

**Guernsey Post Limited
response to OUR proposed direction
regarding quality of service for bulk mail**

January 2005

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1.0 Introduction

In October 2004, Guernsey Post Limited submitted to the Office of Utility Regulation (OUR) its first annual return against the 23 quality of service targets that, following on from a consultation process, had been incorporated into its Licence on 1st October 2003.

That return indicated that Guernsey Post had achieved 16 of the 23 targets set for 2004, and 19 out of 23 in September.

Guernsey Post published these results in January 2005¹. Thereafter the OUR issued its findings on the report² which concluded that 6 of the targets not achieved were considered de minimis failures. The other failure related to the requirement to achieve a 12-month rolling average of 90% J+3 delivery³ for bulk mail items. Importantly, the OUR recognised that the items were despatched from Guernsey on schedule.

As a result, the OUR issued a statutory invitation to comment on a notice of its proposal to issue a Direction to Guernsey Post under Section 31 of the Post Office (Bailiwick of Guernsey) Law, 2001.

This document is published by Guernsey Post in response to the invitation to comment.

¹ GPL QoS02 P

² Document OUR05/01

³ Where J = jour (day) of posting

2.0 Executive Summary

Guernsey Post believes that the 2003/4 results represent significant progress for a postal administration that had for many years operated without the benefit of mechanisation and appropriate staffing levels and in the absence of any quality targets. However with the benefit of one year's measurement against those targets having been completed, it advocates that it would be appropriate for there to be a more general review of both what is to be measured and the targets themselves.

Six targets were missed by what is described by the OUR as a de minimis percentage. Guernsey Post agrees that these are de minimis failures (particularly where the achievement already exceeded 99%) and whilst in some cases it does not believe that there is more it can do to significantly improve its performance against these targets, it recognises that it must strive to achieve them.

In its report GPLQoS02P, Guernsey Post explained the statistical tolerances of the current measurement system. This situation can only be improved by increasing frequency and sample sizes which would significantly increase the cost of procuring the data. Guernsey Post therefore requests that the OUR accepts that a cost-effective measurement system is in place with regard to end-to-end measures, provided by an established, independent UK supplier.

Following on from acceptance of that, however, it then follows that the current targets, some of which are specified to one tenth of a percentage point, are reflective of a degree of accuracy that is inappropriate given the tolerances of such a measurement system. Guernsey Post therefore contends that the resulting targets from a future review of postal quality of service should be restricted to whole percentage points, and that to purport to measure to a higher degree of accuracy would involve a disproportionate cost burden.

As regards the target for Jersey to Bailiwick mail, there are two issues that Guernsey Post believes the OUR needs to consider. First, the same data is provided to both operators who interrogate and challenge it, as has been explained to the OUR in Guernsey Post's Monitoring and Development Plan. As a result, Jersey Post generates a revised set of results that can conflict with the data used by Guernsey Post. Second, the two operators are working to different targets, with Guernsey Post's being the higher. Guernsey Post therefore requests that the OUR considers fully the information provided in section 3.2 during its future consultation on postal quality of service targets.

Guernsey Post believes that it is not appropriate for the OUR to direct that it achieves a combined target for J+3 bulk mail across the pre-sorted and un-sorted products. Indeed a combined target of 92.5% for the period to September 2005 is in any case statistically unachievable given the Royal Mail performance in the financial year to date. Instead it requests that the OUR review the targets currently in the Postal Licence to reflect the changing operating environment and the proven interest customers have demonstrated in Guernsey Post offering choice. It contends that the OUR ought direct Guernsey Post to measure and report against targets for pre-sorted and un-sorted mail, such targets to be agreed after a full consultation with interested parties.

Guernsey Post acknowledges the importance of targets and strives to achieve them. However they are a means to an end and not an end in themselves. Further, Guernsey Post does not believe it is appropriate for the OUR, or indeed any regulatory body, to direct Guernsey Post, or indeed any postal operator, to achieve legally enforceable targets across borders. To do otherwise is unreasonable, unworkable, disproportionate and, it might be said, ultra-vires. This is demonstrated very strongly by the conflicts between the targets that Guernsey Post has for Jersey-Bailiwick mail compared with those with which Jersey Post has targeted itself.

3.0 Response to findings of breaches of the Licence

3.1 Intra Bailiwick mail

The target of 99.9% for J+3 was missed by what is described by the OUR as a de minimis 0.2%. Guernsey Post agrees that this is a de minimis failure and whilst it does not believe that there is more it can do to significantly improve its performance against this target, it recognises that it must strive to achieve it.

In its report GPLQoS02P, Guernsey Post explained the statistical tolerances of the current measurement system. This situation can only be improved by increasing frequency and sample sizes, which will significantly increase the cost of procuring the data. Guernsey Post therefore requests that the OUR accepts that a cost-effective measurement system is in place with regard to end-to-end measures, provided by an established, independent UK supplier.

However it then follows that the current targets specified to one tenth of a percentage point demonstrates a spurious need for accuracy that is inappropriate given the tolerances of the measurement system. Guernsey Post therefore argues that the resulting targets from a review of postal quality of service offered by the Company should be limited to percentage points and not to tenths of percentage points.

3.2 Jersey to Bailiwick mail

The target of 60.0% for J+1 was missed by what is described by the OUR as a de minimis 1.6%. Guernsey Post agrees that this is a de minimis failure and recognises that it must strive to achieve the target.

However it should be noted that Jersey Post does not have quality of service targets imposed and monitored by an independent body, although it has from choice elected to adopt the Guernsey Post targets for 2004 for its trading year 2005 ie: it is working on a set of targets one year behind Guernsey Post. Furthermore it does not publish its results.

As regards the target for Jersey to Bailiwick mail, this raises two issues that the OUR needs to consider. First, the same data is provided to both operators who interrogate and challenge it, as has been explained to the OUR in Guernsey Post's Monitoring and Development Plan. As a result Jersey Post generates a revised set of results that can conflict with the data used by Guernsey Post (confidential: Annex One). Second, the two operators are working to different targets, with Guernsey Post's being the higher. Guernsey Post therefore requests that the OUR considers fully the information provided in section 3.2 in this regard during its future consideration of postal quality of service targets.

This dichotomy of views illustrates why Guernsey Post advocates that no regulatory body can direct a postal operator to achieve legally enforceable targets across borders. To do otherwise is unreasonable, unworkable, disproportionate and, it might be said, ultra-vires. If Jersey Post, for arguments sake, is satisfied with achieving the prior year Guernsey Post targets, it will be extremely difficult for Guernsey Post to influence further improvement, and unreasonable for it to suffer sanctions as a result.

3.3 Bulk mail from the Bailiwick to the UK

The target of 99.0% for J+5 was missed by what is described by the OUR as a de minimis 2.2%. However performance against the J+3 target was 9.3% below target. Guernsey Post agrees this is not acceptable, and has been working strenuously to improve, in partnership with Royal Mail the only viable “last mile” operator in the UK at the moment.

This target is currently designed to be achieved through the combined measurement of pre-sorted and un-sorted bulk mail. Customers welcome this product choice as the majority do not wish to incur the cost of the re-engineering of their pick-and-pack processes and databases to support pre-sortation of mail by postcode to the 120-way required by Royal Mail.

The quality of service results have been driven down primarily through dramatic delays incurred by un-sorted mail on entry to the UK Royal Mail Offices of Exchange. For the avoidance of any doubt, all of the mail referred to left Guernsey on schedule, and the delays were wholly beyond the control of Guernsey Post. For this reason Guernsey Post would recommend that the OUR review the targets for this segment of traffic with a view to introducing individual targets for both pre-sorted and unsorted mail. Also excluded from this measurement are the small flower mail-order customers who use the Straight Line Pricing letter tariff, not the bulk mail tariff, but because of the nature of the mail items this traffic is not measured through the standard end-to-end measurement system for letter mail.

Though Royal Mail claims the un-sorted bulk mail service is now working well after Christmas pressure, Guernsey Post’s evidence does not support this and in any case the company is concerned that delays may continue whilst Royal Mail introduces significant changes.

Guernsey Post recognises that it must try to find solutions and has been working with Royal Mail to introduce, by mid-February, a 17-way sortation to accelerate this mail to delivery offices. This process was agreed with Royal Mail, though Royal Mail has now withdrawn its agreement. This is but one example of the difficulties Guernsey Post experiences in its dealings with Royal Mail in relation to this issue, and is reflective of the lack of influence and control Guernsey Post has over the actions of Royal Mail. The 17-way sortation remains as a possible temporary solution to some of the problems and Guernsey Post continues to pursue it; however any extra costs it incurs in working to improve the service as much as possible cannot be recovered from Royal Mail which was not, at the time of the last contract negotiations, prepared to accept sanctions for quality of service failure unless the overall charge for all the Bailiwick’s mail was significantly increased.

Guernsey Post cannot force Royal Mail to improve its service. The efforts of Guernsey Post are evidenced by the high level meetings undertaken for some months to remedy the situation, but without success. Furthermore Royal Mail does not have targets for international inward or outward mail. Indeed Postcomm (its Regulator) has set targets designed to drive quality improvements in the distribution and delivery of intra-UK mail only. This again illustrates why Guernsey Post believes it is

unreasonable for it to have legally enforceable targets for mail delivery across borders.

In closing, Guernsey Post would point out customers do have the option of pre-sorting mail through the workshare element of the products to improve their quality of service to their customers should they wish, and indeed those customers who do pre-sort their mailings are receiving a very robust +90% J+3 service, with up to half of the items actually receiving J+2. Guernsey Post is actively encouraging its customers to consider this option, even as a temporary measure, whilst the network changes within Royal Mail work through their teething problems.

3.4 Internal Efficiency Inward 2nd Class mail (Di+0)

Guernsey Post notes that the OUR has recognised that both the Company and the OUR were slow to note the error in reporting the second class letter and second class mailsort achievements against target and that as a result of consistent 100% results for the last 3 months, the Director General accepts this to be a de minimis matter.

3.5 Internal Efficiency 2nd Class mail (Di+1)

The target of 99.9% for Di+1 was missed by what is described by the OUR as a de minimis 0.8%. Guernsey Post agrees that this is a de minimis matter and whilst it does not believe that there is more it can do to significantly improve its performance against this target, it recognises that it must strive to achieve it.

3.6 Acknowledgement of Complaints

The target of 99.0% for complaints acknowledged within two working days was missed by what is described by the OUR as a de minimis 0.3% and actually equates to 12 written complaints out of 543 received during the year by Guernsey Post being acknowledged in writing outside the two day target.

Whilst Guernsey Post accepts that it should achieve the target and is working to understand the key cause of failure and re-brief all managers who receive customer correspondence of the correct procedures, it would argue that non-the-less its attention to customer service is top-rate, particularly evidenced by success in other customer KPIs such as the resolution of 95% of customer complaints within ten working days.

4.0 Response to proposed Direction

Guernsey Post cannot achieve 92.5% if Royal Mail itself does not. Guernsey Post has no sanctions that can compel Royal Mail to achieve a target of 92.5%. Further, the UK Postal Regulator does not currently recognise the need to set Royal Mail any targets in relation to its handling of international mail.

It is not statistically possible for Guernsey Post to achieve such a target in the current year as a whole, given the performance in the year to date. The reasons for this are explained elsewhere and are wholly beyond the control of Guernsey Post (confidential: Annex Two).

In any event, Guernsey Post contends that it is not appropriate for the OUR to direct that it achieves a combined target for J+3 bulk mail across the pre-sorted and unsorted products. Instead it requests that the OUR reviews the targets to reflect the changing operating environment and the proven interest customers have demonstrated in Guernsey Post offering choice. It is of the view that the OUR ought direct Guernsey Post to measure and report against targets for pre-sorted and unsorted mail, with such targets to be agreed after a full consultation with interested parties.

Further, Guernsey Post does not believe it is appropriate for the OUR, or indeed any regulatory body, to direct Guernsey Post, or indeed any postal operator, to achieve legally enforceable targets across borders. To do otherwise is unreasonable, unworkable, disproportionate and, it might be said, ultra-vires.

As referenced in section 3.3, the current measurement system amalgamates all the bulk mail into one figure and one target. This understates the performance of the pre-sorted bulk mail and overstates the performance of the unsorted bulk mail. Furthermore this sampling scheme, operated in line with that which had run for many years previously, was voluntary and paid no regard to traffic volumes by customer.

Guernsey Post has been working in recent months on changes to the way it analyses and presents the data from this measurement system and will be presenting the December 2004 data in this new transparent format to its bulk mail customers shortly.

To secure the support of these customers in maintaining data capture, it is intended to link the requirement to participate in the quality of service scheme within both future product offerings and the over-arching contract that Guernsey Post will have in place with each customer. This scheme will require all appropriate customers to perform monthly samples at levels agreed with Guernsey Post. The results will then be weighted by the total postings despatched by each customer every month.

Each customer, whether they use the sorted or unsorted product, will receive an unweighted individual result each month in order to afford comparison with prior year figures. Additionally they will receive the overall weighted figure for pre-sorted and unsorted traffic for the month concerned.

5.0 Conclusion

Guernsey Post is of the view that

- Quality of Service targets set and monitored by an independent body are appropriate for a postal operator
- A review of the current quality of service targets should be undertaken this year
- Quality of service targets should be presented as whole percentage points because of the statistical tolerances inherent in the measurement systems
- Legally enforceable quality of service targets should not be set for cross border mail