

**AUDITOR GENERAL'S DEPARTMENT
PERFORMANCE AUDIT REPORT
DELIVERY OF PUBLIC POSTAL SERVICE IN JAMAICA**



The Auditor General is appointed by the Governor General and is required by the Constitution, Financial Administration and Audit Act, other sundry acts and letters of engagement, to conduct audits at least once per year of the accounts, financial transactions, operations and financial statements of central government ministries and departments, local government agencies, statutory bodies and government companies.

The Department is headed by the Auditor General, Pamela Monroe Ellis, who submits her reports to the Speaker of the House of Representatives in accordance with Section 122 of the Constitution of Jamaica and Section 29 of the Financial Administration and Audit Act.

This report was prepared by the Auditor General's Department of Jamaica for presentation to the House of Representatives.

Auditor General of Jamaica
Auditor General's Department
40 Knutsford Boulevard
Kingston 5, Jamaica, W.I.
www.auditorgeneral.gov.jm

Our Vision:

A better country through effective audit scrutiny



Table of Contents

AUDITOR GENERAL'S OVERVIEW	4
EXECUTIVE SUMMARY	6
WHAT WE FOUND	7
WHAT SHOULD BE DONE	9
PART ONE	10
INTRODUCTION	10
FACTORS INFLUENCING THE MODERNISATION OF THE PUBLIC POSTAL SERVICE	10
RATIONALE FOR THE AUDIT	11
THE AUDIT OBJECTIVE AND SCOPE	11
THE AUDIT METHODOLOGY	12
PART TWO	14
THE OPERATIONS OF THE PUBLIC POSTAL SERVICES	14
PTD NETWORK AND SERVICES	14
PTD RECORDED A 26 PER CENT FALL IN MAIL VOLUME, WHICH LED TO A 12 PER CENT REDUCTION IN REVENUE	14
DESPITE LOWER MAIL VOLUMES, COSTS WERE UNCHANGED, HENCE PTD'S CONTINUED NEED FOR SUBSIDY	17
STAFF-RELATED COSTS ACCOUNTED FOR 70 PER CENT OF PTD'S EXPENDITURE	18
<i>Some Post Offices were uneconomical and potentially unsustainable</i>	19
<i>PTD is not obtaining value for money from its contractual relationships with Postal Agents</i>	21
PTD DID NOT ASSESS ITS EMPLOYEES AGAINST PERFORMANCE TARGETS	22
INADEQUATE EVALUATION OF NEW COMMERCIAL SERVICES	23
PART THREE	24
CASE STUDY: PROGRESS IN THE MODERNISATION OF POSTAL SERVICE	24
PTD WAS SLOW IN RESPONDING TO ALTERNATIVES IN MAIL DELIVERY SERVICES	24
RATIONALISATION OF POST OFFICES STALLED	25
MODERNISATION OF THE PUBLIC POSTAL SERVICE SLOWED BY INADEQUATE STRATEGIC SUPPORT	26
DELAY IN COMPLETING LEGISLATIVE FRAMEWORK FOR THE REGULATION OF THE POSTAL SERVICES	27
APPENDICES	28
APPENDIX 1 BUILDING BLOCKS OF VALUE FOR MONEY (VFM)	28
APPENDIX 2 POSTAL ACCESS POINTS (PAPs)	29
APPENDIX 3 ANALYSIS OF SAMPLE OF POST OFFICES MAIL VOLUME AND EXPENDITURE 2016-17	30
APPENDIX 4 PTD MODERNISATION INITIATIVES	31

This report contains our findings on the Delivery of
Public Postal Service in Jamaica, in the context of
changes in communication technology and
alternatives in mail services.

Auditor General's Overview

The Post and Telecommunications Department (PTD) operates in an increasingly competitive and technology-driven environment, engendered by greater access to electronic communication platforms and innovations, which has also spurred the growth of private mail services. In order to compete effectively and contribute to the promotion of cross border trade as outlined in the Vision 2030, National Development Plan, PTD must constantly upgrade its capacity to respond to the public's need for fast, reliable, and cost-effective postal services.

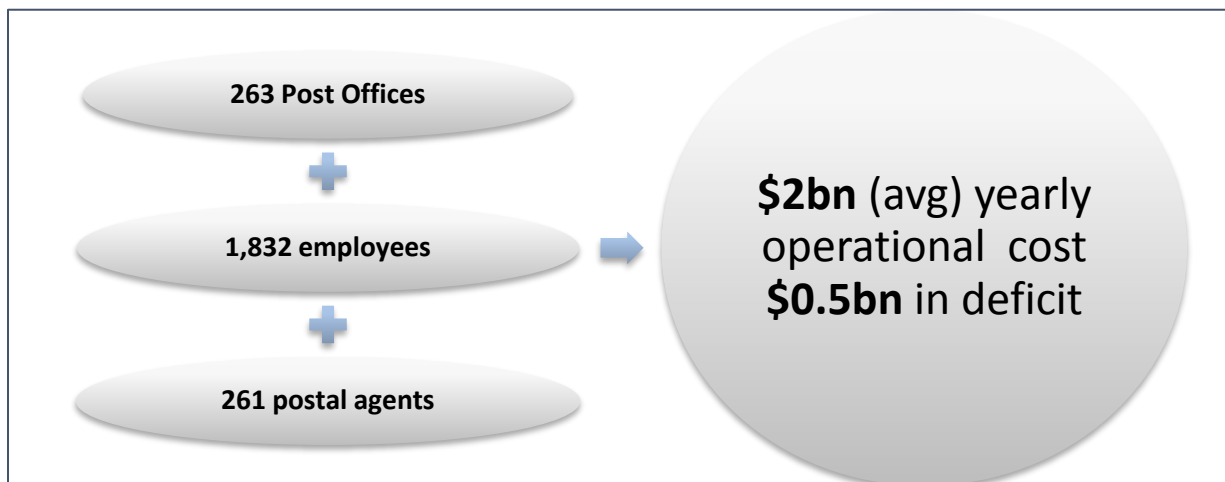
We conducted a performance audit on the public postal service to determine whether the current operations were cost effective in delivering this vital service to customers. The audit also sought to assess PTD's progress towards modernising and commercializing the public postal service through the Postal Corporation of Jamaica (PCOJ), as mandated by the Government of Jamaica in 2000.

We found that PCOJ's progress in implementing initiatives to modernise and commercialize the public postal service was slow, which contributed to a fall in mail volumes and revenue, over the period 2012-13 to 2016-17. At the same time, PTD's annual expenditure remained the same averaging \$2 billion. Further, the Ministry of Science, Energy and Technology's (MSET) delay in finalizing the Postal Service Bill, for debate and approval of the new Postal Service Act by Parliament, would have impeded PCOJ's flexibility to innovate and rationalize the public postal service in responding to the demands of customers for fast and efficient mail service. To address the deficiencies identified in Jamaica's postal service, MSET and PCOJ need to consider for immediate action, the recommendations contained in this report.

Thanks to the management and staff of PCOJ and PTD for the cooperation and assistance given to my staff, during the audit.



Pamela Monroe Ellis, FCCA, FCA
Auditor General



Executive Summary

The Post and Telecommunications Department (PTD) provides public mail services island-wide. In 2000, the Government of Jamaica (GOJ) established the Postal Corporation of Jamaica (PCOJ), as a transition company, to spearhead the modernisation and commercialization of the PTD. The Department operates in an increasingly competitive environment, driven by advancements in communications technology and cross border trade, which has spurred the growth of private mail services. Vision 2030 National Development Plan identifies mail services as an important vehicle for the supply of goods and services across borders in promoting trade. It is therefore essential that the PTD is equipped with the appropriate technology and institutional framework that will support a reliable, efficient and cost-effective postal service for households and business enterprises.

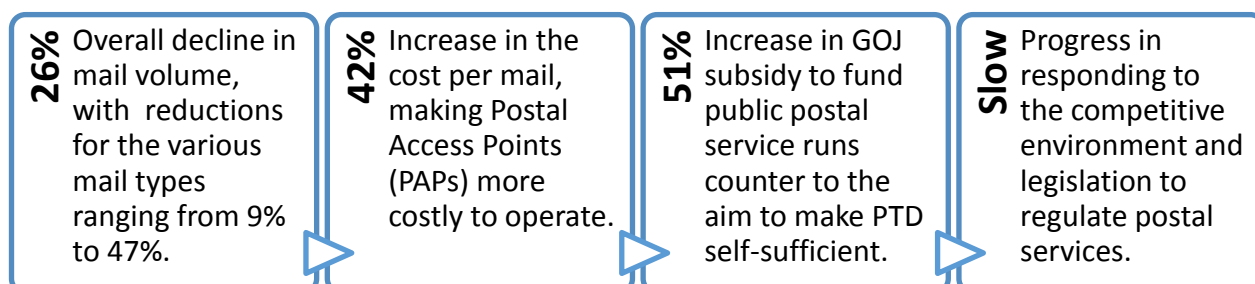
We conducted a performance audit on the public postal service to determine whether the current operations were cost effective in delivering this vital service to customers. The audit also sought to assess PCOJ's progress towards modernising and commercializing the public postal service, as mandated by the GOJ.

The audit concluded that the PCOJ's slow progress in modernising and commercializing the operations of PTD, coupled with competition from private mail service providers, has resulted in a continuing fall in mail volumes and revenue, making it more costly to provide public postal services. Further, inadequate strategic support from the Ministry of Science, Energy and Technology (MSET) through the delay in finalizing the Postal Service Bill, for debate and approval of the new Postal Service Act by Parliament, would have impeded PCOJ's flexibility to innovate and rationalize the public postal service in responding to the demands of customers for fast and efficient mail service. We noted PTD presentation to its portfolio Ministry in 2014, outlining a restructuring plan for the Department; however, we saw little evidence of implementation. We based our audit conclusions on our review of data and information obtained from PTD, PCOJ, MSET and discussions with key stakeholders. A summary of the audit findings, observations and opinion are presented below, while the details are provided in Parts Two and Three of this report.



Key Audit Question Is the delivery of postal services in Jamaica economical and keeping pace with technological changes, in order to be sustainable?

What we found

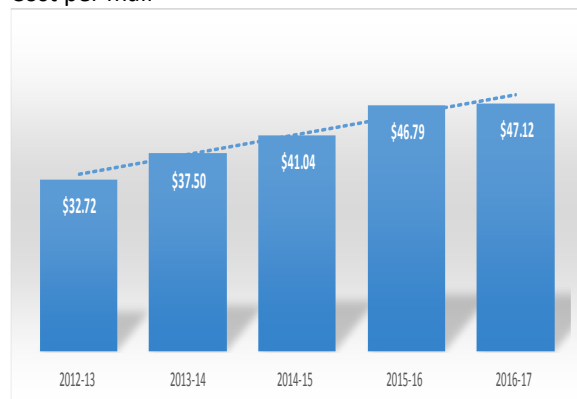


- 1. PCOJ was established in March 2000 to spearhead the modernisation and commercialization of PTD.** However, it was not until 2011 that PCOJ identified five initiatives aimed at reforming the public postal service. Since then, PTD has made little progress in implementing the initiatives; and as more customers gained access to electronic mail platforms and private mail delivery services, mail volume declined by an overall 26 per cent between 2012-13 and 2016-17. Notwithstanding, MSET has been slow in finalising the Postal Service Bill, for Parliament's consideration and approval, for the creation of a new statutory corporation, Jamaica Post and the regulation of the postal service in Jamaica. Consequently, the postal service sector is unregulated with over 24 commercial entities and contractors offering mail delivery services and some Postal Access Points (PAPs) continue to operate uneconomically due to little or no mail activity. The new Postal Service Act will seek to establish an independent regulator. However, MSET has not completed the Postal Service Bill since July 16, 2007, despite setting several targeted completion dates.
- 2. PTD's ability to contain costs in the face of declining mail volumes and revenue was limited as salary related expenses (70 per cent) dominated operational expenditure.** Annual operational costs were virtually constant averaging \$2 billion with the average cost per mail increasing by 42 per cent. This was despite the introduction of the international express and domestic zip mail service. Volumes for ordinary mail (98 per cent of PTD's mail service), registered mail, packets, parcels and zip mail services, fell by as much as 47 per cent¹, whereas international express mail increased by 70 per cent. The overall decline in mail volume contributed to a 12 per cent reduction in PTD's total revenue, to \$1.4 billion in 2016-17 from \$1.6 billion in 2012-13. In 2014, PCOJ indicated to MSET that the current model was not sustainable and recommended eight components of a plan to support the modernisation of the public postal service. The plan included the closure of 212 Postal Agencies and 160 Post Offices, which would generate expected income of \$525.5 million from the sale of closed properties and expected annual cost saving of \$571 million. While MSET included the revitalization of postal services, increased competitiveness of PTD, and introduction of new market driven products

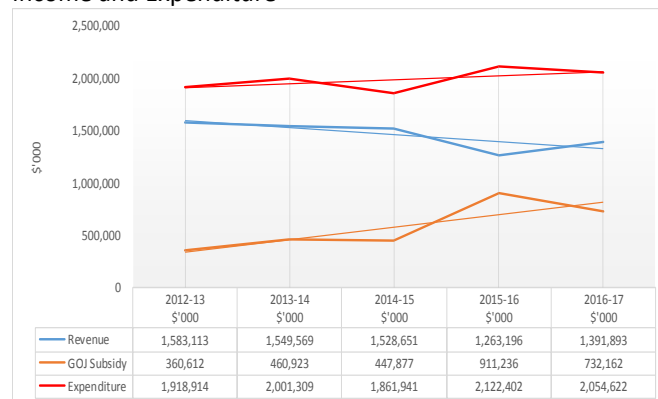
¹ Corporate clients account for the majority of ordinary mail.

and services as strategic outcomes in its 2014-17 Strategic Plan, we found no evidence that MSET provided adequate strategic support for the implementation of the plan.

Cost per mail

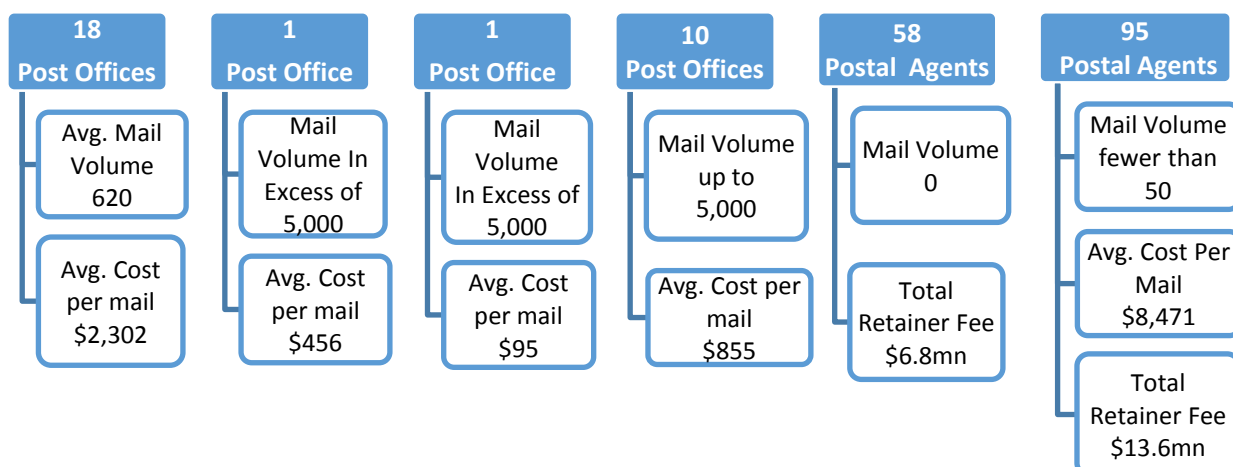


Income and Expenditure



PTDs record management system was not structured in a manner to allow us to assess the financial performance of the 263 post offices. This limitation could have undermined PTD's ability to make timely informed decisions. Our analysis of a sample of 30 Post Offices for the period April 2016 to March 2017 revealed that more than half handled an average of 620 mail at a cost of \$2,302 per mail; whereas, only two Post Offices handled in excess of 5,000 mail with each costing an average of \$456 and \$95 per mail². We also found the arrangement with the Postal Agents to be uneconomical as they handled little or no mail, but were paid retainer fees totalling \$41 million during 2016-17. For example, of 260 Postal Agents, 58 did not receive or dispatch any mail during that year, but were paid sums totalling \$6.8 million. Another 95 Agents each received and delivered fewer than 50 mails throughout the year, and it cost PTD \$13.6 million in retainer fees for them to handle 1,606 mail averaging \$8,471 per mail. Whereas PTD collated data provided by Postal Agents on their activity levels, no analysis was undertaken to determine the extent to which it was obtaining value from the contractual relationships with Postal Agents. Aware of low output and inactivity of Postal Agents, PTD closed 15 agencies between 2012 and 2017.

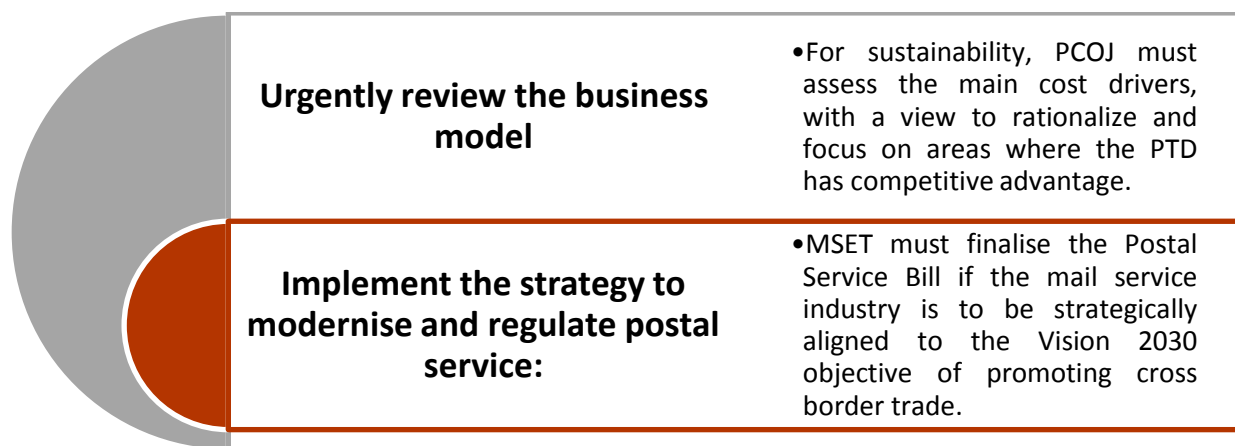
² We based our assessment of the cost per mail on the volume in relation to staff salary, rental expense and utility costs.



PTD's own review of 298 Post Offices and the Central Sorting Office (CSO), from as far back as 2014, revealed that the majority of Post Offices were operating with deficits, ranging from \$27,000 to \$31 million, while the CSO had a deficit of \$62 million. PTD closed a total of 36 Post Offices and 15 Postal Agents between 2012 and 2018, due to low output and inactivity.

3. **In the face of annual operational deficits averaging \$529 million, PTD increased its reliance on Government subsidy, which rose by 51 per cent over the period.** GOJ's subsidy as a per cent of the total expenditure increased to 36 per cent in 2016-17 from 19 per cent in 2012-13. The increasing level of subsidy runs counter to GOJ's intention for PTD to become self-sustainable and off the national budget³. Although PTD prepared cash flow projections and breakeven analyses prior to implementation of new services, it did not maintain disaggregated financial information, which would enable robust continuous assessment of the financial viability of its market segments.

What should be done



³ MSET Ministry Paper 2013-14 Section 2, pg. 27

Part One

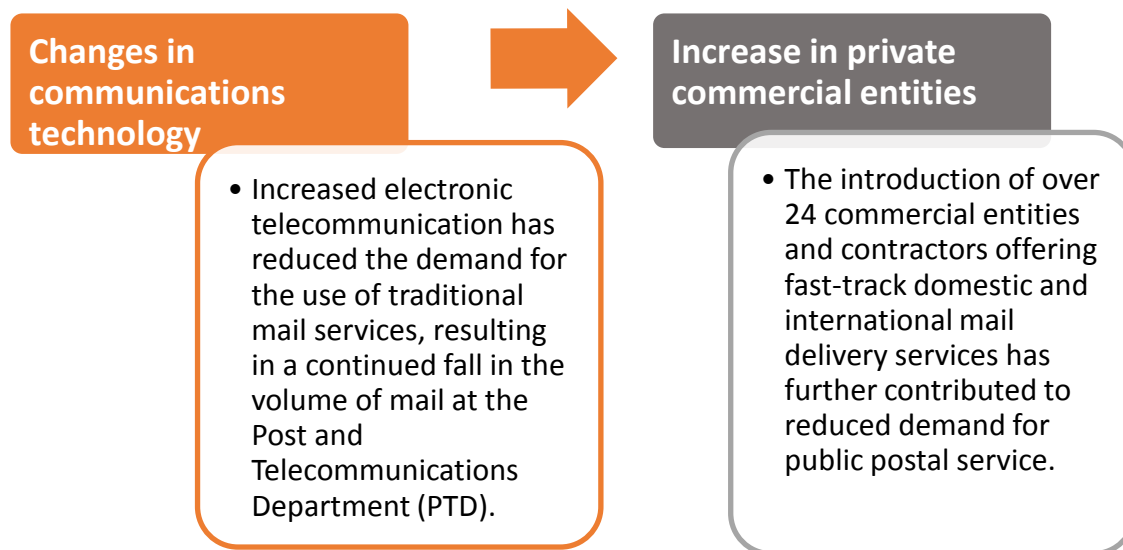
Introduction

Factors influencing the modernisation of the public postal service

1.1 The Government of Jamaica (GOJ) created the Postal Corporation of Jamaica (PCOJ), in March 2000, to lead the modernisation and commercialization of the public postal services, through the introduction of new market driven products and services⁴. Since its inception, there has been increased access to electronic communications technology and significant growth in private mail service operators, fuelled by innovations and advancements in technology and increased cross border trading activity.

1.2 These factors have contributed to a notable reduction in the demand for traditional mail services, which precipitated a fall in revenue not replicated on the expenditure side of PTD's balance sheet. Accordingly, the PCOJ and PTD has recognised the need for a new business model under a commercial framework, which will enable the PTD to become more efficient and financially sustainable.

Impact of the competitive environment on the public postal service in Jamaica



⁴ Ministry Paper 2016-17

Rationale for the audit

1.3 We considered the delivery of postal service as a public good and the efficient and cost effective manner in which PTD delivers this important service could augur well for Jamaica's economy. This is in the context where Vision 2030 National Development Plan identifies mail services as an important vehicle for cross-border supply of goods and services in promoting trade. Technological changes and growth in alternative mail services are worldwide phenomena contributing to a significant reduction in the use of traditional mail services, which has negatively affected the operations of PTD. PTD's annual operational expenditure has remained the same, averaging \$2 billion, despite a significant fall in mail volumes and revenue.

The audit objective and scope

1.4 The audit sought to determine whether the delivery of the public postal service in Jamaica was cost-effective and keeping pace with technological changes. In this context, the audit assessed whether the operations of Postal Access Points (PAPs) were economical, as well as, reviewed the progress towards the modernisation and commercialization of postal services, based on technological changes and other alternatives to mail service delivery. We did not seek to prescribe the strategies, which should be considered in pursuit of the modernisation and commercialization of the PTD.

1.5 In scoping the study, we also considered how it would contribute to the achievement of the Auditor General's wider strategic aims by:

- Targeting coverage of the Auditor General's Audit Themes, in particular Governance and Resource Management to aid in achieving the AuGD's vision of promoting a better country through effective audit scrutiny of government operations; and,
- Providing assurance to Parliament and the public on the efficiency, effectiveness and economy of the operations of Government Ministries, Departments and Agencies (MDAs) ([Appendix 1](#)).

1.6 The audit focused primarily on two areas:

Impact of technology on the Public Postal Service:

- We reviewed PTD's current business model to assess the extent to which technology and market changes have affected Jamaica's public postal service; and the nature and effectiveness of the response.

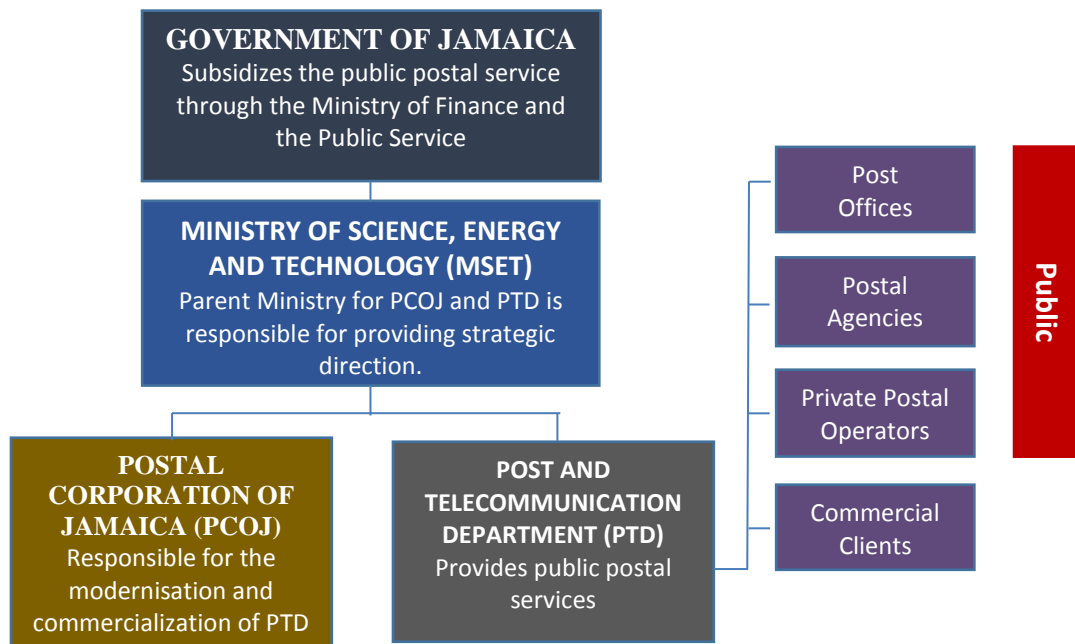
Progress in the effort to modernise and regulate the public postal service:

- We assessed PCOJ's and MSET's role in the modernisation, commercialization and regulation of the public postal service to reduce cost and remain relevant.

The audit methodology

1.7 We planned and conducted our audit in accordance with the Government Auditing Standards, which are applicable to Performance Audit, as well as standards issued by the International Organization of Supreme Audit Institutions (INTOSAI). In this regard, we gained knowledge of PTD's and PCOJ's operations through a review of internal and external information, interviews with management, staff and other stakeholders, observations, walkthroughs and analytical reviews. We conducted risk assessment and developed an issue analysis with the questions, which the audit sought to answer, in order to form our opinion and conclusion. We conducted fieldwork, between November 13 and December 22, 2017, to gather sufficient and appropriate audit evidence.

Mapping - key stakeholders for postal services in Jamaica



Source: AuGD compilation

Part Two

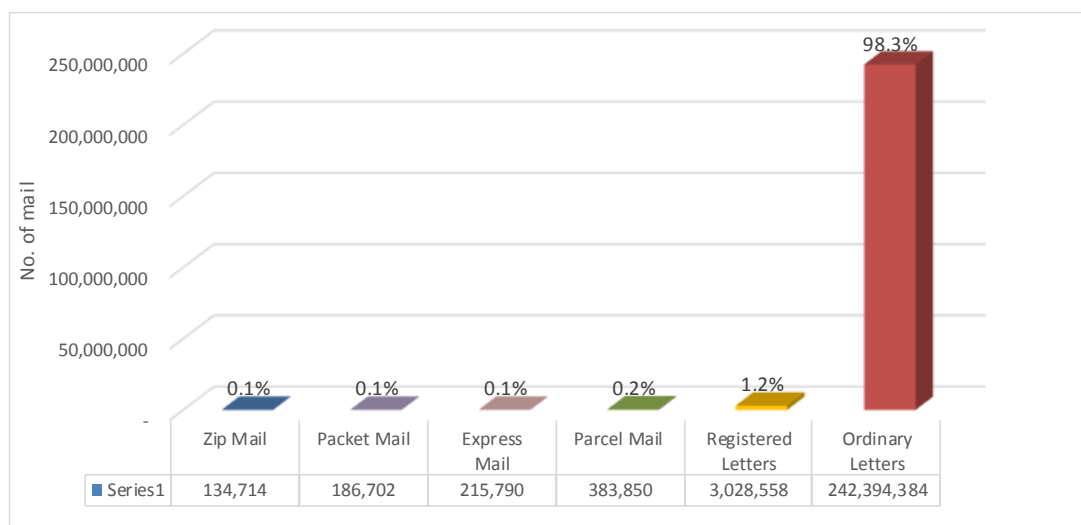
The Operations of the Public Postal Services

PTD network and services

2.1 Post and Telecommunications Department (PTD) delivers postal services through a wide network of Post Offices and Postal Agents and as at January 2018, comprised 263 Post Offices and 261 contracted Postal Agents, who sell postage stamps, collect and deliver mail in remote rural communities, (**Appendix 2**).

2.2 PAPs provide six types of revenue generating mail services, namely ordinary mail, registered mail, packets and parcels delivery, express mail and zip mail. Ordinary mail accounts for approximately 98 per cent of PTD's mail volumes, with corporate clients accounting for the majority of the volume handled (**Figure 1**). PTD also earns income from the rental of letterboxes. PAPs provide weekly and monthly reports on the volume of mail handled.

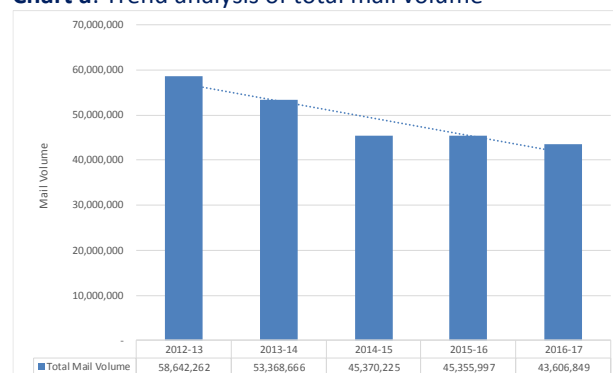
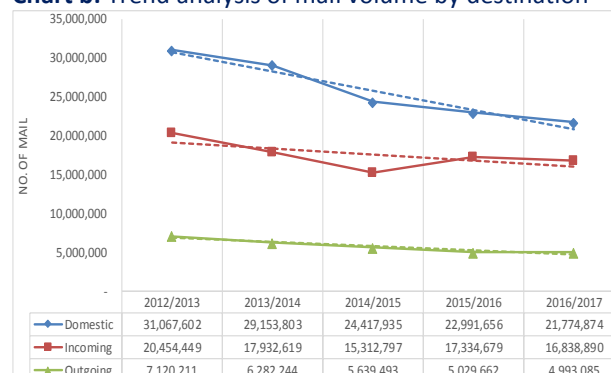
Figure 1: Analysis by mail type, 2012-13 to 2016-17



Source: AuGD analysis of data provided by PTD

PTD recorded a 26 per cent fall in mail volume, which led to a 12 per cent reduction in revenue

2.3 With an increase in the use of electronic telecommunication and private mail services, the overall volume of mail handled by PTD over the last five years, 2012-13 to 2016-17, declined by 26 per cent (**Figure 2, Chart a**). This reflected a combined 30 per cent fall in domestic and international outgoing mail and an 18 per cent contraction in international incoming mail (**Figure 2, Chart b**).

Figure 2: 26 per cent decline in PTD's mail volume between 2012-13 and 2016-17
Chart a: Trend analysis of total mail volume

Chart b: Trend analysis of mail volume by destination


Source: AuGD's Analysis of data provided by PTD

2.4 Mail services for ordinary mail, registered mail, packets and parcels delivery and zip mail fell by as much as 47 per cent and a low of 9 per cent over the audit period, the impact of which was partly offset by a 70 per cent increase in express mail volumes to 52,662 in 2016-17 from 30,990 in 2012-13. On the other hand, it was noted that the zip mail service declined by 47 per cent to 16,060 in 2016-17 from 30,533 in 2012-13, despite a rebranding of the service in 2015. This was in a context where customers were increasingly demanding fast and efficient mail services and improvements (**Figure 3**).

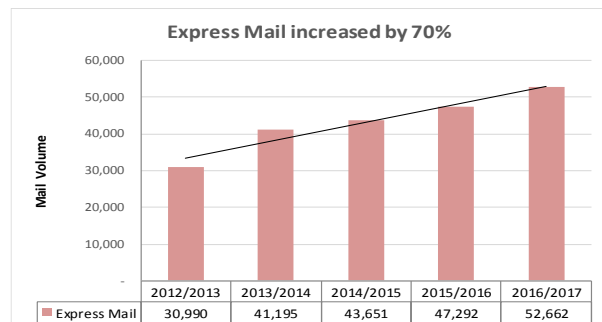
PTD indicated: "While there was a decline in volumes for Zip Mail services, the revenue did not decline. In the rebranding of the Zip Mail service, the number of post offices offering the service was reduced to only the most viable post offices. This reduction impacted the mail volume; however, having price adjustments between 100% and 300% ensured the increase in revenue".

2.5 With mail from corporate clients making up the majority of ordinary mail, PTD faces a major risk of further decline in mail volumes due to the increasing use of electronic means, by corporate clients, to deliver statements/bills to their customers. PTD indicated that the rates for corporate clients were taken from an established band that is volume driven, which allows corporate clients to benefit from bulk discounts. However, PTD did not provide information on how the bands were determined and as such, we were not assured of the extent to which revenues from corporate clients, contributed to PTD's overall revenue.

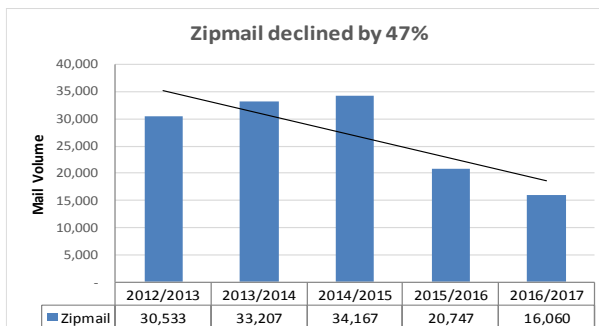
2.6 Considering that revenues from corporate clients account for the larger portion of PTD's revenue from core operations, it is important for PTD to continuously monitor its relationships with corporate clients and constantly assess the risks associated with the flow of revenue from these clients.

PTD's response: "PTD duly recognizes the risk of further declining mail volumes for corporate clients. Approval was sought and obtained from the Ministry of Finance & Public Service for establishing the post of Business Development Manager to assist in the development and improvement of the business portfolio of the Department, with special emphasis on our corporate clients. The post is to be filled in the 2018/19 financial year".

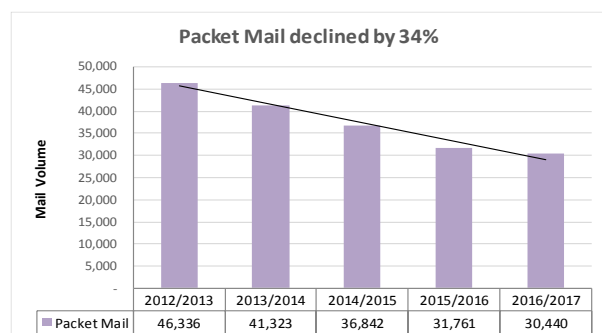
Figure 3: Analyses of mail volume by type, 2012-13 to 2016-17



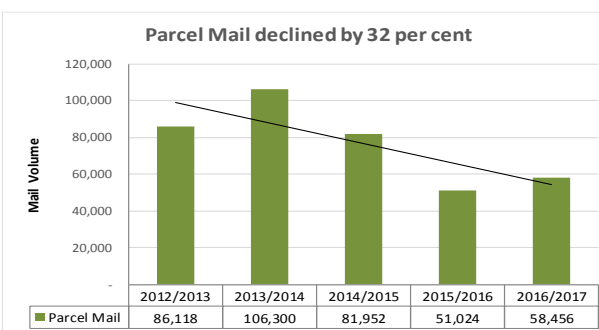
Express Mail is an expedited traceable delivery service to North America, UK, and sections of the Caribbean.



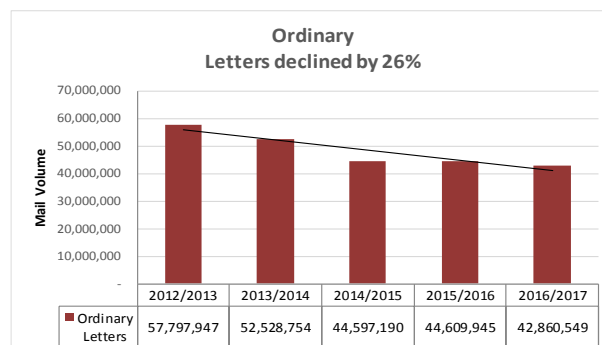
Zip mail is a next business day traceable local delivery service – door to door, door to post, post to door and post to post offered from 77 post offices.



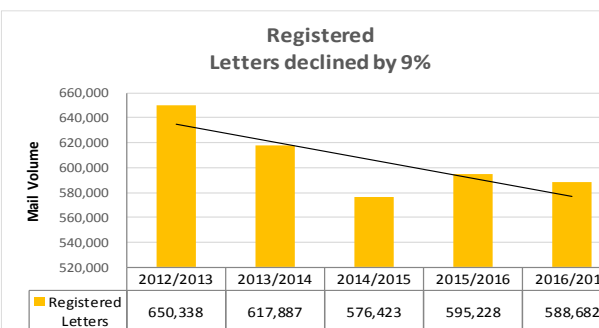
Packet Mail is small parcels (below 500 grams) local and international delivery service.



Parcel Mail is large parcels (above 500 grams) local and international delivery service.



Ordinary Letter local and international mail service.



Registered Letter traceable local and international mail service.

Source: AuGD analysis of data provided by PTD

2.7 The reduction in mail volume contributed to a 12 per cent decline in PTD's total revenue to \$1.4 billion in 2016-17, down from \$1.6 billion in 2012-13. The core revenue from the sale of stamps and pre-paid postage declined by 19 per cent to \$1 billion in 2016-17 from \$1.3 billion in 2012-13. Additionally, PTD's income from the rental of letterboxes declined by 12 per cent to \$38 million in 2016-17, from \$43 million in 2012-13, as the number of letterboxes not rented, increased by 27 per cent to 12,353 in 2016-17, from 9,730 in 2012-13 (**Figure 4**). PTD charges between \$2,000 and \$2,500 per annum for the rental of letterboxes and as such, PTD could continue to lose revenue with further enhancements in electronic communication technology, changes in customer demography and lifestyles, among other factors.

Figure 4: Analysis of Letterboxes, 2012-13 to 2016-17

Chart a: Supply of Letterboxes

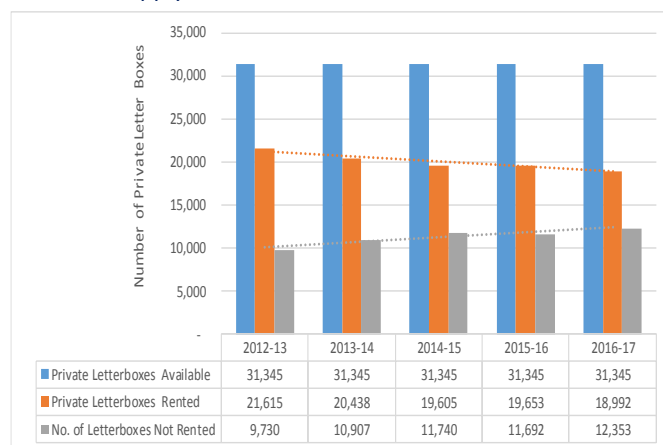


Chart b: Revenue from Letterboxes



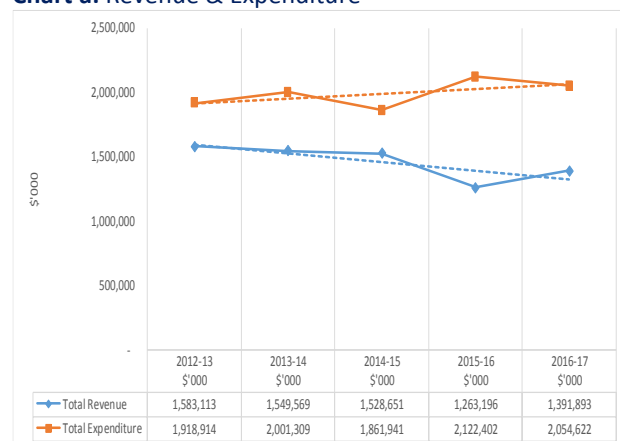
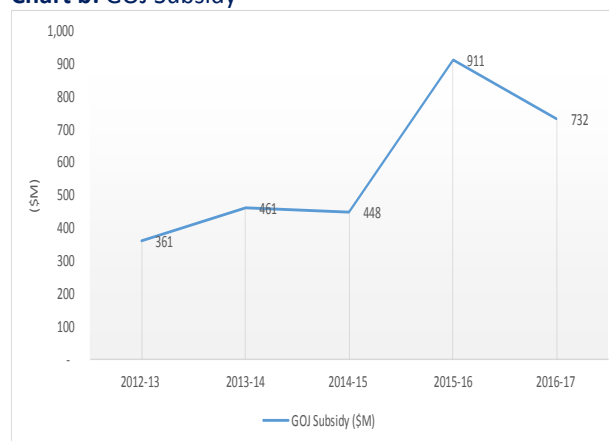
Note: 140 Post Offices offer letterbox service

Source: AuGD analysis data provided by PTD

Despite lower mail volumes, costs were unchanged, hence PTD's continued need for subsidy

2.8 Expenditure associated with PTD's mail service was virtually constant, averaging \$2 billion annually between 2012-13 and 2016-17, despite a fall in mail volumes and revenue (**Figure 5, Chart a**). Although PTD was able to reduce costs in 2014-15 and 2016-17, which enabled a reduction in Government subsidy in those years, due to the widening in the gap between revenue and expenditure, there was a trend increase in Government support⁵ (**Figure 5, Chart b**). Accordingly, the subsidy increased by 51 per cent to \$732 million in 2016-17, from \$361 million in 2012-13 and accounted for 36 per cent of total expenditure in 2016-17, up from 19 per cent in 2012-13.

⁵ This increasing trend in the level of subsidy runs counter to GOJ's intention for PTD to become self-sustainable and off the national budget: MSET Ministry Paper 2013-14 Section 2, pg. 27

Figure 5: PTD's Funding profile, 2012-13 to 2016-17
Chart a: Revenue & Expenditure

Chart b: GOJ Subsidy


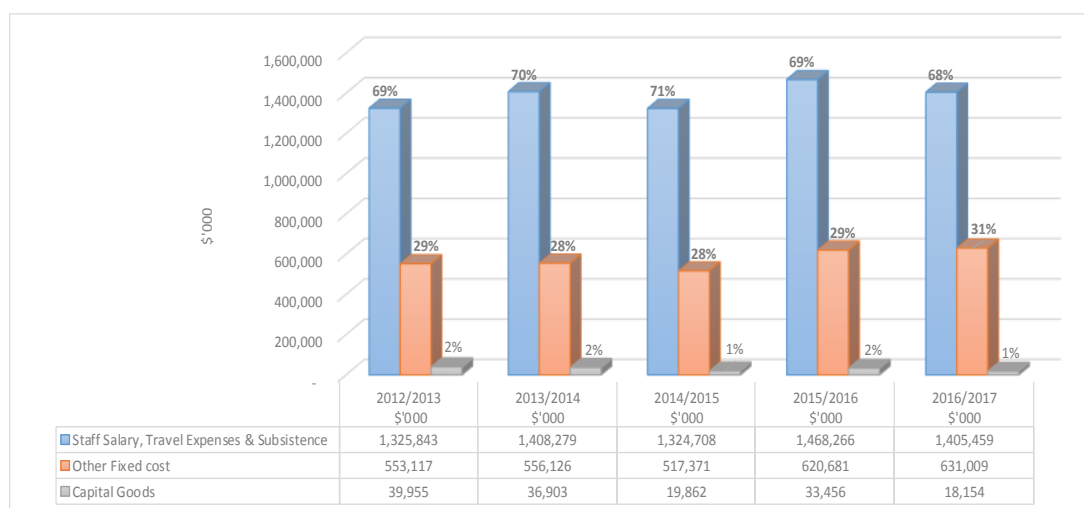
Detail	Average \$'000	2012-13 \$'000	2013-14 \$'000	2014-15 \$'000	2015-16 \$'000	2016-17 \$'000
Revenue ⁶	1,463,284	1,583,113	1,549,569	1,528,651	1,263,196	1,391,893
Expenditure	1,991,838	1,918,914	2,001,309	1,861,941	2,122,402	2,054,622
Excess/(Deficit)	(528,554)	(335,801)	(451,740)	(333,290)	(859,206)	(662,729)
GOJ Subsidy	582,562	360,612	460,923	447,877	911,236	732,162
Subsidy (%)	29%	19%	23%	24%	43%	36%

Source: AuGD analysis of TA Financial Statements

Staff-related costs accounted for 70 per cent of PTD's expenditure

2.9 Salary and reimbursable travelling expenses, on average, accounted for 70 per cent of PTD's recurrent expenditure and totalled \$7 billion between 2012-13 and 2016-17, increasing to \$1.4 billion in 2016-17 from \$1.3 billion in 2012-13 (**Figure 6**). PTD had limited flexibility in respect of its wage bill and staff structure, as demonstrated by the continuance of some uneconomical PAPs, despite little or no mail activity.

⁶ Revenue from Core Operation

Figure 6: PTD's salary-related Expenditure

Source: AuGD's analysis Financial Statements

Some Post Offices were uneconomical and potentially unsustainable

2.10 We found that PTD did not establish benchmarks for the cost to deliver postal services at PAPs and the operations appeared costly and not in sync with the aim to make the public postal service financially self-sufficient. However, PTD indicated that even if price benchmarks were established, it still does not have the latitude to close offices considered too costly to operate.

2.11 We observed that PTD conducted an analysis of its 298 Post Offices and the Central Sorting Office (CSO) in 2014, which revealed that the majority of post offices, 263 (88 per cent), were operating with deficits ranging from \$27,000 to \$31 million. A deficit of \$62 million was reported for the CSO. PTD had some success in reducing the number of Post Offices to 263 in 2018 from 299 in 2014, a difference of 36, but did not provide information on the amount of cost savings. However, although PTD maintained information relating to revenue, expenditure and mail volume for each Post Office, PTD did not provide evidence that it conducted further analyses to determine the current viability of Post Offices in delivering mail services. PTD's record management system was not structured in a manner to allow us to assess the financial performance of all post offices. This limitation would also undermine PTD's ability to make timely informed decisions.

2.12 We analysed information relating to 30 Post Offices for the period April 2016 to March 2017 to determine if operations of the Post Offices were economical, based on their current levels of activity. Our analysis revealed that the majority, 18 Post Offices (60 per cent) handled fewer than 1,500 mails within that year, with each handling on average 620 mails at a cost of \$2,302 per mail. Ten Post Offices handled

up to 5,000 mails with an average cost per mail of \$855. Only two Post Offices handled in excess of 5,000 mail with an average cost per mail of \$456 and \$95⁷ (Figure 7).

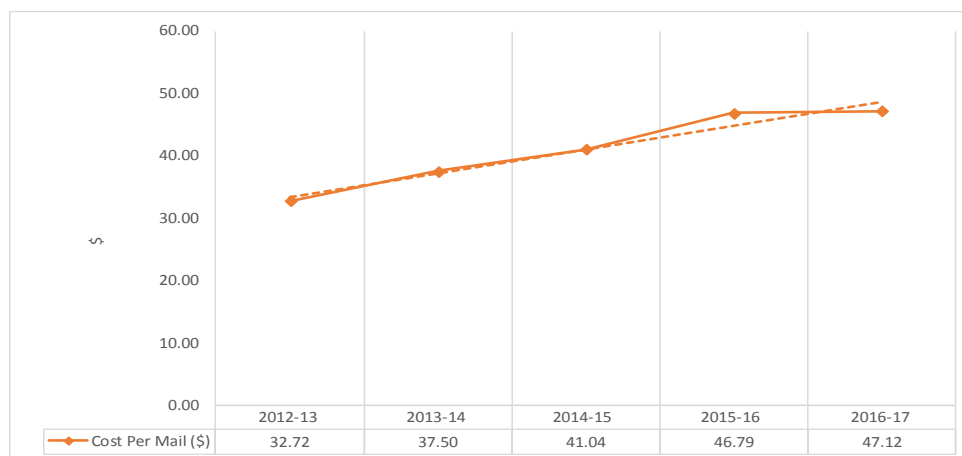
Figure 7: Analysis of Post Offices operational cost and mail volume for 2016-17

Details	1 – 1,500	1,501 – 5,000	5,001 – 10,000	Above 10,000
No. of Post office	18	10	1	1
No. of mails	11,161	28,381	9,160	169,117
Expense	\$25,690,193	\$ 24,265,507	\$4,178,260	\$16,069,620
Avg. mail per post office	620	2,838	9,160	169,117
Average staff	3	4	5	27
Avg. mail per day	43	109	35	650
Avg. cost per mail	\$2,302	\$855	\$456	\$95

Source: AuGD analysis of TA data

2.13 Consequently, the average cost per mail increased by 42 per cent to approximately \$47 in 2016-17, from approximately \$33 in 2012-13 underscoring the uneconomical nature of PTD's operations (Figure 8). We based our assessment of the cost per mail, on the volume in relation to staff salary, rental expense and utility costs (Appendix 3).

Figure 8: Analysis of cost per mail, 2012-13 and 2016-17



Source: AuGD analysis of TA data

⁷ Allman Town and Liguanea located in the corporate area of Kingston and St. Andrew

PTD is not obtaining value for money from its contractual relationships with Postal Agents

2.14 For 2016-17, we found the arrangement with Postal Agents to be uneconomical. For example, 58 Postal Agents did not receive or dispatch any mail during that year, but were paid sums totalling \$6.8 million (**Figure 8**). Another 95 Agents each received and delivered fewer than 50 mails throughout the year, and it cost the PTD \$13.6 million in retainer fees for them to handle 1,606 mail averaging \$8,471 per mail. We found that whereas PTD collated data provided by Postal Agents on their activity levels, no analysis was undertaken to determine the extent to which it was obtaining value from the contractual relationships with Postal Agents. Aware of low output and inactivity of Postal Agents, PTD closed a total of 15 agencies between 2012 and 2017.

Figure 8: Analysis of Postal Agents costs and volume of mail handled for 2016-17

Details	0	1-50	51 - 100	101-500	501 - 1000	1001 – 4,500
No. of Agents	58	95	31	49	11	16
No. of mails	-	1,606	2,215	10,936	7,307	35,058
Retainer fees (\$)	6,814,956	13,604,722	5,028,877	9,410,491	2,465,463	3,889,550
Avg. mail per Agent	0	17	71	223	664	2,191
Avg. mail per day ⁸	-	6	9	42	28	135
Avg. cost per mail (\$)	N/A	8,471	2,270	861	337	111

Source: AuGD analysis of PTD's data

2.15 Under the terms of the 'Postal Agents' contract, PTD paid to the individual agent each month, a fixed retainer fee, ranging between \$8,000 and \$32,000, which accumulated to approximately \$41 million, annually for the group. The contracts with Postal Agents did not specify the duration or agreed performance targets. PTD classified Postal Agents based on the type of activities and volume of mail they handled.

In its response, PTD indicated: "The PTD has carried out analyses regarding the contractual relationships with Postal Agents and is aware of the cost of operation for this segment. A resolve for this, which had been proposed, is the closure/discontinuation of these services where necessary."

2.16 PTD provided copy of a letter dated January 10, 2013, indicating that a feasibility study on the viability of Postal Agencies was conducted. However, we were not provided with evidence of the feasibility study or review of the Postal Agents' contractual arrangements.

⁸ Assume 260 working days

PTD did not assess its employees against performance targets

2.17 Whereas PTD established mail processing standards, it did not assess employees and contracted Postal Agents, against performance targets to foster efficiency in service delivery. Further, the continued fall in mail volume would have engendered lower workload to staff ratios, resulting in more non-productive time. PTD established mail service standards for scanning, inbound transmission and outbound delivery; however, PTD did not demonstrate that it established work plans with associated performance targets, across functional units and individual employees. Staff performance appraisals were based only on competences and not performance outcomes relative to targets⁹ and hence, we were not able to assess whether operational staff were utilized efficiently in the delivery of mail services. Further, we were not satisfied that PTD had effective control over the performance of Postal Agents, as monitoring was limited to the submission of the monthly reports on activity levels. PTD subsequently included the development of a Performance Management Appraisal System (PMAS) as an output indicator in its 2016-20 Corporate Plan.

2.18 As at December 2017, PTD had 1,832 employees, of which a significant proportion, 1,434 (78 per cent) were permanent employees. Another 367 (20 per cent) were classified as temporary and part-time employees, while the other 31 (two per cent) were either on contract, secondment or interdiction. The majority, 1,302 (71 per cent) of PTD's staff complement performed core functions relating to mail services, while the other 530 (29 per cent) performed support functions. PTD indicated that any planned reduction in the number of PAPs would affect its workforce, which involves staff and contracted Postal Agents. This is a sensitive issue that requires engagement with a number of stakeholders. However, PCOJ has not demonstrated a plan for such engagement or a rationalization strategy. We noted no significant change in the staffing levels between 2012-13 and 2016-17 as whereas 658 employees separated from PTD, 613 individuals were employed (**Figure 9**). We expected PTD to assess workload utilization to determine staffing levels and performance for efficient and cost effective service delivery.

Figure 9: Analysis of PTD's employees' Status

Chart a: Employees' Status

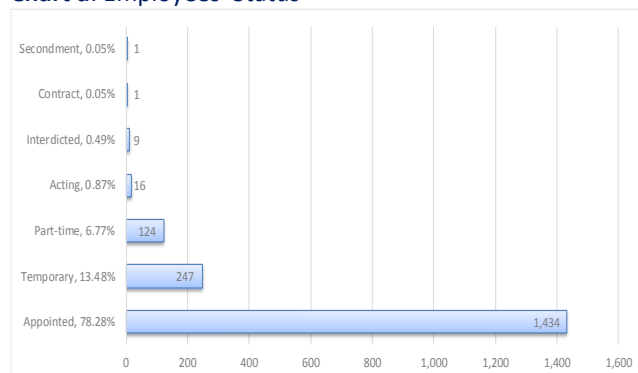
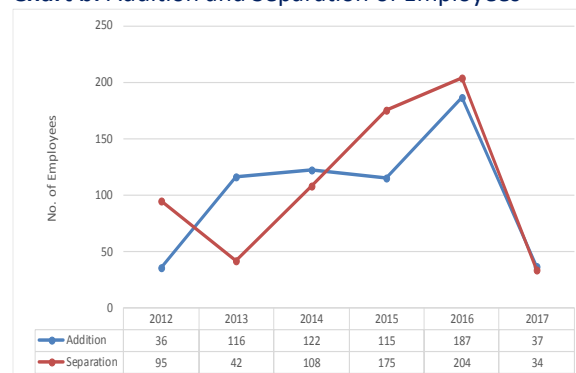


Chart b: Addition and Separation of Employees



Source: AuGD analysis of data provided by PTD

⁹ **Competences assessed:** Personality, force of character, intelligence, judgement, initiative, output, ability to express himself, power of taking responsibility, interest in and knowledge of his work, punctuality and utilization of time, reliability without supervision, accuracy, tact and ability to get on with others, official conduct, ability to supervise others and organizing ability.

Inadequate evaluation of new commercial services

2.19 To its credit, PTD introduced domestic zip mail and international express mail service, in response to emerging trends in domestic and international parcel delivery. Notwithstanding, PTD subsequently reduced the number of Post Offices offering zip mail service due to underperformance of that service category. Under the Universal Postal Union, PTD is obligated to ensure that all citizens have “easy access” to postal service. PTD also entered into a partnership with a private provider of money exchange and bill payment services, in offering these commercial services through its network of post offices. However, more recently, the increasing use of electronic computer technology by households and businesses and greater access to private mail services has heightened the need for PTD to adjust its current business model. This is in the context of PTD’s worsening financial performance due to the fall in mail volume.

2.20 In considering alternatives, PTD did not provide evidence that it assessed its customer base to aid in the formulation of strategies to provide cost effective access to postal service. In its 2016-20 Corporate Plan, PTD committed to introducing new delivery point modalities that enables greater cost saving. However, in planning to modernise and commercialize the public postal service, factors such as population served, the proximity of PAPs to other social and commercial services, as well as access to public transportation must be fully explored, given the increasingly competitive and innovative environment in which it operates. PTD prepared cash flow projections and breakeven analyses prior to implementation of the commercial business segments, but did not maintain disaggregated financial information, which would enable a more robust continuous assessment of financial viability of its market segments, particularly where the entity’s balance sheet was fragile.

2.21 Accordingly, we were not able to determine whether PTD’s decisions were supported by extensive financial analysis. In addition, PTD did not analyse the market for domestic and international parcel delivery to assess its market share and competitiveness. PTD agreed that such market analysis was necessary and proposed to undertake a market study.

PTD indicated: “In spite of the improvements of our products and services, if rationalization of the Department does not occur, the potential returns will not be realized as the current costs/expenditure would remain. Both studies and empirical evidence have demonstrated that postal administrations that implement modernisation/transformation process in a haphazard manner have all failed”.

Part Three

Case Study: Progress in the Modernisation of Postal Service

PTD was slow in responding to alternatives in mail delivery services

3.1 The fall in mail volume has heightened the need for PTD to respond to the rapid changes in communication innovations and cross border trading. This may require adjustment to PTD's business model to deliver efficient and economical public postal services, while meeting the needs of customers. Alternatives to mail services continue to increase, yet PCOJ has not adequately responded since its establishment in 2000, as a transition company, to spearhead the modernisation and commercialization of PTD. It was not until 2011, that PCOJ identified five initiatives as part of efforts to reform the public postal service.

PCOJ indicated in its response *"Leading up to 2011, background work and research were being done to inform the modernization process. Additionally, from 2004 the policy focus was on reducing cost and not the privatization of the Department. It was between the period of 2007 and 2011 that the policy direction changed to privatization. These changes impacted the modernization progress."*

3.2 These were aimed at enhancing the image and value of the postal service, increasing revenue, reducing operational costs, improving operational efficiencies, expanding the range and creating greater awareness of products and services as well as, introducing new modalities for the delivery of postal services. These initiatives included the rebranding and promotion of the zip mail component in response to the fall in mail volume for this service; the introduction of a pilot mobile post office and post shop; development of a model post office and the installation and deployment of IT infrastructure (**Figure 10 and Appendix 4**). However, PCOJ has made very little progress in furthering the implementation of these initiatives. PCOJ receives revenue mainly from PTD's commercial services, which amounted to \$448 million between 2010-11 and 2015-16; and incurred operational cost of \$345 million over that period, with \$154 million related to salary, consultancy costs, directors and other fees.

Figure 10 Status of PTD's Modernisation at February 2018

Modernisation Initiatives	Stated Benefit	Projected Profit(+)/Loss(-)	Status
Zip mail marketing programme	Expand the range of services offered, pick-up and delivery as well as faster service	+\$40M (Over 4 years)	<ul style="list-style-type: none"> • Repackaging completed; • Marketing partially implemented
Introduction of Mobile Post Office (Pilot)	Viable alternative, increased productivity, cost savings, accessibility, flexibility and image improvement	+\$117M (over 6 years)	<ul style="list-style-type: none"> • Mobile Post Office Unit acquired;
Introduction of Post Shop (Pilot)	Improve image, increase income, reduce cost, more convenient, increase customer base and provide employment	-\$320,000 (Over 4 years)	<ul style="list-style-type: none"> • Not Implemented
Development of Model Post Office	Create added value through new and relevant products	+\$358M (Over 3 years)	<ul style="list-style-type: none"> • Not Implemented
Installation and deployment of IT infrastructure	Updated technology, reduce cost, faster accurate processing, greater efficiency, etc.	+\$137M (Over 8 years)	<ul style="list-style-type: none"> • Work In Progress

Source: AuGD observation and information provided by PTD

Rationalisation of Post Offices stalled

3.3 In 2015, the PCOJ improved the zip mail packaging, acquired two vehicles and other equipment, at a total cost of \$17 million, as part of the rebranding of the zip mail service. PCOJ also increased the number of locations through which it offered the service, but fell short in promoting the service to increase awareness, which it opined, may have contributed to the further fall in volume for the service. PCOJ introduced the Mobile Post Office concept to provide access to postal services in rural areas – with the intention to rationalize some of its PAPs. In 2016, PCOJ acquired and retrofitted the pilot mobile post office, at a total cost of \$14.6 million, which was intended to replace nine Post Offices in St. Thomas.

3.4 To date, PCOJ has not rationalized any of the post offices. PCOJ provided a schedule that showed the Mobile Post Office was providing mail service in communities in various parishes. There was no indication as to whether PCOJ intends to replicate the concept of the mobile post office island-wide and rationalize PAPs to reduce operational and overhead costs. We found no evidence that PCOJ assessed the viability of the zip mail and the pilot mobile post office services to determine if these services are realizing the expected benefits.

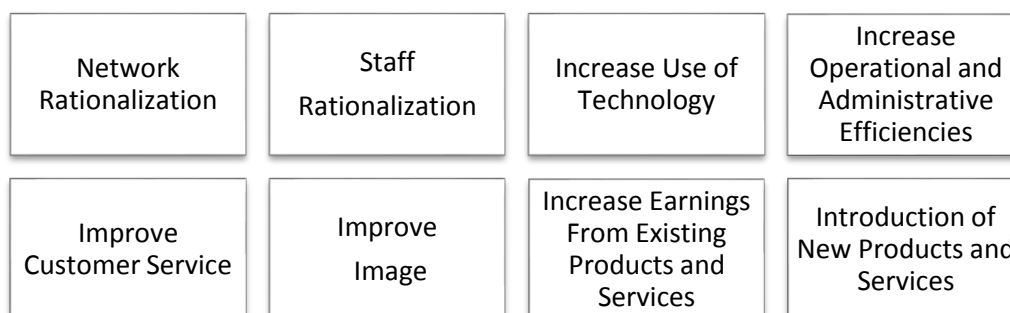
3.5 PCOJ formulated the 'post shop' concept to use existing businesses, as alternative outlets for postal services. This was intended to reduce costs and to create a standardized image to the postal network, to improve the services and products offered to its customers. The standardized image would include facilities such as: counter automation, retail shop, single queue system and advertising media, but PCOJ is yet to implement the concept of the pilot post shop. PCOJ was to improve its IT infrastructure to include customer automated, digital telecommunication, electronic process automation and manual data conversion systems. PCOJ is in the process of acquiring only the customer automated system.

3.6 We noted that in its 2016-20 Corporate Plan, PTD indicated that it will seek to introduce new revenue streams; and increase its competitiveness through increased sale of ordinary postage stamps and philately¹⁰ products, market penetration and restructuring of core postal operations in support of the expansion and introduction of new services. There was consensus in PTD, PCOJ and MSET Strategic Plans around the need to make changes to PTD's current business model; however, we found no evidence that adequate strategic support was provided by MSET to drive the modernisation and commercialization of the public postal service.

Modernisation of the Public Postal Service slowed by inadequate strategic support

3.7 In December 2014, PCOJ indicated to MSET, which has portfolio responsibility for the public postal service, that the current model was not sustainable and recommended eight components of a plan to support the modernisation of the public postal service. The plan included the closure of 212 Postal Agencies and 160 Post Offices and the introduction of three Mobile Post Offices to supplement service to locations impacted by the closure. This would generate expected income of \$525.5 million from the sale of closed properties and expected annual cost saving of \$571 million.

Proposed Plan for the PTD's modernisation presented to MSET by PCOJ



Source: PCOJ

"It was noted that there were public concerns about reliability and service delivery, particularly in rural areas; there was a need to utilize and keep abreast of new technologies and methodologies as they became available, if the postal service were to be relevant and remain so; the provision of additional services, such as internet cafes and electronic money (e-money) services, would increase customer traffic and income; and the post office was in possession of a valuable real estate portfolio which could be utilized in a number of ways to support its operation for the long term."

[Extracted from letter from MSET to PTD dated September 14, 2016]

¹⁰ The collecting of stamps and other postal matter as an investment

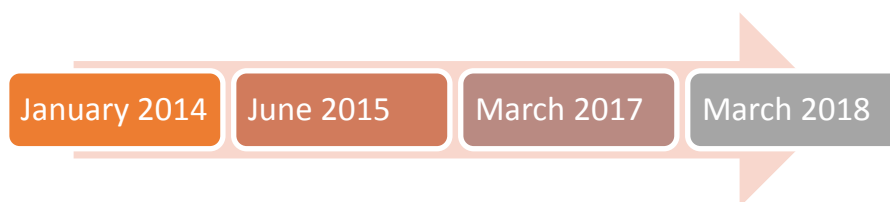
3.8 While MSET included the revitalization of the postal services, increased competitiveness of PTD, and introduction of new market driven products and services as strategic outcomes in its 2014-17 Strategic Plan, we found no evidence that MSET has provided adequate strategic support, through its failure to finalise the Postal Service Bill for debate and approval of the new Postal Service Act by Parliament.

Delay in completing legislative framework for the regulation of the postal services

3.9 The Post Office Act gives the Post Master General, the discretionary authority, with approval of the Minister, to regulate all aspects of postal services¹¹. However, there are over 24 commercial entities and contractors offering mail delivery services, and as it stands, there is no regulator to license and regulate all operators. Concurrently the existence of the private operators has reduced the demand for the public postal services. However, given PTD's role as a service provider, it could be a moral hazard if PTD is both market player and regulator. Accordingly, the new Postal Service Act will seek to establish an independent regulator to license and regulate all providers of postal services.

3.10 MSET indicated that the Postal Service Act was to replace the Post Office Act resulting in the creation of a new statutory corporation, Jamaica Post, to assume the functions of the PTD and PCOJ¹². MSET included the finalization of the Postal Service Bill as a strategic priority in its 2014-17 Strategic Plan. However, despite setting several targeted completion dates, MSET has not completed the Bill since July 16, 2007. A new date for the completion of the Bill was set for March 2018. MSET had the opportunity to respond to the issues raised in a draft of our report, but did not provide a response.

Planned dates for the completion of the Postal Services Bill



¹¹ Post Office Act, 1941 Section 6(1) and Section 7(1)

¹² MSET Strategic Plan

Appendices

Appendix 1 Building blocks of Value for Money (VFM)



Appendix 2 Postal Access Points (PAPs)

Parishes	Post Offices	Postal Agencies	Total Postal Access Point (PAP)	Population ¹³	Ratio - Population per PAP
Hanover	12	10	22	69,534	3,160.64
Westmoreland	15	12	27	144,073	5,336.04
St. James	21	12	33	183,719	5,567.24
St Elizabeth	26	35	61	150,198	2,462.26
Trelawny	14	9	23	75,163	3,267.96
Manchester	26	24	50	189,765	3,795.30
St Ann	17	22	39	172,284	4,417.54
Clarendon	26	42	68	245,053	3,603.72
St Mary	22	23	45	113,597	2,524.38
St. Catherine	24	28	52	516,167	9,926.29
St Andrew	26	8	34	573,060	16,854.71
Kingston	6	1	7	88,801	12,685.86
Portland	16	17	33	81,732	2,476.73
St. Thomas	12	18	30	93,902	3,130.07
Total	263	261	524	2,697,048	5,147.04

¹³ STATIN 2011 Data

Appendix 3 Analysis of Sample of Post Offices Mail volume and Expenditure 2016-17

No.	Post Office	Parish	Avg. # of Staff	Mail Volume	Total Expense (\$)	Cost Per Mail (\$)
1	Liguanea	St. Andrew	27	169,117	16,069,620	95
2	Hopewell	Hanover	3	3,122	1,361,906	436
3	Allman Town	Kingston	5	9,160	4,178,260	456
4	Mount James	St. James	1	107	49,571	463
5	Kirkvine	Manchester	2	2,441	1,267,797	519
6	James Hill	Clarendon	5	4,049	2,257,972	558
7	Four Paths	Clarendon	2	1,534	1,102,610	719
8	Granville	St. James	3	3,194	2,391,071	749
9	Chapelton	Clarendon	5	3,337	3,034,754	909
10	Mount Horeb	St. James	1	261	247,971	950
11	Lorrimers	Trelawny	1	632	605,088	957
12	Frome	Westmoreland	6	3,385	3,419,313	1,010
13	Hope Bay	Portland	3	1,628	2,077,683	1,276
14	Alexandria	St. Ann	5	2,129	2,750,091	1,292
15	Harbour View	St. Andrew	6	3,562	4,659,593	1,308
16	Gayle	St Mary	2	912	1,233,408	1,352
17	Moore Town	Portland	2	822	1,146,533	1,395
18	Braes River	St. Elizabeth	2	821	1,161,327	1,415
19	Glengoffe	St Catherine	2	904	1,306,753	1,446
20	Lincoln	Manchester	1	567	1,069,770	1,887
21	Thompson Town	Clarendon	5	1,351	2,764,098	2,046
22	White Sands Beach	St. James	3	776	1,722,188	2,219
23	Brighton	St. Elizabeth	1	209	474,282	2,269
24	Maggoty	St. Elizabeth	3	862	2,057,620	2,387
25	Llandewey	St. Thomas	2	432	1,035,404	2,397
26	Jericho	Hanover	2	402	1,034,782	2,574
27	Manchioneal	Portland	4	842	2,357,375	2,800
28	Alston	Clarendon	3	506	1,705,110	3,370
29	Lyssons	St. Thomas	5	558	3,156,925	5,658
30	Cave Valley	St. Ann	4	197	2,061,989	10,467

Appendix 4 PTD Modernisation Initiatives

