



**Royal Mail's response to Ofcom's
-Proposed amendments to
regulatory conditions DUSP 1.8
and CP 1 and minor amendments
to other regulatory conditions**

3 March 2014

Executive Summary

1. Royal Mail welcomes the opportunity to comment on Ofcom's proposals to: introduce reporting requirements relating to post box density; make changes to the recovery of Consumer Advocacy Bodies¹ (CABs) costs, and make other minor amendments to regulatory conditions as detailed in its consultation document.
2. Royal Mail broadly agrees with Ofcom's proposed changes. There are, however, three areas we suggest should be slightly revised to better reflect operational practicalities or developments in the postal market. In summary:
 - a. **Post box density reporting:** This is a complex activity. There are 29 million addresses and 115,000 post boxes within the calculation. As this is a live system there are also operational constraints in that reports can only be generated on the system during periods of low activity. It therefore takes circa 1month to run our access point density calculations. During this period the number of delivery points is almost certain to increase², whilst the number of post boxes will only change at the margin. These changes will not have a material impact on Royal Mail's overall compliance. However, Royal Mail proposes that the annual report should contain a caveat to this affect.
 - b. **Post box density reporting:** Royal Mail receives very few customer complaints about post boxes. Currently Royal Mail does not capture customer complaints data to the level of detail required by Ofcom's reporting requirement. In order to meet this condition Royal Mail will provide a manual estimate for 2013/14. From 2014/15 we will automate the process. To ensure accurate comparisons can be made, Royal Mail suggests that 2013/14 data is provided only to Ofcom and that complaints data is published from 2014/15 onwards.
 - c. **Ofcom's proposed funding mechanism for CABs:** Royal Mail suggests that Ofcom consider how best charges can be made to be proportionate to reflect the fact that Royal Mail and Post Office Limited now being separate legal entities. Royal Mail also suggests Ofcom uses more up to date financial information so the allocation of charges in each year more fairly reflects each operator's market share for that year.

These issues are discussed in more detail below.

¹ Citizens Advice, Citizens Advice Scotland or General Consumer Council for Northern Ireland

² ONS Families and Households 2013 data shows that the number of UK households rose from 26.36mn in 2012 to 26.41mn in 2013, an equivalent of 5,000 new households in each month.

Question 1: Do you agree with the proposed modifications to DUSP 1.8? If not, please explain your reasoning.

DUSP 1.8.2: Removal of reference to 805 metres

3. Royal Mail agrees with Ofcom that it is unnecessary and potentially confusing to refer to distance criterion using both the metric and imperial systems. We agree with Ofcom's proposal to remove the reference to "805 metres".

DUSP 1.8.2.AA: Reporting requirements

DUSP 1.8.2.AA(a)

4. This proposed condition would require Royal Mail to report on "*the percentage of users of postal services across the UK with a letter box within half a mile, by straight line distance, of their premises as at 31 March that year.*"
5. Royal Mail's Geographic Information System (GIS) is an integral part of our operation and is used on a daily basis for many activities (e.g. walk revision planning and the collections management database). It is also linked to other systems such as Walk Sequencing. To undertake the necessary calculations, the GIS cannot within a short time period run a programme to determine how many of each of the 29 million delivery points are within half a mile of at least one of 115,000 post boxes.
6. Given the large computing requirements to undertake access point density calculations and the need for the business to have real time access to our GIS, we can only undertake such an exercise at periods of low usage such as in the evening and/or weekends.
7. Therefore, Royal Mail estimates it would take approximately 1 month to provide a full report. During this time, it is possible that the number of delivery points may change and/or the number of boxes will alter due to removals or additions. Royal Mail notes that whilst there may be some level of variation in figures over a one month period, this is likely to be low and will not have a material impact on Ofcom's use of the data. Accordingly, Royal Mail proposes that the annual report should contain a caveat to this effect.

DUSP 1.8.2AA(b)

8. Royal Mail would be grateful for Ofcom clarification that the previous year comparison will not apply in relation to pre-31 March 2014 data. While this is implied in paragraph 3.8 of the Consultation, which refers to a comparison being made "where relevant", Royal Mail would welcome confirmation that this is Ofcom's position.

DUSP 1.8.2AA(c)

9. Royal Mail receives very few complaints in relation to post boxes. Currently our Customer Experience team does not capture customer complaints data to the level of detail Ofcom proposes. In order to meet this condition for 2013/14, Royal Mail will manually review the complaints database in order to provide an estimate of the number of customer complaints in relation to the provision and/or location of post boxes (not including complaints regarding specified collection times).

10. For 2014/15, Royal Mail will introduce a customer complaint category to capture the specific data required to meet this requirement. We, therefore propose that for 2013/14, Royal Mail provides to Ofcom the complaint data but that this information is not published. This would avoid any inconsistencies when comparing 2013/14 data with 2014/15 or beyond.

DUSP 1.10.6

11. Whilst not directly mentioned in question 1, Royal Mail agrees with Ofcom's proposal to change the word "*collection*" to "*delivery*" in DUSP 1.10.6(b)(i). This will make clear that the Christmas period reporting exemption applies to delivery times for deliveries made every day a delivery is required (rather than every day a collection is required).

Question 2: Do you agree with the proposed modifications to the post regulatory conditions as outlined in Annexes 5, 7, 8 and 9?

12. Royal Mail agrees with Ofcom's proposal to amend all relevant post regulatory conditions³ to remove references to the National Consumer Council and replace them with "Consumer Advocacy Bodies"⁴ should the Public Bodies Order 2014 come into force on 1 April 2014,
13. With regard to the remaining proposed modifications to DUSP condition 1, namely 2-5 in Annex 5, please refer to our response to question 1.
14. Please see the response to question 3 which covers Royal Mail's position with regard to changes outlined in Annex 7.

Question 3: Do you agree with the proposed modifications to CP 1? If not, please explain your reasoning.

15. Royal Mail acknowledges the importance and role that Consumer Advocacy Bodies (CABs) play in representing consumer interests in the UK. Therefore we accept that we should pay a fair and reasonable proportion of the CABs' expenses that are related to postal issues.
16. Royal Mail Group has historically paid all of the costs of the CABs' activities in relation to postal issues. Consumer Futures draft work plan for 2014/15 shows they are intending to allocate a large proportion of their postal resources to considering Post Office Limited's network and the competitive parcels market.

³ Stated in: Annex 5 – Schedule Proposed Modifications to DUSP Condition 1, modification 1, 6-11; Annex 8 Statutory Notification: proposed modification of Consumer Protection conditions 2 and 3; and Annex 9 Statutory Notification: proposed modification of Essential condition 1

⁴ Meaning: Citizens Advice, Citizens Advice Scotland and the General Consumer Council for Northern Ireland

17. In April 2012 Royal Mail and Post Office Limited became separate companies. CABs undertake activity covering Post Offices in the broadest terms, not just in terms of the mail products it sell, we therefore would like Ofcom to consider the appropriateness of assigning a proportion of CAB costs to Post Office Limited.
18. Furthermore, as the postal market becomes ever more competitive, we do not consider Ofcom's proposal to use postal operators' turnover from two years before the charging year, to determine payments relating to the expenses of CABs, to be appropriate.
19. Royal Mail proposes that Ofcom uses more up-to-date financial results so the share of charges in each year more fairly reflects each operator's market share for that year. There could be a retrospective adjustment mechanism after each year end to allocate the charges in the appropriate proportions based on final audited results. This would mirror the existing arrangements for retrospective amendment of charges where the costs of the regulatory body are higher or lower than originally budgeted.
20. Finally Royal Mail suggests that, in view of the sums involved, it would be appropriate to allow monthly payments to be made where the total amount due from any operator exceeds £75,000 per year. This would align with the Statement of Charging Principles⁵, as currently applied to the recovery of Ofcom's running costs.

Conclusion

21. Royal Mail broadly agrees with Ofcom's proposals notwithstanding the modifications we have proposed within this response. In summary we ask:
 - a. That the annual access point density report contain a caveat with regard to reporting restrictions i.e. acknowledging minor changes during the time taken to produce the report.
 - b. To provide Ofcom with a confidential estimate of the number of customer complaints in 2013/14, with publication commencing in 2014/15.
 - c. That Ofcom considers the impact of the split of Royal Mail and Post Office Limited is considered in respect to the expenses of CABs. Charges be based upon the most recent available financial results and/or amended retrospectively when final audited results are known. Payments to be made monthly where the total amount due from any operator exceeds £75,000 per year.

⁵ Ofcom Statement of Charging Principles Postal Services March 2012 para A1.8 p9