the CRM software had been delayed on a number of occasions, but was finally launched on 13th January 2003 several months after its original going live date.

GPL has stated that the CRM system allows customised reports to be produced and as a result GPL commits to developing a range of reports and reporting procedures including frequency and distribution for a number of areas by 1st April 2003 (i.e. after taking the "Solve and Respond" database off-line).

GPL also intend to provide OUR with copies of monthly reports relevant to GPL's reporting against the Customer Charter at the time they are disseminated to the

Executive and Board commencing with a report for February to be provided in March 2003.

The Director General believes that the introduction of the CRM system can bring GPL into compliance with the basic requirements of its Licence. However, these actions are overdue and non-compliance has occurred over a considerable time period.

The Director General believes that GPL's proposed customer complaints report is not adequate in that the contents are incomplete and not sufficiently comprehensive to demonstrate whether or not it is meeting customer needs. As GPL state that the CRM software allows reports to be customised to meet specific requirements the Director General intends to specify the contents of the reports which need to be submitted to OUR.

6.4.3 Director General's Conclusion and Proposed Direction

The Director General concludes that GPL has breached condition 4.1 of the GPL licence insofar as it failed to provide the Director General with the information requested, and condition 15.9 of its Licence insofar as it failed to provide the report requested by the Director General in relation to its performance against the customer charter.

Proposed Direction 8

In accordance with Section 31(3) of the Post Office (Bailiwick of Guernsey) Law, 2001, the Director General hereby gives notice of her intention to issue a direction under Section 31(2) of that Law to GPL to require the company to provide monthly reports on the performance of handling of all customer complaints. The Monthly Complaint Report should include, as a minimum, the following information;

- No of enquiries received;
- Analysis of response times to all enquiries;
- % of enquiries that constitute complaints;
- Complaints disaggregated into categories in absolute and percentage terms;
- % by type of complaint to identify those where a claim would be considered;
- % complaints where compensation is paid at level sought analysed by type;
- % complaints where compensation paid at level appropriate to service used / insurance taken but below that sought by customer, analysed by type;
- % where compensation claim is dismissed with analysis of reasons for refusal;
- % of all complaints resolved within published timeframe (i.e. 10 days for Bailiwick and UK mail), analysed by type
- % of all complaints not resolved within published timeframe, analysed by type with reason for failure;
- total sum paid in given period in compensation, by type.

This Direction shall be effective immediately. GPL shall be directed to submit the first report for February 2003 by March 21st 2003. All subsequent monthly reports should be submitted by the 14th of the following month.

6.5 Conclusion

In conclusion GPL has taken steps to improve its processes and management information systems for its customer service team. The company has recognised the deficiencies that existed in handling customer complaints, particularly when operational problems generated a large increase in the volume of complaints from the public. As well as directing GPL to remove the automated call answering system by the 21st March, the Director General is requiring GPL to monitor the effect of the new processes on the quality of service provided by the company, thus concentrating on the end service delivery to customers.

The Director General welcomes the company's plan to make better use of the available channels of communication with its customers, but does not believe that GPL is making best use of the resources available to it to disseminate information. Hence the Directions proposed by the Director General will require the company to obtain feedback and comments from its customers within the Bailiwick as to the information that they require and the Director General will require the company to disseminate information that will reasonably meet customers needs.

Finally the Director General is aware that the company has recently introduced new software with which to track complaints made by customers about GPL's service. Until this system was introduced the company claimed it was unable to monitor its performance against the relevant quality of service targets in its published Customer Charter. This represented a choice by GPL to breach its licence by failing to record this information adequately. The Director General has therefore specified in detail the information relating to complaints that GPL is required to submit on a monthly basis starting in March 2003. The Director General will give consideration to the publication of this and other information as part of the outcome of the OUR consultation on Quality of Service.

7 USO Licence Breach

This section of the report sets out the extent of GPL's failure to provide a universal postal service with respect to the daily delivery of mail to all households in accordance with its licence.

7.1 Scale and Impact of USO Licence Breach

7.1.1 Universal Service during January 2003

In the course of the investigation into the delivery service breakdown which occurred over December 2002 and January 2003, GPL was required to provide reports to the Director General on mail volumes and productivity levels across the operation. One of these operational reports comprised details of the time spent by the postal workers in sorting and delivering mail, including the time each round was started and finished. The data provided by GPL for the period 10th January to 30th January 2003 clearly demonstrated that the company had not provided one delivery of mail on six days a week (including all working days) to all homes and premises in the Bailiwick and was consequently in breach of its obligation under its licence to provide a universal postal service.

In summary, over an 18 working day period GPL only complied with its USO to provide a daily delivery to all rounds on four occasions i.e. a compliance rate of 22%. On the worst day, the 25th January 2003, four of GPL's 67 rounds did not receive any delivery of mail. As a result, over this period, 17 of the 67 rounds within Guernsey did not receive a daily delivery of mail on a working day on at least one occasion. Based on the number of "calls" which equates to addresses in each of the rounds, this adds up to a total of 8,952 addresses being affected. While it is probable that not all of the affected addresses would have been due to receive mail on each of the relevant days, the Director General believes this statistic illustrates that the failure was significant.

Furthermore, this may well underestimate the number of addresses missed on these days as the information captures only those rounds where there has been no delivery whatsoever. During the analysis of the information received from GPL it came to light that in certain circumstances, a delivery round could be commenced, but might not be completed within the standard hours of the postal delivery worker. In these circumstances the postal worker could return to the sorting office with undelivered mail and thus various addresses at the end of a round might not receive their mail that day.

This could arise for a variety of reasons, for example when there were delays to the mail arriving at the sorting office due to customs or problems with the airport these delays would eat into the time that was available for the delivery postmen to complete their rounds. The data presented above does not capture these circumstances and thus the actual failure to deliver the universal service may in fact be underestimated.

GPL has acknowledged the failure on the above dates and thus has accepted that it is in breach of condition 12 of its Licence.

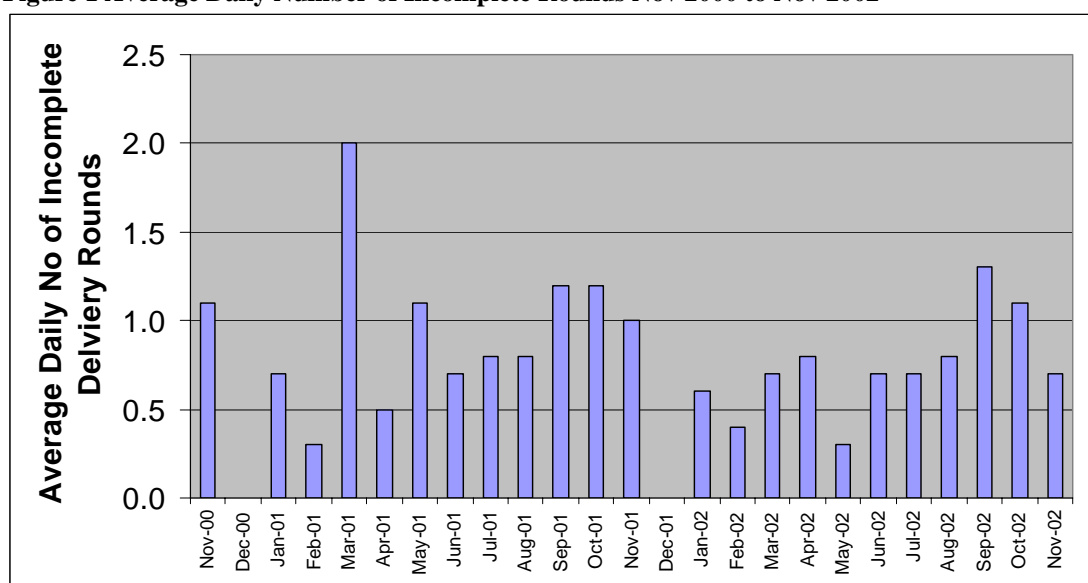
7.1.2 Delivery of universal postal service at other times

OUR requested an explanation of GPL's breach of its obligation to provide a universal postal service including the degree to which the licence breach was associated with or caused by the failure in service described in section 5 and the measures being put in place to rectify it. Also, at the request of OUR, GPL carried out a more detailed investigation into the delivery of mail, including identifying all rounds where no delivery was made and those rounds where deliveries were not concluded, i.e. where the postal worker had not finished the delivery round by the end of his shift and so did not complete the delivery. In this case, while a full round would not have been affected, a certain number of the calls or addresses on that round would have been affected.

The GPL review has identified that since it received its licence on 1st October 2001, GPL has consistently and repeatedly failed to meet its licence obligation to provide delivery to all addresses in the Bailiwick on six days a week. Furthermore, prior to 1st October 2001, the former GPO did not meet this level of service. In fact going back as far as November 2000, there has been no single month in which all addresses in Guernsey have received one delivery of mail on every working day in that month.

The scale of the failure is shown in Figure 1. 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 has been 0.79 per day.

Figure 1 Average Daily Number of Incomplete Rounds Nov 2000 to Nov 2002¹¹



7.2 Reasons for USO Licence Breach

The Director General required GPL to provide the reasons why it did not comply with the licence condition which has been in place since 1st October 2001. This section sets out those factors that GPL considers contributed to the failure and the measures that the company proposes to put in place to address those factors.

¹¹ Data for December 2000, 2001 and 2002 has not been provided by GPL.

7.3 Inadequate Core Resources

7.3.1 Cause of Licence Breach

When dimensioning the delivery rounds and assigning staff to those delivery rounds, it is normal to ensure that there are sufficient core staff employed to provide cover for annual leave and also for a forecast level of sick leave or absences for other reasons. However, in reviewing its staffing levels, GPL has concluded that its core resourcing levels are not adequate to provide this cover.

As a result, if on any given day a postman assigned to one of the 67 delivery rounds is unable to report for duty, GPL had no contingency plan other than to rely on another delivery postman volunteering to take on responsibility for delivering the mail for the other delivery round¹². This practice is addressed in section 7.4 below.

7.3.2 Proposed Remedy

GPL has now reviewed operational staffing arrangements and is implementing changes that it has identified as necessary to remedy this. The details of this are confidential to OUR.

7.3.3 Director General's Conclusion

The Director General notes GPL's actions but has not received sufficient information to demonstrate that these actions are adequate or sufficient to meet the USO.

As the employment of postal workers and the deployment of those workers to achieve the required service is the core function and competence of GPL, this failure is of very significant concern, and it should not be necessary for the regulator to intervene to the level of specifying employment policy within the company. Therefore in this instance, the Director General will not impose a detailed direction in relation to staffing but will measure the success or otherwise of GPL's actions by measuring the end delivery of the USO. The Director General's conclusion in this instance is set out in section 7.7.

7.4 Inadequate Resourcing Plan

7.4.1 Cause of Licence Breach

A further contributing factor to this failure is the operation of the current working practices and staffing arrangements within the company. GPL acknowledges that staffing arrangements are not sufficiently flexible to deal with late deliveries of mail to Envoy House due to external factors such as the late arrival of the mail plane at Guernsey Airport. For example in certain circumstances if the mail was sufficiently late at Envoy House it might be possible for all the delivery postmen to have completed their standard hours by the time the mail had been received and sorted.

¹² In this case the delivery postman would not complete both rounds by 1pm and GPL would therefore fail to achieve its own service level of completing all deliveries by 1pm which is set out in the company's Customer Charter

In these circumstances the company is reliant on voluntary overtime from its postal workers above and beyond the core hours to complete the deliveries on that day. In effect, if no overtime was to be worked then there would be no mail deliveries at all that day. Alternatively if the voluntary overtime were to be secured, but at an unacceptably high cost, the objective of delivering the universal service at least cost would not be met.

Similarly, in circumstances where a postal worker does not complete a round within the core hours and returns to the sorting office with undelivered mail, the company has been entirely reliant on other postal workers volunteering to complete that round on overtime. Once again, if the voluntary overtime is not forthcoming, the round would not be completed, or, if it is only forthcoming at an excessive cost, the requirement to provide the universal service at least cost would not be met. There is an absence of contingency planning or alternative mechanisms to ensure the delivery of all rounds each day.

GPL recognised that these practices and its operational systems and procedures were not sufficiently robust in that they could not ensure daily deliveries across all the delivery rounds in Guernsey at an efficient cost level.

7.4.2 Proposed Remedy

In addition to the actions described in section 5.5.2 which will improve the management of day to day operations within the company, GPL is trialling a new set of procedures, which are being consulted upon internally and are designed to address this problem. The details of these have been provided to OUR and are confidential.

Finally in order to improve the robustness of the delivery operation in the face of exogenous factors, such as delays to the arrival of the mail plane in the morning, GPL has started to discuss the resourcing of the USO with the CWU as described in section 5.7.2. The Director General is particularly concerned that the company remains mindful of its obligation to deliver the core universal postal service at the lowest possible cost to customers and in implementing measures to meet its obligations, the company should be aware that any inefficient costs incurred will not be considered appropriate to be passed thorough to customers in the form of prices.

7.4.3 Director General's Conclusion

The Director General believes the improved management of the rounds is essential to contribute towards the avoidance of any future breach of its USO licence condition. For the reasons set out in section 7.3.3 the Director General believes that detailed directions in this instance may not be appropriate and sets out her conclusions in section 7.7.

7.5 Inadequate internal control systems

7.5.1 Cause of Licence Breach

GPL identified an overall lack of a complete and comprehensive operational management system as a key factor in not only contributing to the cause of the licence breach, but also in that the existing systems failed to identify the service failure in sufficient time for management to take the necessary actions in order to avert it. In effect, given the internal management information available, GPL would only know

of those rounds which did not receive a delivery on a given day and whether delivery rounds had not been completed **after** the event. In addition despite the fact that GPL was in breach of its USO licence condition from 1st October 2001, the GPL Board were not aware of this and had taken no remedial action in the preceding 15 months.

7.5.2 Proposed Remedy

GPL recognised the deficiencies in its operational systems and has initiated changes in its procedures, referred to in section 7.4.2 which will allow better monitoring of the delivery process which in turn will facilitate proactive management and the avoidance of delivery service failures.

GPL has taken steps to address the reporting systems within the business by introducing daily reports on delivery performance for senior management. In addition the Board has introduced “Licence Compliance” as a standing agenda item for GPL’s Board Meetings.

7.5.3 Director General’s Conclusion

The Director General believes that the company has acknowledged a serious failure in its lack of monitoring and measurement of its compliance with a basic licence condition. The Director General will require monthly reports from GPL following each Board meeting. Further actions are set out in section 7.7.

7.6 Inadequate training

7.6.1 Contribution to Licence Breach

In addition to these key factors as identified in section 5.8, lack of training on new rounds may also have been a contributory factor. This may have meant that staff were taking longer to complete their rounds as they may have been unfamiliar with the new rounds thus may not have been completing the delivery rounds within their standard hours. When allied to the other factors affecting deliveries, the lack of training of postal delivery workers following the introduction of the new rounds **although it did not directly cause the failure did** exacerbate the USO licence breach in January 2003.

7.6.2 Proposed Remedy

GPL, in correspondence dated 14th February 2003, indicated that pressure on the delivery operation was easing as staff have become more familiar with the rounds. However, the company has not provided any information or proposals in relation to training of existing staff, or training of new staff so as to avoid a repeat of this kind of difficulty.

7.6.3 Director General’s Conclusion

The Director General’s proposed actions in this regard are set out in section 7.7 below.

7.7 Conclusion and Proposed Direction

7.7.1 Breach of Licence

The Director General concludes that GPL has breached condition 12 of the GPL licence which requires the company to “*provide in the Bailiwick of Guernsey the Universal service set out in the States Direction issued in accordance with Section 3.1(b) of the Regulation Law*”. It is noted that the company accepts this.

7.7.2 Reasons

The reasons for this failure are described in this section and go to the core of the operation of GPL, including;

- Staffing levels and employment policy,
- Resourcing policies and procedures including training,
- Operational policies and procedures,
- Monitoring, reporting and scrutiny of the company’s achievements of its objectives, and
- Internal systems including (but not limited to) management information systems.

7.7.3 Measures to Remedy the Breach

On foot of the OUR investigation, GPL has, in a short time, tried to identify and set out certain measures it intends to take to address these core problems within the company. The Director General notes the systemic nature of these issues and considers that their correction is the responsibility of GPL. Furthermore she notes that GPL claims that, given the various measures described above and the estimated time to complete those measures, it will not be able to provide assurance that Licence compliance on deliveries will be consistently met in all but exceptional of circumstances before 31st July 2003.

7.7.4 Director General’s View

The Director General does not believe that this timetable is an acceptable one for the remedy of this breach of licence. Furthermore, she does not consider that partial compliance with the USO is acceptable and believes that GPL must put in place measures to ensure that it meets Licence Condition 12 in full.

The responsibility for putting in place these measures is that of the company and the Director General, given the resources available to her Office, does not consider that it is appropriate to issue detailed Directions on these measures as there is a clear metric that can be reported on to measure success of implementation – deliveries completed each working day. Therefore the Director General will set targets for the improvement of the delivery of the USO and will require GPL to report on these. Failure to comply will result in further action as set out in section 8.

7.7.5 Proposed Direction 9

In accordance with Section 31(3) of the Post Office (Bailiwick of Guernsey) Law, 2001, the Director General hereby gives notice of her intention to issue a direction under Section 31(2) of that Law to GPL requiring the company to ensure that the average daily number of incomplete rounds shall not exceed the following figures in the specified months:

Month	Average Daily No of Incomplete Delivery Rounds shall not exceed
March 2003	0.50
April 2003	0.25
May 2003	0.10
June 2003 and each month thereafter	0.00

This Direction will come into immediate effect.

To demonstrate compliance with this Direction, GPL will be required in accordance with condition 4 of its licence, to report to the Director General on the third of each month on the company's compliance with the target for the previous month.

8 Conclusion and next steps

This section sets out the procedure for interested parties to comment on the proposed Directions in this document. In addition to these Directions, the section sets out the other penalties and sanctions that the Director General believes could be invoked in this case and notes that it is the responsibility of GPL to ensure compliance and thereby avert the effect that such actions may have on the company.

8.1 Proposed Directions

8.1.1 Written Representations or Objections

In accordance with Section 31(3) of the Post Office (Bailiwick of Guernsey) Law, 2001, the Director General gives notice in this document, of her intention to issue a number of directions under Section 31(2) of that Law to GPL.

Directions in relation to the failure of delivery service over the period of December 2002 to January 2003 are set out in sections 5.3.3, 5.4.3, 5.5.3, 5.6.3, 5.7.3, and 5.8.3.

Directions in relation to customer complaint handling and information provision to customers are set out in sections 6.2.3, 6.3.3, and 6.4.3.

Directions in relation to the failure to provide the universal postal service are set out in section 7.7.5 and one further proposed Direction is set out in section 8.3.1 below.

In accordance with section 31(3) of the Post Office (Bailiwick of Guernsey) Law, 2001, the Licensee and any interested parties may make any written representations or objections in respect of the proposed Directions. Such written representations or objections must be provided by 5pm on Monday 10th March 2003 and shall be sent to the following address:

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

8.1.2 Direction and Publication

In accordance with section 31(4) of the Post Office (Bailiwick of Guernsey) Law, 2001, the Director General shall consider any representations or objections received within the relevant time period and shall give or not give the Direction and publish notice of this fact.

8.2 Sanctions and Penalties

In the event that GPL does not comply with any Direction issued in accordance with Section 31 of the Post Office (Bailiwick of Guernsey) Law, 2001, the Director General may impose any of the sanctions available under the Law. The sanctions set out in section 31 of the Law are;

- Suspension of licence
- Revocation of licence or
- Imposition of a financial penalty

Before invoking any of these sanctions the Director General must follow the procedure set out in section 32 of the Law.

The Director General reserves the right to invoke any of these sanctions but clearly cannot fetter her discretion or prejudge the final Directions that may be issued until after she has complied with the procedure set out in section 31 of the Law and considered any written representations or objections. However, the Director General believes that it is useful to set out in this report, some of the potential actions that she considers may be necessary in the event of failure by GPL to remedy the various licence breaches identified in this report.

The conclusion of this investigation is that the overall failures and licence breaches have primarily been the result of widespread and endemic problems within the company rather than individual events, although individual events have also contributed. This brings into question the overall capability of GPL to provide a postal service in Guernsey that complies with the basic licence conditions that have been imposed and the States policy expressed in States Directions.

The various directions proposed in this paper are designed to work towards creating the core postal service that Guernsey economy and society relies upon. Furthermore they are designed to ensure that States policy in relation to the universal postal service is met. That policy, described in section 3, requires the delivery of a universal service and also requires the Director General to issue to GPL, an exclusive licence insofar as that is necessary to achieve that universal service. Thus GPL is the only operator licensed to provide postal services below a value of £1.35 per item.

8.2.1 Removal of Exclusive Rights

The States of Guernsey postal policy requires the delivery of a universal service and also requires the Director General to issue to GPL, an exclusive licence insofar as that is necessary to achieve that universal service. Thus GPL is the only operator licensed to provide postal services below a value of £1.35 per item (“the reserved services”). Therefore, in common with postal operators worldwide, it is considered necessary to give the company the exclusive right to provide these services so that it can generate sufficient income to fund the provision of a universal postal service as set out in States Directions.

The removal of this exclusive right and the licensing of alternative operators to compete in the provision of reserved services could simply serve to dilute the company’s ability to meet the universal service obligation in the short term, contrary to the policy objective.

Furthermore the licensing of a second operator and the imposition of a universal service obligation on that second operator is also unlikely to be successful where GPL continued to be able to provide services in the reserved area, because the second operator could also face difficulties in generating sufficient income to fund the efficient cost of providing the universal service.

Therefore the Director General is not currently convinced that this would be the most appropriate action in the circumstances.

8.2.2 Revocation of Licence

In the event that the Director General concludes that GPL is unable to provide the universal service she may therefore consider revoking the GPL licence, and the exclusive right to provide reserved services.

In order to ensure States policy is met it would then be necessary to license an alternative operator to provide the universal service and grant the appropriate exclusive rights to that operator to provide reserved services. This could be done by inviting interested parties from all jurisdictions to submit tenders to provide the Guernsey postal service. Tenderers could be invited to demonstrate their capability of delivering the universal postal service at the most efficient cost, as well identifying any other positive commitments or services they might provide. These could be evaluated with a view to identifying the tenderer that offered the greatest benefit to Guernsey and any commitments could be incorporated into the new licence along with appropriate performance guarantees, compensation payments or other measures where any commitments are not met. GPL could be permitted to tender along with other interested parties.

The Director General is currently minded to consider this option as the most appropriate in the event of continued failure to meet licence obligations.

8.2.3 Suspension of Licence

In the alternative the Director General can consider the suspension of the Licence. Without prejudice to any final decision the Director General does not currently consider that this is a useful action or will contribute to restoring the postal service in Guernsey.

8.2.4 Imposition of Financial Penalty

The Director General will also consider the imposition of financial penalties in accordance with the Law and the Licence having regard to the primary objective of ensuring a viable, efficient postal service for Guernsey and whether this measure would contribute to that objective.

8.3 Other Remedies

OUR is currently in a period of open consultation on quality of service measures for GPL and associated compensation measures for failure to meet those measures. The Director General has expressed the view that compensation of customers directly in the event of service failure is a useful way of ensuring that the “penalty” suffered by the company is proportionate to the failure, that the affected party (the customer) is the person receiving the redress rather than central funds or the regulator, and that there is an incentive on the company to improve performance to avoid such compensation payments.

The Director General requested GPL to set out any action it might propose in relation to compensation customers for the recent failures or for the failure to deliver the universal postal service. The company has declined to volunteer any direct recompense to customers. OUR will take this into account when formulating its proposals in relation to quality of service and compensation.

However the Director General believes that some redress directly to postal users is appropriate given the findings in this investigation and proposes to issue a further direction to GPL as set out below. Comments on this proposed direction are invited in accordance with section 8.1.1.

8.3.1 Proposed Direction

<p>In the light of the finding that GPL breached conditions 12, 14.1 and 15.11 of its licence, the Director General hereby gives notice in accordance with Section 31(3) of the Post Office (Bailiwick of Guernsey) Law, 2001, of her intention to issue a direction under Section 31(2) of that Law to GPL to require the company to restore and improve a discounted service that has been available each Christmas, to allow customers to send a local letter post up to 100g for a price of 10p, rather than the standard price of 22p. This shall be available from 1st December to 24th December 2003.</p>
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