



**POSTAL CONSULTANCY
INVITATION TO TENDER**

EFFICIENCY REVIEW OF JERSEY POST LIMITED

15 JANUARY 2010

INTRODUCTION

Purpose of this document

This document sets out the terms of reference for the work that the JCRA intends to commission from an economic consultancy firm to review Jersey Post Limited's ('Jersey Post') future efficient costs for its regulated mail activities (the 'efficiency review'). This project forms an important part of the work that JCRA will be carrying out to review the price and service quality controls for Jersey Post's regulated mail activities to determine the regulatory arrangements that should apply to Jersey Post, which was incorporated on 1 July 2006. The objective is to determine whether Jersey Post is an efficient postal operator and to identify whether there is scope for additional efficiencies. This is the Stage 1 project.

A detailed cost modelling exercise for the purpose of determining a price control mechanism may follow in Stage 2 and it is possible that the successful consultant for the Stage 1 work may also be asked to undertake Stage 2.

The JCRA undertook the first efficiency review of Jersey Post Ltd in 2006 and subsequently introduced a price control in January 2008 which is due to expire in December 2010.

Background

The Jersey Competition Regulatory Authority ('JCRA') was established by law on 1 May 2001 as an independent regulatory body to promote greater competition on the Island. Since its inception, the JCRA's first focus has been on the liberalisation of telecommunications in Jersey.

On 1 July 2006, the Postal Services (Jersey) Law (2004) ('the Postal Law') came fully into effect. This allows for:

- (1) the incorporation of what was the Committee for Postal Administration (run previously as a States of Jersey (i.e. Government) trading board), into a trading company known as Jersey Post Limited.
- (2) the abolition of the exclusive privilege of the States in postal services in what was previously a monopoly market.

Jersey Post is the designated public postal provider in Jersey and as such currently has significant market power of the regulated postal market. Under the Postal Law, the regulated area is for letters up to £1.30 and weighing no more than 500 grams.

Jersey Post is 100% owned by the States of Jersey.

The cost of the Universal Service Obligation ('USO') is borne by Jersey Post.

As well as providing core postal services, Jersey Post also provides a successful offshore e-commerce fulfilment business ('Jersey Post Logistics') and corporate mailing services ('Promail'). Recently, in an effort to diversify into new markets, which are not reliant on traditional postal products, the Group company has launched Jersey Post Enterprise. Its activities so far include the setting up of a logistics company (Ship-2-Me) for islanders wishing to purchase bulky goods from UK-based retailers and a new mobile phone service (MeMo) marketed as an MVNO in conjunction with Airtel-Vodafone.

Information relating to both the summary 2007 and 2008 accounts maybe obtained from Jersey Post's respective annual reports which maybe found on their website www.jerseypost.com. The company employs approximately 400 staff, but recently announced that it is due to make 80 staff redundant on a voluntary basis.

To date, the JCRA has issued two other postal licences in addition to Jersey Post, namely to Regency Holdings Ltd and Hi-Speed Freight Services Ltd. Two other postal licence applications are pending, namely to Citipost DSA Ltd and Hub Europe Ltd.

Aims of the Efficiency Review

The JCRA needs to assess what would represent an efficient future level of costs for Jersey Post's licensed activities.

At the end of the efficiency review, the JCRA would expect the consultant to provide a view of Jersey Post's future efficient costs for 2010 to 2013 broken down by categories for ongoing operating expenditure, one-off operating expenditure and capital expenditure.

The consultant should consider the net efficient costs allowing for the possibility that higher costs in the short term could reduce costs in the longer term, e.g. capital expenditure to reduce operating expenditure. The consultant should be aware that the JCRA recently costed the USO which shows losses and has made certain recommendations through which Jersey Post needs to cut costs in order to be able to fully finance the provision of the USO. In addition, Jersey Post has recently earmarked savings of the order of 3% pa over the next 3 years to help offset the decline in revenues from falling mail volumes which for inbound traffic, dropped by 16% in 2009. Finally, in Jersey's neighbouring jurisdiction, Guernsey, the Office of Utility Regulation has recently identified £2m potential savings in an efficiency review of Guernsey Post Ltd.

The JCRA expects the consultant to be able to justify their projections with reference to specific evidence based examples of efficiency savings relative to Jersey Post's projected future costs. The consultant will need to be able to explain clearly the benchmarking and analytical techniques used and why they are relevant for the review. Where possible, the consultant should be seeking to draw on a range of different sources of evidence and analytical techniques to justify its proposal, while clearly indicating the relative strengths and weaknesses of different evidence and analytical approaches. The JCRA will expect

the consultants' projections to take account of their view about the time period over which efficiency savings can be achieved, having regard to the particular nature of Jersey Post's business, including the role of the trade unions and potential impacts on quality of service if Jersey Post were to implement major operational changes.

Context for the review

Whilst the Channel Islands are not part of the European Union, nevertheless the consultant will be expected to be fully familiar with the current regulatory framework for postal services in Europe and the UK for postal services.

Specifically, the projected future efficient costs for Jersey Post will need to allow the company to deliver the USO, to finance its other licensed activities, and to have regard to the specific duties of the JCRA and the Minister for Economic Development outlined in Article 8 of the Postal Law.

The review should also have regard to other developments e.g. Jersey Post's proposals to introduce Size Based Pricing (SBP) in May 2010 and their forthcoming proposals to reduce the number of delivery days per week from 6 to 5.

The JCRA will keep the consultant updated on a timely basis about relevant developments in its regulatory strategy over the period of the review. The consultant will need to recognise that some important aspects of the regulatory strategy might change or not be settled during the period of the efficiency review. The consultant will need to accept and build in these uncertainties when developing their conclusions.

Approach to work

The JCRA will expect the consultant to use a range of analytical techniques to ensure the overall robustness of the results with more emphasis placed on, and time invested in, those analytical techniques that are the most robust.

The JCRA would expect the consultant to use reasonable judgement in deciding which cost categories should not be closely examined, either because Jersey Post has limited scope to control the costs or the level of the costs is de minimis.

The JCRA would also expect the consultant to be familiar with the approaches adopted by other utility regulators for efficiency reviews in recent price control reviews to ensure that their approach is consistent with current regulatory good practice.

Establishing base year costs

The consultant will be required to establish a robust base year of actual costs on which to build its forward looking projections. The JCRA expects the consultant to use the 2009 actual costs provided by Jersey Post as the base year. The consultant will need to be mindful, when verifying the cost information for the base year, to ensure that 2009 provides a robust base year. Jersey Post generally seeks to update and develop its cost attribution and volume measurement approaches on an annual basis. The JCRA will give the consultant access to historical cost information for 2007 and 2008 and the review of these costs carried out for its access work.

The consultant should seek to understand the costs for the individual components of the pipeline, i.e. collection, consolidation, outward sortation, trunking, inward sortation, local delivery and delivery, and identify what the main cost component is for each and whether any further cost savings in addition to those identified by Jersey Post can be made.

The JCRA expects benchmarking techniques to be central to the analysis of Jersey Post's future efficient costs as they can provide evidence to support alternative projections to those proposed by Jersey Post. The JCRA expects the consultant to consider at least three approaches to benchmark Jersey Post's costs to assess their expected future efficient costs. These are:

- benchmarking of relevant Jersey Post activities with similar activities carried out by other similar businesses, e.g. bulk transportation and property.
- benchmarking Jersey Post's support activities, e.g. management, finance, HR, IT, etc, with appropriate companies.
- international benchmarking of Jersey Post's activities with the activities of similar size postal operators.

Specific activities to be reviewed by the consultant

The JCRA would expect the consultant to review at least the following list of specific issues:

- how Jersey Post has performed relative to its historic plans for operating and capital expenditure to identify projects that have not been carried through or fully delivered;
- Jersey Post's overall productivity level, how it has trended over time and the opportunities for improvement in the future;
- whether there are opportunities for Jersey Post to re-configure its network to improve the efficiency of its processes;

- whether there are opportunities for Jersey Post to integrate its operations backwards into the systems of its major customers;
- whether the remuneration rates (including pensions, etc) paid by Jersey Post are comparable with rates paid for jobs of similar skill levels in Jersey;
- the efficiency of Jersey Post's mix of using full time, part time and agency staff, and overtime payments. This will include an assessment of Jersey Post's staff turnover rates compared to organisations employing similar types of labour;
- compare Jersey Post's level of staff absenteeism (due to illness and industrial action) with other comparable organisations to identify any scope for reducing absenteeism to reduce costs;
- to what extent Jersey Post's current processes exceed the minimum necessary to meet the USO and its service quality targets;
- assess how Jersey Post's cost would increase or decrease as a result of a change in quality of service;
- assess how well Jersey Post manages its network capacity on a day-to-day and seasonal basis to match capacity with throughput;
- whether introducing more mechanical sorting machines for 'letters', 'large letters' and 'packets' would reduce net costs by eliminating some operating costs;
- whether Jersey Post's planning, management and evaluation of capital expenditure projects is reasonable and broadly sound given the absolute levels of capital expenditure incurred by the business, and if not, what opportunities there are to improve the processes that could generate cost savings;
- whether the internal recharges within Jersey Post group are a reasonable attribution of costs;
- compare Jersey Post's overhead and support costs (including human resources, finance, legal, regulation, etc) with those of businesses of a comparable complexity and size to identify scope for cost savings;
- identify the scope for future efficiency savings within Jersey Post based on its historical performance and the historical performance of businesses with similar processes;

This is not an exhaustive list of issues, and the JCRA would expect the consultant to identify additional issues after reviewing the information provided by Jersey Post, site visits to Jersey Post and potentially meetings with other stakeholders.

Terms of Tender

Deliverables & Timetable

The report shall be in the English language throughout.

The conclusions from the consultants' work will inform the JCRA's initial and final proposals for the efficiency review. It is envisaged that the appointment will take effect by 1 March 2010. The consultant will be expected to complete the following tasks, with the following indicative timeframes:

- provide a draft report, based on the historical information, to the JCRA for comment by end-April 2010;
- JCRA to review draft by mid-May 2010 with comments;
- provide the second draft report to Jersey Post for comment by end of May 2010, incorporating comments from the JCRA;
- incorporate any significant comments from Jersey Post by mid-June 2010;
- make a presentation to the JCRA setting out the conclusions of the consultants work – end of June 2010; and
- provide a final report to the JCRA by mid-July 2010.

Prior to compiling its initial draft report the consultant will discuss the structure of the report with the JCRA.

At the end of the project the consultant will be expected to provide the JCRA with a copy of a full set of files for all of the work carried out, clearly documenting all of the information gathered and used, and including records of all meetings held.

The final report shall be provided to the JCRA in both hard copy and electronic formats.

Qualifications

The tenderer shall provide to the JCRA with the tender document evidence of relevant previous experience of this class of work.

The tenderer shall provide the experience of the members of team that shall be employed on this project. This may include evidence of any relevant experience or the CVs of the team members, whichever is most appropriate.

Confidentiality

The tenderer shall be required to sign a confidentiality agreement with the JCRA not to disclose to a third party any data received with or obtained from the review.

Terms

The tender shall provide the following information:

1. All costs shall be expressed in Pounds Sterling.
2. The costs per hour of any additional work that may be required by the JCRA in addition to that specified above.
3. The projected timeline of the programme of work.
4. A clear statement that the tenderer has no conflict of interest with any other relevant party on the Island of Jersey, and/or that it shall not place itself in such a position during the completion of the programme. The tenderer shall disclose to the JCRA any matter which in its view may breach such a conflict of interest.
5. A breakdown of costs for the programme of work shall be provided at the end of the contract in sufficient detail that the JCRA may determine where any additional invoiced costs have been incurred.
6. Value Added Tax is not applicable to work carried out on the Island of Jersey.
7. The terms of payment for the completed work.
8. The tenderer understands that final report produced for the JCRA shall become the intellectual property of the JCRA.

Contact

All queries relating to this ITT should be addressed to:

Paul Hamilton
Phone: +44 1534 514997
Email: p.hamilton@jcra.je

Tender Instructions

Submitted tenders shall be valid for a period not less than 30 days from the closure date of the tender.

The tenderer shall provide a named contact together with contact details to the JCRA as part of the tender document.

The JCRA reserves the right not to accept the lowest or any tender and at its sole discretion may optionally retender for the programme of work after the closure date.

Completed tenders should be addressed to:

Paul Hamilton
JCRA
2nd Floor Salisbury House
1-9 Union Street
St Helier
Jersey
CI
JE2 3RF

p.hamilton@jcra.je

www.jcra.je

Closure date for tenders:

Tenders must be received by **5:00pm 12 February 2010** at the JCRA office.