

Royal Mail plc

Response to Ofcom's July 2017 Recovering Postal Regulation and Consumer Advocacy Costs Review

Royal Mail Submission

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Table of Contents

Executive Summary	3
Chapter 1 - Analytical Framework.....	8
Chapter 2 - Response to Question 1.....	10
Chapter 3 - Response to Question 2.....	13
Chapter 4 - Response to Question 3.....	16
Chapter 5 - Response to Question 4.....	17
Chapter 6 - Response to Question 5.....	25
Chapter 7 - Response to Question 6.....	26
Annex 1 - Summary of Royal Mail responses to consultation questions.	31
Annex 2 - Ofcom's administrative costs.	33
Annex 3 - CAB costs.	34
Annex 4 – Summary of CAB research since July 2014 – 2017.....	35
Annex 5 – Questions to be taken into account by Ofcom when setting who pays its administrative costs.	38
Annex 6 – Questions to be taken into account by Ofcom when setting who pays CAB costs.	40

Executive Summary

The postal services sector is changing rapidly. The charging regimes for recovering postal regulation and consumer advocacy costs need to change too. This Consultation presents an opportunity to put in place a framework which is fit-for-purpose for the here and now, as well as for the future. Ofcom is right to extend charges to operators who provide single piece end-to-end letter delivery services or Access services. This addresses some of the unfairness present now. But, its proposals do not go far enough – Ofcom's current proposal would lead to c.95%¹ of Ofcom's fees and CAB costs still being paid for by Royal Mail. Parcel operators should also contribute to both sets of costs due to their impact on the financial sustainability of the Universal Service as well as CAB and Ofcom workplans.

The postal services sector is changing rapidly. The charging regimes need to change too. To remain futureproof, parcel operators should contribute to both Ofcom and CAB costs.

- i. Ofcom's primary duty under the Postal Services Act 2011 (the Act) is to secure the provision of the Universal Service, having regard to financial sustainability and efficiency.² Ofcom incurs costs in undertaking its activities to secure the Universal Service. The Consumer Advocacy Bodies (CAB³) have a duty under the Act to advocate on behalf of all postal users – and incur costs in doing so. Following an unprecedented level of regulatory scrutiny, Ofcom decided in March 2017 to retain the current regulatory framework until 2022. **The sector now urgently needs a period of regulatory certainty in order to manage the challenges on the horizon. This should be reflected in a reduction of the scale of work undertaken by Ofcom and the CAB** as well as the associated costs that are ultimately borne by the postal consumer.
- ii. Alongside minimising the regulatory burden, Ofcom has the power to determine who pays the Ofcom and CAB costs. The postal services sector is changing rapidly. The charging regimes for recovering postal regulation and consumer advocacy costs need to change too. **Ofcom's Consultation presents an opportunity to put in place a framework which is fit-for-purpose for the here and now, as well as for the future.** Ofcom is right to extend the pool of operators who should contribute to both single piece end-to-end letter delivery operators and Access operators. This addresses some of the unfairness present now.
- iii. **But, these proposals do not go far enough. Parcel operators should also contribute to both sets of costs.** Competition from parcel operators is impacting the current financial sustainability⁴ of the Universal Service. Ofcom's activity in the parcel sector is increasing as a result. The consumer advocacy costs are also directly driven by parcels operators. It is therefore fair, equitable and cost reflective that parcel operators contribute to these costs.

¹ Ofcom, Annual Monitoring Update on the postal market, 2015–16. Access Operator net revenue £164m (Paragraph 4.17). Royal Mail revenue £4,146m (Figure 4.2). $\frac{£4,146m}{£164m + £4,146m} = c.95\%$.

² Section 29(1) and (3) of the Act.

³ Consumer Advocacy Bodies – currently Citizens Advice, Citizens Advice Scotland and the Consumer Council of Northern Ireland.

⁴ The return on the Reported Business in 2016–17 was 4.6% – Royal Mail, Regulatory Financial Statements, 2016–17. The return was outside of the indicative 5–10% EBIT metric range used by Ofcom to assess the reasonable commercial rate of return of the Reported Business.

We agree with Ofcom that Access and other single piece end-to-end operators could and should contribute.

- iv. In its Consultation, Ofcom has considered who could and should contribute towards Ofcom's administrative costs and the CAB's costs. Ofcom has proposed that postal operators with relevant letter revenue greater than £5m should contribute. It proposes to extend those who contribute to cover:
- Single piece end-to-end letter services; and
 - Bulk mail or Access services.

We agree that operators providing such services could and should contribute. The letter sector is subject to significant regulation. Other letter operators benefit from this regulation. For example, Access operators benefit from the Access framework set in place as part of the Universal Service Provider Access (USPA) Condition. **The threshold should, however, be set at a more equitable £1m revenue threshold to ensure the regulatory burden is more evenly shared.** This is not inconsistent with other sectors that Ofcom regulates. For example, television and radio licence fees have a minimum threshold of £0.⁵

Parcel competition is impacting the financial sustainability of the Universal Service. To fulfil its primary duty of securing the provision of the Universal Service, Ofcom will need to shift its focus increasingly towards other parcel operators.

- v. Royal Mail operates in a fragile ecosystem. Our stretching efficiency and cost avoidance programmes alone cannot address the unique circumstances relating to post – ongoing structural decline in letters and intense competition in parcels. **Over the last ten years, there has been a c.40% decline in letter volumes. Parcel revenues are therefore vital for sustaining the market-funded Universal Service.** Ofcom will need to shift its focus increasingly towards other parcel operators and parcel market dynamics to ensure it meets its primary duty of securing the provision of the Universal Service.
- vi. Pitney Bowes recently published their Parcel Shipping Index 2017.⁶ It concluded that *“As the UK sees a surge in parcel deliveries, consumers can expect a huge shake-up in last-mile delivery services. If parcel volumes continue to grow at this year's rate, we could be sending 3.9 billion parcels by 2021.”* This is from an estimated baseline of 2.2bn parcels shipped in 2015.⁷ **The shape of the postal sector will be very different in the future – the framework needs to be futureproof.**
- vii. **We agree with Ofcom's assessment that “The UK has one of the most competitive parcels sectors in the world.”⁸** Continued investment in new facilities by industry participants has led to annualised spare capacity of c.20% and downward pressure on prices. In addition, there are a range of highly disruptive business models – Amazon Logistics and carrier management systems.
- viii. **The competitive state of the UK parcel sector has meant that growth in parcel revenue has not offset the decline in letter revenues over the last three years.** Since 2013-14, UK Parcels, International and Letters (UKPIL)⁹ revenue has fallen by c.£150m.¹⁰ These circumstances create potential risks to the financial

⁵ Ofcom has set a minimum threshold of £0 to £5m for other sectors. See the answer to Question 5.

⁶ <http://postandparcel.info/82081/news/pitney-bowes-uk-parcel-market-set-for-huge-shake-up/>

⁷ <http://www.pitneybowes.com/us/shipping-and-mailing/case-studies/pitney-bowes-2017-parcel-shipping-index.html>

⁸ Ofcom, Review of the Regulation of Royal Mail, March 2017, Paragraph 1.2.

⁹ UKPIL comprises Royal Mail's core UK and international parcels and letters delivery businesses under the 'Royal Mail' and 'Parcelforce Worldwide' brands.

¹⁰ Gross revenue for UKPIL adjusted for working days but includes the impact of acquisitions, the removal of which would make it even higher.

sustainability of the Universal Service. In 2016–17, returns on the Reported Business fell to 4.6%.¹¹ Ofcom has explicitly acknowledged the material impact that parcel competition could have on our ability to continue to provide a market funded Universal Service in the future. In 2014, Ofcom stated “*We are therefore intending to do some additional work to better understand the parcels market and Royal Mail’s future parcels revenue in our wider review of other factors that affect the future financial sustainability of the universal service.*”¹²

The parcels sector is experiencing significant innovation and growth. This change has brought to light a growing range of consumer protection issues¹³, which are driving Ofcom’s and the CAB workplans.

- ix. Ofcom and the CAB undertake a range of activities in relation to consumers including monitoring, reporting, advocacy and regulation. Our research¹⁴ – set out in detail in our August 2016 consultation response to Ofcom’s Fundamental Review of Regulation (FRR) – found that **effective consumer protection standards across the parcel industry are central to maintaining consumer confidence. But, development of the parcels sector has outpaced consumer protection regulation.**
- x. Unlike Royal Mail, most parcel operators are subject to little or no regulatory consumer protection standards. Moreover, some operators are using the gig economy to deliver parcels via self-employed workers without all the costs of more traditional employment. This can have an attendant impact on quality of service. In determining which operators should contribute to its costs and the CAB’s costs, Ofcom recognises that it needs to consider who is driving its work load.¹⁵ **Consumer protection issues relating to the parcels sector and parcel operators are becoming an increasing area of focus for both Ofcom and the CAB.** Moreover, the growth in parcels and innovation in the sector mean it will only grow in importance. By way of illustration:
- In March 2017, Ofcom set out a future framework for postal regulation that focuses on five areas.¹⁶ Two of these are parcel focused. Yet, under Ofcom’s proposals, parcel operators do not contribute to the cost. These two areas are:
 - » “*Maintaining a regulatory approach that recognises the structural decline in letters and **an increasingly competitive parcels market**, and extending the regulatory framework for a further five years*”(emphasis added); and
 - » “*Supporting competition and innovation in the parcels sector*”.¹⁷
 - Ofcom is collating revenue and volume information from 14 parcel operators¹⁸ (including Amazon Logistics) for its Annual Monitoring Update. The parcel section in this report is nearly three times longer than the letter section.
 - In terms of consumer protection, Ofcom is undertaking work¹⁹ on surcharging of parcels in the Highlands and Islands of Scotland and Northern Ireland. Citizens Advice is commissioning research on the issues facing disabled customers from key mail services with a focus on the parcels sector. It also

¹¹ Royal Mail, Regulatory Financial Statements, 2016–17, Page 5.

¹² Ofcom, Review of end-to-end competition in the postal sector, Statement, 2 December 2014, Paragraph 3.92.

¹³ Royal Mail, Review of the Regulation of Royal Mail, August 2016, Paragraph 7.2.

¹⁴ Illuminas, delivery experience report July 2016, commissioned by Royal Mail, surveying over 3,366 consumers and businesses.

¹⁵ Paragraph 3.51 of the Consultation states that “*turnover generated from services which are within scope of the universal postal service, or could reasonably be said to be interchangeable with a service of a description set out in that order, and **which drive our regulatory activities should be considered as relevant turnover for the purposes of recovering our administrative charges***” (emphasis added).

¹⁶ Ofcom, Review of the Regulation of Royal Mail, March 2017. See the “About this document” section.

¹⁷ Ofcom, Review of the Regulation of Royal Mail, March 2017. See the “About this document” section.

¹⁸ Ofcom, Annual Monitoring Updated 2015–16, Paragraph 5.3.

¹⁹ https://www.ofcom.org.uk/data/assets/pdf_file/0027/99621/Annual-Plan-2017-18.pdf

published a significant piece of research on consumer experiences of parcel delivery in June 2017. In fact, the majority of the CAB's activities over the last three years has related to parcel users or postal users in general – see Annex 4 for more details.

Parcel operators are shaping Ofcom's workplan but do not face the costs. They also derive benefit from Ofcom's ongoing monitoring and analytical activities.

- xi. **Other parcel operators are helping to shape Ofcom's workplan. Ofcom's cost allocation review was partly instigated following comments raised by Hermes.**²⁰ We note that Hermes was one of several parcel operators to respond to Ofcom's FRR consultation in 2016.²¹ Parcel operators should not have a 'free ride' on Royal Mail. They can ask Ofcom to undertake a regulatory review of Royal Mail for which Royal Mail, through the levy, will pay. This will benefit other parcel operators but they are not required to contribute towards the cost. This creates a moral hazard problem.
- xii. Moreover, other parcel operators benefit from the monitoring work and analysis of the parcels sector carried out by Ofcom. In the 2015-16 Annual Monitoring Update, Ofcom:
- Outlined trends in the UK parcels sector for domestic parcels, and inbound and outbound international parcels.
 - Summarised recent developments in the parcels market and assessed changes in market dynamics.
 - Set out findings from work undertaken so far to better understand the causes and effects of parcel surcharging in Northern Ireland and the Highlands and Islands of Scotland.
 - Confirmed the market sizing estimates used by Royal Mail in its shareholder communications, subject to known adjustments (for example the inclusion or otherwise of large letter traffic).
- xiii. **If this were of no benefit to the parcel operators and other stakeholders, then Ofcom would not publish it.** It is not cost reflective, fair or equitable that the only parties paying for such analysis – in Ofcom's proposals – would be Royal Mail, Access and single piece end-to-end letter²² operators.

It is fair, equitable and cost reflective that parcel operators contribute to the administrative costs of Ofcom and the CAB.

- xiv. Based on Ofcom's figures, in 2015-16, letter revenue for the postal sector was c.£4.3bn compared with c.£8.2bn for parcels. UKPIL Revenue for 2015-16 was c.£7.7bn. **Therefore, Royal Mail's share of the total postal revenue is around 50 - 60%.**²³ **However, Ofcom's current proposal would lead to c.95%²⁴ of Ofcom's fees and CAB costs still being paid for by Royal Mail - this is not fair, equitable or cost reflective.**
- xv. When considering which operators should contribute to its costs, Ofcom should consider all postal operators who impact the financial sustainability of the Universal Service network and who help to set Ofcom's work load.

²⁰ Hermes, Summary response to OFCOM discussion document regarding the regulation of the Royal Mail, 17 July 2015.

²¹ Ofcom, Review of the Regulation of Royal Mail, March 2017, Paragraph A5.2 lists out all respondees. It includes, for example, the Association of International Courier and Express Services and other parcel operators.

²² In Ofcom's proposals, single piece end-to-end letter operators are unlikely to contribute due to their revenues being below Ofcom's proposed threshold.

²³ Note UKPIL revenue includes revenue that will fall outside of the scope of the UK letter and parcel sectors. For the purposes of this consultation response, we have provided a range.

²⁴ Ofcom, Annual Monitoring Update on the postal market, 2015-16. Access Operator net revenue £164m (Paragraph 4.17). Royal Mail revenue £4,146m (Figure 4.2). $\frac{£4,146m}{(£164m + £4,146m)} = c.95\%$.

Competition from parcel operators is impacting the sustainability issue facing the Universal Service. **On the grounds of fairness, equity and cost-reflectiveness, turnover from parcel services²⁵ should be taken into account for the purposes of funding Ofcom's administrative costs.**

- xvi. The same applies for the recovery of the CAB costs. Under the Act, all postal operators can contribute to the CAB costs. **The CAB's remit is to be consumer advocates for the entire postal sector.** All consumers are within scope of the activities of the CAB – not just the customers of Royal Mail, Access operators and single piece end-to-end letter operators. The activities of the CAB are increasingly driven by parcel operators, such as the CAB work on parcels surcharging. We have estimated around a third of the CAB's research reports over the last three years related to parcels.²⁶ **It is fair, equitable and cost reflective that CAB costs should be recovered across all operators and services – Access and bulk, letters and parcels.**

Chapter signposting

- xvii. The structure of our response is as follows:

- **Chapter 1 - Analytical Framework** - To ensure that the relevant postal operators contribute to Ofcom's administrative costs and the CAB costs, our analytical framework is split into two-stages. Stage 1 is a legal check on whether a specific service could in fact contribute under the Postal Services Act to CAB or Ofcom costs. Stage 2 involves an assessment to determine whether a specific service should contribute to the costs using a set of questions derived from Ofcom's charging principles.
- **Chapter 2 - 7** - These chapters respond to each of Ofcom's questions in turn.
- **Annex 1** - We summarise our responses to the questions in Annex 1.
- **Annex 2** - We apply our analytical framework in the context of Ofcom's administrative costs.
- **Annex 3** - We apply our analytical framework in the context of CAB costs.
- **Annex 4** - This lists the CAB research since 2014 which demonstrates the volume of work relating to parcels.
- **Annexes 5 and 6** - We expand upon the analytical framework chapter. Annex 5 sets out in more detail six questions that in our view apply Ofcom's criteria (it uses to inform who should pay its administrative costs) to the postal sector. Annex 6 sets out our view of the four questions that Ofcom should ask in relation to CAB costs.

²⁵ We propose that relevant parcel turnover is limited to UK wide parcel operators – the same operators that Ofcom already collects revenue and volume information from. This is for Ofcom's administrative ease.

²⁶ See our response to Question 6 where we set out our analysis.

Chapter 1 - Analytical Framework

Our analytical framework adopts a two-stage approach:

- 1. Under the Act, which operators could contribute to the Ofcom and CAB costs.**
- 2. Which postal operators should contribute to the costs.**

In terms of the latter stage, our starting point is Ofcom's criteria that it uses to inform its Statement of Charging Principles. We have applied these criteria to the postal sector. In doing so, we have identified six questions that Ofcom should take account of in setting the cost recovery framework for its administrative costs. For the CAB costs, we have identified four questions Ofcom should take into account in setting the cost recovery framework.

Ofcom needs to consider which operators could pay under the Act and then which should contribute.

- 1.1 In our response to Question 1, we set out our understanding of the legal framework for the recovery of Ofcom's administrative costs. For each group of services under consideration, Ofcom must consider whether the services fall within the scope of services that could contribute towards the administrative costs. In other words, are they within the scope of, or, be reasonably interchangeable with a service within the scope of the universal postal service?

Ofcom has devised criteria to be considered when setting the charging principles. For recovering Ofcom's administrative costs, we have identified six key questions linked to these criteria which we apply.

- 1.2 The Act provides Ofcom with a degree of flexibility in setting the charges.²⁷ In Ofcom's Statement of Charging Principles²⁸, Ofcom sets out who pays its administrative costs.²⁹ Ofcom has also set out criteria to be taken into account when setting these principles of who pays. Ofcom's criteria apply to all sectors which it regulates. **We have considered what these criteria mean specifically for the postal sector and have put forward six questions which – in our opinion – Ofcom should consider when setting a charging framework that is relevant for the postal sector.** The table below shows how these questions address Ofcom's criteria:

Question to be considered	Which of Ofcom's criteria it addresses
Are the services regulated?	Fairness and equity
Who directly benefits from that regulation?	Fairness and equity
Who is driving Ofcom's activity?	Cost reflective, relevance
Who derives a wider benefit from Ofcom's activities and regulation?	Fairness and equity
Is it administratively easy to implement?	Simplicity and transparency, verifiable, harmonisation
Is the framework futureproof?	Adaptable and reliability

²⁷ Paragraph 1(4) of Schedule 4 of the Act.

²⁸ Statement of Charging principles Postal Services, 28 March 2012.

²⁹ Consumer Protection Condition 1 sets out who pays for consumer advocacy costs.

1.3 Each question should be considered but no single question is determinative – the answers should be looked at in the round. Annex 5 sets out in more detail Ofcom's criteria and how asking the questions above addresses them. We consider these questions to be consistent with how Ofcom determines who should contribute to its charges. Ofcom:

- States its proposals “ensure that Ofcom’s costs of postal regulation are recovered from those postal operators that are either the subject of or benefit from Ofcom’s work”.³⁰
- States that services that are “within the scope of the universal postal service” and “which drive our regulatory activities should be considered as relevant turnover for the purposes of recovering our administrative charges”.³¹
- Refers to the level of applicable regulation and the benefit derived from this regulation.³²

For recovering CAB costs, we have identified four key questions linked to Ofcom’s criteria.

1.4 In our response to Question 6, we set out our understanding of the legal framework for the recovery of the CAB costs. The CAB have a remit to be the consumer advocates for the entire postal industry. It follows that the entire postal industry – parcels and letters – can contribute. **We propose that Ofcom should take into account the following four questions when carrying out its assessment.** The table below shows how these questions address Ofcom’s criteria:

Question to be considered	Which of Ofcom’s criteria it addresses
Which postal users benefit from CAB activities?	Fairness and equity
Which postal operators are driving the CAB activities?	Cost reflective, relevance
Is it administratively easy to implement?	Simplicity and transparency, verifiable, harmonisation
Is the framework futureproof?	Adaptable and reliability

1.5 Annex 6 sets out in more detail Ofcom’s criteria and how asking these questions above address them.

³⁰ Paragraph 3.78 of the Consultation.

³¹ Paragraph 3.51 of the Consultation.

³² See for example, paragraph 3.23 of the Consultation, where it states “**access services are subject to and benefit from regulation to a significant degree, and contribute significantly to some of our regulatory costs in relation to the postal sector. This suggests that, on grounds of fairness, relevance and cost-reflectiveness, there is a case for taking turnover from access services into account for the purposes of administrative charging.**” (emphasis added).

Chapter 2 – Response to Question 1

Do you agree that revenues from single piece end-to-end letter delivery services should be taken into account for the purposes of setting administrative charges? Please give your reasons.

Yes, we agree with Ofcom's proposal to include revenues from single piece end-to-end letter delivery services when setting administrative charges.

The Act sets out that services within the scope of the universal postal service can contribute towards Ofcom's administrative charges. Single piece end-to-end letter delivery services are clearly within that scope. It is also appropriate for single piece end-to-end letter operators to contribute to Ofcom's costs. Operators providing these services are regulated. It is fair, equitable and cost reflective that these operators should contribute to Ofcom's administrative costs. But we note that the combined revenues of single piece end-to-end delivery outside of Royal Mail were relatively low – £5m in 2015-16.

The Act sets out that postal operators providing services within the scope of the universal postal service can contribute to Ofcom's administrative costs.

- 2.1 We consider that it would be helpful to set out our understanding of the legal framework that Ofcom applies to set the scope of the relevant services for the purposes of setting the administrative charges.
- 2.2 Paragraph 1(1) of Schedule 4 of the Act states that "*If, at any time in a charging year, a postal operator provides a service within the scope of the universal postal service, the operator must, in respect of the service, pay to OFCOM the administrative charge (if any) that is fixed by OFCOM as applicable to the operator*" (emphasis added by Royal Mail).
- 2.3 Section 40(1) of the Act sets out that services are within the scope of the universal postal service "if:
- (a) the service falls within the description of a service set out in the universal postal service order, or
 - (b) the service would fall within the description of a service set out in that order but for the fact that:
 - (i) in the case of a service consisting of the delivery or collection of letter or other postal packets, the delivery or collection is not made on each of the days required by section 31 (see requirements 1 and 2),
 - (ii) the service is not provided throughout the United Kingdom, or
 - (iii) the service is not provided at an affordable price in accordance with a public tariff which is uniform throughout the United Kingdom, or
 - (c) in the opinion of OFCOM the service is of a kind that, from the point of view of users of postal services, could reasonably be said to be interchangeable with a service of a description set out in that order."
- 2.4 Section 65(1) of the Act provides clarity on who is a user of a postal service. A "user' in relation to a postal service includes –
- (a) addressees, and
 - (b) potential users."

Single piece end-to-end letter delivery services are within the scope of the universal postal service. These operators could contribute.

- 2.5 Schedule 1, paragraph 1 of the universal postal service order³³ sets out a description of the single piece letter service. **Any service within the universal postal service order is by definition in the Universal Service Obligation.** Therefore, Royal Mail's services fall within scope of the universal postal service.
- 2.6 Paragraph 3.18 of the Consultation explains that under section 40(1)(b), Ofcom considers that smaller operators providing single piece end-to-end letter delivery services are within scope of the universal postal service for the purpose of setting administrative charges. Ofcom states that "*despite not being subject to the same obligations, these services are substitutable to letter services provided as part of the universal postal service, in the geographic areas in which they are available.*" **We agree with Ofcom's understanding of section 40(1)(b) that smaller operators providing single piece end-to-end letter delivery services are within scope of the universal postal service for the purpose of setting administrative charges.**

It is appropriate that single piece end-to-end letter delivery services should contribute towards Ofcom's administrative costs.

- 2.7 Considering the six questions we set out in the Analytical Framework chapter, we believe that it is appropriate that all single piece end-to-end letter services should contribute:
- In the single piece end-to-end letter sector, **all operators are subject to regulation.** Royal Mail has significant regulatory obligations. Ofcom notes³⁴ that other single piece end-to-end letter operators are subject to Consumer Protection Condition 1 and Consumer Protection Condition 2.
 - Operators other than Royal Mail **directly benefit from single piece end-to-end regulation.** These operators can ask Ofcom to review Royal Mail's activity in terms of its obligations as the Designated Universal Service Provider (DUSP). For example, operators could raise a complaint or query with Ofcom as to whether Royal Mail had complied with its regulatory financial reporting obligations.
 - **Operators including Royal Mail are engaging with Ofcom on its activity.** This can be evidenced by the engagement from single piece end-to-end letter operators such as CFH (owner of VeloPost) in Ofcom's FRR.³⁵ It is cost-reflective that these operators bear a share of Ofcom's administrative costs.
 - Single piece end-to-end letter operators apart from Royal Mail **derive a wider benefit from Ofcom's activities and regulation.** These operators benefit from Ofcom's monitoring of the postal sector. For example, Royal Mail provides revenue and volume information on USO mail within the regulatory financial statements. There is further market insight on the letter sector within Ofcom's Annual Monitoring Updates. Ofcom must consider this to be useful information for stakeholders for this information to be published.
 - **We consider that this will be relatively easy to implement.** Ofcom already collects data from single piece end-to-end letter operators.
 - Even though these operators will not contribute today (under Ofcom's proposals), it is important these operators are covered by Ofcom's new charging principles to ensure **the regime is futureproof**, should their activities increase from the current levels.

³³ <https://www.ofcom.org.uk/postal-services/information-for-the-postal-industry/upso>

³⁴ Paragraph 3.19 of the Consultation.

³⁵ See Ofcom, Review of the Regulation of Royal Mail, March 2017, for frequent references to CFH.

2.8 We note Ofcom's observation in paragraph 3.20 of the Consultation that the combined revenues of single piece end-to-end delivery outside of Royal Mail were £5m in 2015-16. We note that under Ofcom's proposal, these operators would not contribute. We address the threshold level in our response to Question 5.

Chapter 3 – Response to Question 2

Do you agree that revenues from bulk mail and access services should be taken into account for the purposes of setting administrative charges? Please give your reasons.

Yes, we agree with Ofcom's proposal to include revenues from bulk mail and Access services when setting administrative charges.

The Act explains that services within the scope of the universal postal service can contribute. Single piece mail services are in scope. Ofcom states³⁶ that it considers bulk mail services including Access are reasonably interchangeable with single piece mail services. We agree. Accordingly, these services could contribute to Ofcom's administrative charges.

Bulk and Access operators providing these services should contribute to Ofcom's costs. The Access sector is highly regulated. Access operators benefit from the provision of the Universal Service and from the Access regime that Ofcom has imposed. For example, according to Ofcom's latest Communications Market Report, downstream Access mail volumes grew to 60% of the total letter mail volumes in 2016 (up from 57% in 2015).³⁷ Access mail is – therefore – a key component of the postal sector. It is fair, equitable and cost reflective that these operators should contribute to Ofcom's administrative costs.

Bulk services including Access are interchangeable with single piece services and so fall within the scope of the universal postal service. These services could contribute towards Ofcom's administrative costs.

- 3.1 We agree with Ofcom when it states *"we consider that bulk letter services including access should be considered within scope of the universal postal service for the purposes of the recovery of administrative charges."*³⁸ Ofcom's view is that certain bulk letters services are interchangeable with some single piece services (meter and PPI services), as the minimum posting level for Royal Mail bulk services and some Access operators is sufficiently low.³⁹
- 3.2 However, we consider that Ofcom's legal analysis of this point is too narrow. Ofcom has assessed this from the perspective of sender of a letter. Ofcom refers to section 40(1)(c) of the Act.⁴⁰ However, it does not reference section 65(1) of the Act, which states that users of postal services include addressees. Using that definition, **an addressee of a letter clearly sees Access/bulk mail services as interchangeable with single piece services** – they make no distinction between the different ways of sending mail (using Universal Services, Access services or Royal Mail bulk services). All services are interchangeable from the point of view of the addressee. Therefore, all bulk mail services (including Royal Mail's retail bulk services and Access services) are within the scope of the universal postal service and meet the legal requirement under the Act for being eligible to contribute to Ofcom's charges.

³⁶ Paragraph 3.27 of the Consultation.

³⁷ Page 203 of Ofcom's Communications Market Report 2017.

³⁸ Paragraph 3.27 of the Consultation.

³⁹ Paragraph 3.26 of the Consultation.

⁴⁰ In the opinion of Ofcom the service is of a kind that, from the point of view of users of postal services, could reasonably be said to be interchangeable with a service of a description set out in that order.

Access operators should contribute towards Ofcom's administrative costs.

Royal Mail already contributes. Access operators benefit from regulation that creates a market for them to compete in. It is only fair, equitable and cost reflective that they should contribute towards Ofcom's administrative costs.

- 3.3 Access operators benefit significantly from the Access regulatory regime. **The regime sets out a range of conditions that Royal Mail has to meet in relation to access for letters and large letters services.** It also restricts how we can use information provided by Access operators. We are required to comply with a margin squeeze test which is intended to encourage Access operators to enter the market. In addition, Access operators are able to bring disputes to Ofcom regarding this regulatory obligation.
- 3.4 Access issues also takes up a significant part of Ofcom's time, such as through its review of our Access pricing in 2014 and ongoing monitoring of our compliance against the regulatory Access condition,⁴¹ including monitoring of the margin squeeze test.
- 3.5 In our assessment against the six questions we have identified, we note:
- **The Access market is highly regulated.** For example, the USPA Condition sets out very detailed obligations on Royal Mail.
 - **Access operators directly benefit from this regulation.** Access operators can use Royal Mail's downstream network. In addition, Access operators can complain to Ofcom if Royal Mail is not complying with the USPA Condition. It empowers them.
 - **Access operators are engaging with Ofcom frequently and are increasingly influencing Ofcom's agenda.** In Ofcom's FRR statement, the Access framework warranted its own chapter. Whistl, Secured Mail, UK Mail and other Access operators made comprehensive responses which Ofcom reviewed and reflected in its final decision document. It is cost-reflective that these operators bear a share of Ofcom's administrative costs.
 - **Access operators derive a wider benefit from Ofcom's activities and regulation.** These operators benefit from Ofcom's monitoring of the postal sector. For example, Royal Mail provides revenue and volume information on USO mail within its regulatory financial statements. There is further market insight on the letter sector within Ofcom's Annual Monitoring Updates. Ofcom must consider this to be useful information for stakeholders for this information to be published.
 - We consider that **it will be relatively easy to implement.** Ofcom already collects data from Access operators.
 - **Including bulk and Access revenues will make the framework more futureproof.** The wider the pool of relevant revenue, the more stable and predictable the cost recovery should be.
- 3.6 We – therefore – agree with Ofcom that turnover from Access services should be taken into account for the purposes of recovery of Ofcom's administrative costs. As a bulk mail operator, Royal Mail considers that its bulk mail revenues should contribute towards Ofcom's administrative costs due to the high level of regulation on these services and our engagement with Ofcom.

⁴¹ USPA Condition (USP Access Condition) sets out a detailed schedule of conditions that the USP must follow. This includes the requirement to provide D+2 Access for letters and large letters on reasonable request, requirement for fair and reasonable terms, conditions and charges.

Summary of whether letter services and Access operators could and should contribute towards Ofcom's administrative costs.

3.7 In our assessment, all letter revenues could contribute to Ofcom's administrative costs. They are either a service within the scope of the universal postal service order or are reasonably interchangeable with a service that is within that order for the purposes of contributing towards Ofcom's administrative costs. All letter operators should contribute towards the administrative costs. Access operators benefit from Royal Mail's downstream network. All other letter operators benefit from the regulation imposed on Royal Mail and from Ofcom's monitoring activities. Letter services remain subject to regulation.

Letters			
Stage 1: Under the Act, could the service contribute to Ofcom's administrative costs?			
	Single Piece	Bulk (Royal Mail)	Access
Section 40(1)(a) or (b) - within the universal postal service order	✓ Royal Mail 40(1)(a) ✓ Others 40(1)(b)		
Section 40(1)(c) - interchangeable from view of postal services users - sender		✓	✓
Section 40(1)(c) - interchangeable from view of postal services users - addressee		✓	✓
Stage 2: Should these services contribute to Ofcom's administrative costs?			
	Single Piece	Bulk (Royal Mail)	Access
Are the services regulated?	✓	✓	✓
Who directly benefits from that regulation?	Small single piece operators benefit.	Access operators benefit from the margin squeeze test applied to certain Royal Mail bulk services.	USPA Condition empowers Access operators. Access operators can use Royal Mail's downstream network.
Who is driving Ofcom's activity?	Other operators engage with Ofcom.	Royal Mail seeks a more appropriate level of regulation.	Access operators engage with Ofcom.
Who derives a wider benefit from Ofcom's activities and regulation?	Ofcom stated that the " <i>monitoring framework could support the postal market itself.</i> " ⁴²		
Is it administratively easy to implement?	✓	✓	✓
Is the framework futureproof?	Including single piece end-to-end letter operators in the remit ensures a fair cost recovery should their activities increase in the future. A wider pool of revenue – including Access operator revenue – will help to make the cost recovery charges more stable.		

⁴² Ofcom, Securing the Universal Postal Service, 27 March 2012, Paragraph 7.7

Chapter 4 – Response to Question 3

Do you agree that turnover from access revenues should be calculated on a net basis (i.e. after the deduction of access charges to Royal Mail)? Please give your reasons.

Yes, we agree that turnover from Access revenues should be calculated on a net basis.

We have made this point in our previous submission to Ofcom in relation to Ofcom's Statement of Charging Principles in 2014. It is fair and equitable as it avoids double counting the revenue, once for Royal Mail and once for the Access operator.

- 4.1 We agree with Ofcom that turnover should be calculated on a net basis. Charging on a gross basis would mean that the Access revenues would be counted twice – in the Access operators' revenues and in Royal Mail's revenues.
- 4.2 It should be noted that in relation to Ofcom's charging principle of harmonisation, other operators in other sectors will pay similar fees to other regulated entities (for example, Sky, Vodafone, TalkTalk and other operators pay charges to Openreach (similar to Access charges) in order to be able to provide their retail services).
- 4.3 As we understand, their revenues are not calculated on a net basis⁴³ and so this is a good example of where harmonisation is not appropriate. The specific circumstances of each sector need to be taken into account.

⁴³ 'Relevant Turnover (Networks & Services)' means the turnover generated by the Relevant Person during the Relevant Calendar Year from carrying on any Relevant Activity after the deduction of value added tax and any other applicable sales taxes. 'Relevant Activity' means any of the following: the provision of Electronic Communications Services to third parties; the provision of Electronic Communications Networks, Electronic Communications Services and Network Access to Communications Providers; and/or the making available of Associated Facilities to Communications Providers. 2005 Statement of charging principles, paragraph 4.1.

Chapter 5 – Response to Question 4

Do you agree that turnover from parcel services should not be taken into account for the purpose of setting administrative charges? Please provide your reasons.

No, we disagree with this proposal. We consider that turnover from parcel services should be taken into account when setting administrative charges. Ofcom has not applied the same framework that it used for single piece and Access services to parcel services.

Applying the same framework means that parcel services fall within scope of services that could – under the Act – contribute to the administrative charges. Parcel services fall within the scope of the universal postal service. Single piece parcels are clearly within that scope. Bulk parcels are reasonably interchangeable with single piece parcel services – like Access letters – and so fall within the scope of the universal postal service.

We agree with Ofcom that the level of regulation in the parcel sector is lighter than the letter sector. That is clearly appropriate given the intense competition in the parcels sector. However, Ofcom still spends a considerable portion of its resources on postal monitoring in the parcels sector due to concerns about the impact of parcel competition on the financial sustainability of the Universal Service. Moreover, parcel operators significantly influence Ofcom's activity – such as Ofcom's cost allocation review – and benefit from regulation of Royal Mail. Including parcel revenue will also help to futureproof the regime. Parcel operators should pay something to avoid free riding on Ofcom's regulatory framework.

Ofcom should consistently assess parcel services against the same legal framework as letter services when considering who could pay the regulatory costs.

5.1 Ofcom has not been consistent in how it has assessed which services its administrative costs should be recovered from. In relation to single piece end-to-end letter delivery services, it notes:

- Services provided by small end-to-end letter operators are substitutable for letter services provided as part of the Universal Service. Therefore, the service falls within scope of the universal postal service and so could contribute to the administrative charges.
- These services are subject to some regulation and some of the costs Ofcom incurs relate to the activities of these operators.⁴⁴ Therefore, it is fair, equitable and cost reflective that these operators contribute towards the administrative charges.

5.2 In relation to Access mail services, Ofcom notes:

- Its reasoning as to why these services are within the scope of the universal postal service for the purposes of the recovery of administrative charges.⁴⁵
- The significant regulation on Access services, which benefits Access operators⁴⁶ and the monitoring activity carried out by Ofcom in relation to our Access obligations.⁴⁷ Therefore, it is fair, equitable and cost reflective that Access operators contribute towards the administrative charges.

⁴⁴ Paragraphs 3.18 and 3.19 of the Consultation.

⁴⁵ Paragraphs 3.24 to 3.27 of the Consultation.

⁴⁶ Paragraph 3.22 of the Consultation.

⁴⁷ Paragraph 3.23 of the Consultation.

5.3 In short, Ofcom looks at whether the particular service is within the scope of the universal postal service, the level of regulation of the particular service (and the benefits to other operators of this regulation) and the level of costs/Ofcom activity driven by the particular service. **This is not the case when it assesses parcel services.**

5.4 In relation to parcel services, Ofcom states that:

- The parcels market is very lightly regulated and most regulation applies to Royal Mail.⁴⁸
- The purpose of its ongoing monitoring programme in the postal sector, where it has its main engagement with parcel operators, is to identify threats to the Universal Service and so is not related to the wider parcels market itself.⁴⁹
- Only a very small proportion of its costs over the past three years relate to parcels.⁵⁰

5.5 We consider that Ofcom's analysis is inconsistent with its earlier analysis on letters. We believe that Ofcom should:

- Consider whether these services are within the scope of the universal postal service; then
- Ask the six questions we have identified that apply Ofcom's criteria to the postal sector to confirm if it is appropriate for parcel operators to contribute.

Using the same approach as Ofcom uses for assessing letters, it is clear that all parcel services (including tracked and account parcels) are within the scope of the universal postal service for the purposes of recovery of Ofcom's administrative costs.

5.6 It is clear that parcel operators are postal operators within the meaning of the Act.⁵¹ Using the same approach as Ofcom uses for assessing letters:

- Single piece parcel end-to-end delivery services differ from those set out in the universal postal service order only for the reasons set out in section 40(1)(b) of the Act (for example, they are not required to be carried throughout the UK).⁵²
- Certain bulk parcel services are reasonably interchangeable with some single-piece parcel services within the scope of the universal postal service.⁵³ **The minimum volumes for parcel account contracts are so low that some SMEs would see Royal Mail Universal Services as interchangeable with bulk parcel services.** For example, the minimum annual volume is 1,000 parcels across Royal Mail Tracked 24™, Royal Mail Tracked 48™, Tracked Returns, and Royal Mail International tracking and signature services.

5.7 Ofcom notes in the Consultation that "*Whistl now offers services via the Parcels2Go website which allows business customers to send letters and small parcels via the Whistl access service, with a minimum spend of just £20 per mailing*".⁵⁴ **It is clear that the minimum spend to purchase bulk parcel services is low.**

⁴⁸ Paragraphs 3.36 and 3.37 of the Consultation.

⁴⁹ Paragraph 3.38 of the Consultation.

⁵⁰ Paragraph 3.39 of the Consultation.

⁵¹ DHL (UK) International Limited vs Office of Communications, 4 May 2016.

⁵² Paragraph 3.18 of the Consultation reaches this conclusion for single piece end-to-end letters.

⁵³ Paragraphs 3.25–3.27 of the Consultation reaches this conclusion for bulk letters.

⁵⁴ Paragraph 3.26 of the Consultation.

- 5.8 **In addition, from the point of view of an addressee of parcel services (which counts as a user under section 65(1) of the Act), a parcel delivered via the Universal Service is reasonably interchangeable with a non-Universal Service parcel delivered by another parcel operator.** It does not matter to the addressee whether the parcel is a single piece parcel or a parcel provided under a bulk contract.
- 5.9 In the case of tracked services, Ofcom stated in its 2014 preliminary consultation on its charging principles⁵⁵ that if tracking is a standard feature of bulk mail letter services for which no additional charge is made, it does not appear appropriate to retain it as a premium service. The same logic should apply to parcel services. Ofcom itself acknowledges that most parcel services are now tracked⁵⁶ and we believe that most parcel operators do not make a separate charge for this. Tracking should not be seen as a premium service and so should be included in the relevant turnover.
- 5.10 For all the reasons above, we consider that all parcel services (including tracked and account parcels) are therefore within the scope of the universal postal service for the purposes of recovery of Ofcom's administrative costs.

On the basis of our analytical framework, parcel operators should contribute the administrative costs of Ofcom.

- 5.11 We set out below an assessment against the six questions that Ofcom should consider.

1) *The parcel sector is regulated but most of the regulation is directed at Royal Mail.*

- 5.12 Ofcom states that “the UK parcels market is very lightly regulated”.⁵⁷ It is entirely appropriate that the parcels sector is less regulated than letters given the intense competition in parcels. Nevertheless, Ofcom still spends significant resources monitoring in the parcels sector.
- 5.13 We agree that most of the regulation – and so regulatory burden – is directed at Royal Mail. Universal Service parcel services are subject to significant regulation (for example, around quality of service and consumer complaints). As stated in our August 2016 Consultation response, **Royal Mail is subject to 32 regulatory conditions, other parcel operators are subject to one and new delivery operators such as Amazon, have no regulatory conditions. In contrast, our research⁵⁸ found that effective consumer protection standards across the parcel industry are central to maintaining consumer confidence.** Consumers value high and consistent levels of mail integrity, complaints handling, and compensation processes:
- 85% of online shoppers consider that knowing their parcel will be protected against loss, damage, or theft is important, or very important.
 - 81% of consumers believe it is important, or very important, for all parcel operators to have consistent standards for complaint handling.
 - 78% of consumers believe being able to get compensation from a parcel operator is important, or very important.

⁵⁵ Principles for setting licence fees and administrative charges, 27 March 2014, paragraph 3.7.

⁵⁶ See for example paragraph A2.45 of its Annual Plan 2017-18.

⁵⁷ Paragraph 3.35 of the Consultation.

⁵⁸ Illuminas, delivery experience report July 2016, commissioned by Royal mail, surveying over 3,366 consumers and businesses.

5.14 We believe there is a clear case for levelling the playing field by raising consumer protection and mail integrity standards in the parcel sector to those of Royal Mail. Having said that, **even though the regulation on other parcel operators is light, the parcel sector is still regulated.**

2) Other Parcel operators directly benefit from regulation of Royal Mail.

5.15 Ofcom has not considered the benefit that parcel operators get from the regulation imposed on Royal Mail. As the DUSP, we are subject to significant regulation.⁵⁹ For example, a parcel operator could raise a complaint with Ofcom regarding our compliance with the regulations, such as our compliance with the Regulatory Accounting Guidelines in the production of regulatory financial information. This ability is similar to the ability of Access operators to bring a dispute. **If Ofcom, rightly, relies on the possibility of Access disputes⁶⁰ as a reason to include Access services, it should be consistent and apply the same reasoning to parcels.**

3) Parcel operators are increasingly driving the regulatory agenda.

5.16 Ofcom stated that only a very small proportion of its costs over the past three years relate to parcels. Ofcom reached this conclusion from the analysis of the costs of the 20 Ofcom projects and programmes relating to postal regulation from the past three financial years. It used this analysis to assess who should contribute to its costs. We disagree with this approach as these years are not representative.

5.17 **First, the past three years have not been representative.** For example, it has included the FRR. This is an exceptional activity that will not happen again for several years.⁶¹ This is highlighted by Ofcom itself in its Annual Plan for 2017-18, where it says, having completed the FRR, “*our planned work for postal regulation is significantly lower for 2017-18, than it has been in previous years*”.⁶² Ofcom should also take into account its future plan of work, which will be more heavily focused on the parcels sector. **Ofcom’s workplan for 2017-18 sets out a list of activities that are either parcel driven or relate to the postal sector – there are no activities that relate to the letters sector alone.** See Figure 1 below.

5.18 We also disagree with Ofcom’s assessment that its proposals are objectively justifiable and proportionate because they “*ensure that Ofcom’s costs of postal regulation are recovered from those postal operators that are either the subject of or benefit from Ofcom’s work*”.⁶³ Parcel operators also drive a significant proportion of Ofcom’s activity and yet do not contribute to its costs. This places a disproportionate burden on Royal Mail.

⁵⁹ See <https://www.ofcom.org.uk/postal-services/information-for-the-postal-industry/uk-leg> for UK legislation for post and <https://www.ofcom.org.uk/postal-services/information-for-the-postal-industry/conditions> for conditions imposed on postal operators (mostly Royal Mail).

⁶⁰ Paragraph 3.22 of the Consultation.

⁶¹ Ofcom states in the tariff tables for 2017-18 that its costs for that year for the postal services sector are decreasing by 35.2%: “*Having completed our comprehensive review of the regulation of the Universal Service Provider in February 2017, we decided to retain the current framework for postal regulation until 2022. As such our planned work for postal regulation is significantly lower for 2017-18.*”

⁶² Paragraph A2.43, Annual Plan 2017-18.

⁶³ Paragraph 3.78 of the Consultation.

Figure 1: Ofcom Workplan 2017-18 summary

Project details	Parcel, Letter, Postal sector
Cross-border parcels: we will comment on proposals for a Regulation to increase oversight of EU cross-border parcel delivery services and will work with the ERGP to establish the feasibility of the proposals.	Parcels
Post cost modelling: we propose to build a costing model to help develop our own view of how Royal Mail allocates costs in its delivery network.	Parcels, letters The initial concerns were raised by Hermes – a parcel operator. The driver for this activity is competition in parcels
Regulatory financial reporting review: we intend to consult on proposals for amending the USP Accounting Condition and Regulatory Accounting Guidelines to ensure they remain fit for purpose and make some technical changes to the detailed workings of the margin squeeze control (part of the Universal Service Provider Access Condition).	Parcels, letters This is a legacy activity from Ofcom's FRR.
Reporting on the UK communications market: we will continue to produce our regular suite of annual reports looking at the communications sector across the UK and in Northern Ireland, Wales and Scotland. The reports contain data and analysis on broadcast television and radio, fixed and mobile telephony, internet take-up and consumption, and post.	Postal sector
Reporting on the international communications market: we will continue to produce our regular annual report providing comparative international data on the communications sector. The aim of the report is to benchmark the UK communications sector against a range of comparator countries in order to assess how the UK is performing in an international context.	Postal sector
Parcel surcharging: Ofcom will continue to work with Citizens Advice Scotland and the General Consumer Council for Northern Ireland to better understand the causes and effects of surcharging for parcels in Northern Ireland and the Highlands and Islands of Scotland.	Parcels

5.19 **Secondly, Ofcom states that most of its parcel activity relates to identifying threats to the Universal Service and not the wider parcels sector.** It therefore counts these costs under the category of the Universal Service/Royal Mail. In the Consultation, Ofcom stated

- *“Our primary engagement with parcel operators is to inform our ongoing monitoring programme in the postal sector. As part of this programme, we collect volume and revenue data from 14 parcel operators (including Royal Mail and Parcelforce Worldwide) on an annual basis. The purpose of requesting this information is to identify any emerging threats to the provision of the universal postal service and to inform our assessment of the financial sustainability of the universal postal service. This activity is*

*therefore concerned with our duties to secure the provision of the universal postal service, rather than the wider parcels market itself.*⁶⁴

- 5.20 **Ofcom's duty to secure the provision of the universal postal service has not changed – it is parcel competition that has led to Ofcom undertaking increased monitoring of the parcel sector.** Ofcom's increased monitoring is due to the need to "*identify any emerging threats to the provision of the universal postal service*".⁶⁵ It was expected at the time of privatisation that parcel revenue growth would offset letter revenue decline – our prospectus set out a financial objective for Royal Mail of low single digit revenue growth.⁶⁶ Due to the significant parcel competition with new entrants, such as Amazon, and price pressures, this has not occurred in the last three years. Since 2013-14, UKPIL revenue has fallen by c.£150m.⁶⁷
- 5.21 The recent Pitney Bowes Shipping report⁶⁸ found that there is a wide dispersion of revenue across the parcel sector – Royal Mail (35%), DPD (12%), UPS (8%), DHL (7%), and TNT (6%) are the top 5 players. The report also noted that Amazon had gradually reduced its reliance on Royal Mail to fulfil its own parcel deliveries. The Amazon in-house logistics business accounted for 7% of all parcel shipments in the UK in 2016.⁶⁹ The impact of Amazon on Royal Mail has been noticeable. In 2016-17, total Royal Mail parcel volumes increased by three per cent, with growth largely driven by Royal Mail account parcels offsetting reduced Amazon volumes. Account parcel volumes, excluding Amazon, grew by four per cent.⁷⁰
- 5.22 **It is – therefore – cost reflective, that the parcel industry bears a share of the administrative costs.** Ofcom needs to consider the driver of the activity. Ofcom stated "*we consider that turnover generated from services which are within scope of the universal postal service, or could reasonably be said to be interchangeable with a service of a description set out in that order, and which drive our regulatory activities should be considered as relevant turnover for the purposes of recovering our administrative charges.*" (emphasis added). It is clear to us that parcel competition has led to Ofcom increasing its monitoring and its activity.
- 5.23 Furthermore, **Ofcom's increased activity in the parcel sector is also driven by consumer protection issues in parcels.** In the 2015-16 Annual Monitoring Update, Ofcom set out the work it had done to understand the causes and effects of parcels surcharging in Northern Ireland and the Scottish Highlands and Islands. Ofcom requested data from five parcel operators. As stated in Ofcom's 2017-18 workplan, Ofcom intends to continue working on parcels surcharging. We understand that Ofcom is participating in this activity due to its duties in relation to consumers across the postal sector. We note that as the DUSP, we provide our services across the UK at the same price. **It is not fair, equitable or cost reflective to recover the cost of Ofcom's parcel surcharging activity almost entirely from Royal Mail when Royal Mail does not surcharge for Universal Services products.**
- 5.24 **Finally, other parcel operators are helping to shape Ofcom's workplan. Parcel operators should not have a 'free ride' on Royal Mail.** The cost allocation review was partly instigated following issues raised by Hermes.⁷¹ We note that Hermes was one of several parcel operators to respond to Ofcom's FRR

⁶⁴ Paragraph 3.38 of the Consultation.

⁶⁵ Paragraph 3.38 of the Consultation.

⁶⁶ Royal Mail plc Prospectus, Page 143.

⁶⁷ gross revenue for UKPIL adjusted for working days but includes the impact of acquisitions, the removal of which would make it even higher

⁶⁸ <http://postandparcel.info/82081/news/pitney-bowes-uk-parcel-market-set-for-huge-shake-up/>

⁶⁹ <http://postandparcel.info/82081/news/pitney-bowes-uk-parcel-market-set-for-huge-shake-up/>

⁷⁰ Royal Mail plc, Annual Report and Financial Statements, Page 21.

⁷¹ Hermes, Summary response to OFCOM discussion document regarding the regulation of the Royal Mail, 17 July 2015.

consultation in 2016.⁷² They can ask Ofcom to undertake a regulatory review of Royal Mail for which Royal Mail, through the levy, will pay. This will benefit other parcel operators but they are not required to contribute towards the cost. This creates a moral hazard risk.

5.25 We also note that other industry stakeholders are also asking Ofcom to do more on parcels. In its response to Ofcom's consultation on the Review of Regulatory Financial Reporting for Royal Mail, the Mail Competition Forum (MCF) stated that there "is the need for Ofcom to be able to have better oversight of what RM is doing in the parcels market".⁷³ Whilst we disagree with MCF's assertions in relation to cost allocation, it does reflect that there is an expectation by industry stakeholders that Ofcom's role in the parcel sector is only going to grow.

4) Parcel operators benefit from Ofcom's monitoring.

5.26 Parcel operators also directly benefit from the monitoring activity carried out by Ofcom in the form of market data and insight which it produces. For example, in Ofcom's last Annual Monitoring Update (November 2016), it provided six pages of information on the letters sector but 16 pages on the parcels sector. It also provides insight into the postal services market (including parcels) in its annual Communications Market Report, including market sizing and growth data. The FRR statement also included detailed analysis of the parcels sector. Ofcom must consider this to be useful information for stakeholders for this information to be published.

5) It will be straightforward to implement.

5.27 We consider that it will be relatively easy to implement. Ofcom already collects data from 14 nationwide parcel operators under its regulatory powers. Ofcom has the power to fine the operators for non-compliance, late submission or incorrect information. Ofcom can use elements of this information to identify the relevant parcel revenue. **Accordingly, we propose that Ofcom only considers UK-wide parcel operators that are already captured by its parcel revenue and volume monitoring.**

6) The new framework should be futureproof. Letter revenue is only a third of postal revenues, and is expected to fall further.

5.28 The postal sector has been – and continues to be – subject to significant change. The new framework for the recovery of costs should be sufficiently flexible to take into account future change and growth. With continued letter reduction and growth in parcels, we expect there to be an increasing focus on the parcel sector. The new framework put in place should be futureproof and take this into account. **Based on Ofcom's figures, in 2015–16, letter revenue for the postal sector was £4.3bn compared with £8.2bn for parcels. UKPIL Revenue for 2015–16 was c.£7.7bn. Therefore, Royal Mail's share of the total postal revenue is around 50 – 60%.⁷⁴ However, Ofcom's current proposal would lead to c.95%⁷⁵ of Ofcom's fees and CAB costs still being paid for by Royal Mail.**

⁷² Ofcom, Review of the Regulation of Royal Mail, March 2017, Paragraph A5.2 lists out all respondents. It includes, for example, the Association of International Courier and Express Services and other parcel operators.

⁷³ Mail Competition Forum, Review of Regulatory Financial Reporting for Royal Mail: Response on Behalf of the Mail Competition Forum (MCF), 31 May 2017.

⁷⁴ Note UKPIL revenue includes revenue that will fall outside of the scope of the UK letter and parcel sectors. For the purposes of this consultation response, we have provided a range.

⁷⁵ Ofcom, Annual Monitoring Update on the postal market, 2015–16. Access Operator net revenue £164m (Paragraph 4.17). Royal Mail revenue £4,146m (Figure 4.2). $\frac{£4,146m}{(£164m + £4,146m)} = c.95\%$.

5.29 Moreover, parcel revenues are growing more rapidly than letters. Letters only represent around a third of the postal sector, and is expected to fall further due to ongoing letter decline relative to the growth in parcels. **We consider that a futureproof charging basis should be as broad as possible, to take account of the changing dynamics within the postal sector – letter volumes falling while parcel volumes growing.**

Summary of whether parcel operators could and should contribute towards Ofcom's administrative costs.

5.30 In our assessment, all parcel revenues could contribute to the administrative costs. They are either a service within the scope of the universal postal service or are reasonably interchangeable with a service that is within that order for the purpose of contributing towards Ofcom's administrative costs.

5.31 Parcel competition has fundamentally changed the postal sector and led to increased Ofcom monitoring of the parcel sector. It is appropriate and cost reflective that parcel operators should contribute to Ofcom's activity. Parcel services remain subject to regulation and other parcel operators benefit from regulation of Royal Mail and from Ofcom's wider monitoring activities. The framework should be futureproof and take account that parcel revenues are expected to continue to constitute the majority of the postal sector revenue. We propose that Ofcom follows the framework that we set out below.

Parcels		
Stage 1: Under the Act, could the service contribute to Ofcom's administrative costs?		
	Single Piece	Bulk
Section 40(1)(a) and (b) – within the universal postal service order	✓	
Section 40(1)(c) – interchangeable from view of postal service users – sender		✓
Section 40(1)(c) – interchangeable from view of postal service users – addressee		✓
Stage 2: Should these services contribute to the Ofcom's administrative costs?		
	Single Piece	Bulk
Are the services regulated?	✓	✓
Who directly benefits from that regulation?	Parcel operators (excluding Royal Mail) can use regulatory framework to raise complaints about Royal Mail, for example, in relation to compliance with DUSP regulatory conditions.	
Who is driving Ofcom's activity?	Ofcom's activity is increasingly driven by parcel competition. Parcel operators are increasingly shaping Ofcom's workplan.	
Who derives a wider benefit from Ofcom's activities and regulation?	All operators benefit from Ofcom's monitoring of the postal sector. Ofcom's monitoring is increasingly parcels focused. Ofcom is increasingly monitoring the experience of parcel users, such as Ofcom's parcel surcharging activity.	
Is it administratively easy to implement?	✓	✓
Is the framework futureproof?	A futureproof framework should be as broad as possible, to take account of the changing dynamics – letter volumes falling while parcel volumes growing.	

Chapter 6 – Response to Question 5

Do you agree that the minimum revenue threshold for payment of administrative charges should be lowered to £5m? Please explain why.

No, we disagree with this proposal. We very much agree that the current £10m threshold should be reduced but we consider it should be reduced even further than £5m. We consider that the threshold should be reduced to £1m, given the proposal to only take net Access revenues into account, and the need to spread the cost of regulation more evenly.

6.1 We believe a threshold of £1m is more suitable for the following reasons:

- For the letters sector, an Access operator who charges – say – 2p per letter would need to handle around one million items per week to hit this threshold. This is a reasonable level to separate significant operators from smaller ones.
- Ofcom notes that a threshold of £5m meets the principle of fairness as the costs of regulation will be borne more widely.⁷⁶ **We consider a lower threshold of £1m would spread the cost of regulation even more widely.**
- Ofcom is placing simplicity and consistency (through harmonisation with other sectors) above fairness. We consider that it is inappropriate to give harmonisation such weight. The principle of harmonisation alone is not a valid reason to impose a threshold of £5m as each regulated sector has unique characteristics.
- Ofcom states that £5m strikes an appropriate balance between ensuring postal operators are not deterred from entering the market and larger operators do not pay a disproportionately high share of Ofcom's charges. We disagree. We do not consider that a relatively small charge would deter a potential operator from entering the market.

6.2 A threshold of £1m is within the range of minimum thresholds that Ofcom has set for other sectors.⁷⁷

- Network and Service Charges – minimum threshold £5,000,000.
- Television Licence fees – Category A and B licence – minimum threshold £0.
- Radio Licence fees – National and Local Licence fees – % of relevant turnover – minimum threshold £0.

6.3 We do not consider that the application of a lower threshold will significantly lead to an administrative burden for Ofcom. Ofcom may consider that there should be a minimum invoice level. In paragraph 3.64.2 of the Consultation, Ofcom suggests £100 as a minimum threshold for CAB helpline cost recharges. We consider this to be a reasonable level to apply as a minimum invoice level.

6.4 Furthermore, **for administrative ease, we propose that – for the parcel sector – the revenues should only apply to parcel operators providing UK wide operations.** It would, therefore, fall within the remit of Ofcom's parcel revenue and volume gathering. Ofcom can use information it already has.

⁷⁶ Paragraph 3.46 of the Consultation.

⁷⁷ Ofcom, Tariff Tables 2017-18, 30 March 2017.

Chapter 7 – Response to Question 6

Do you agree with the proposed changes to CP1⁷⁸ that are set out in Annex 6? Please provide your reasons.

No, we disagree with the proposed changes to CP1 as currently drafted. The CAB⁷⁹ have a remit to ensure that the postal sector is working well for consumers, which is different to Ofcom's remit. Consistency is only appropriate if the correct services are included (including parcel services as well).

Under the Act, all postal operators can contribute to the CAB costs. The CAB's remit is to be consumer advocates for the entire postal sector – not just the customers of Royal Mail or Access operators or single piece end-to-end letter operators. The activities of the CAB are increasingly driven by parcel operators, such as the CAB work on parcels surcharging. We have estimated around a third of the CAB's research over the last three years related to parcels. It is fair, equitable and cost reflective that CAB costs should be recovered across all operators and services – Access and bulk, letters and parcels.

Ofcom should assess the recovery of CAB costs against the legal framework.

7.1 The legal framework for the recovery of CAB costs is different to that of Ofcom's administrative costs. The Act required postal operators to contribute towards the qualifying consumer expenses of the CAB in relation to consumer advocacy and advice in postal services. Ofcom has identified two categories of relevant costs:

- Caller helpline.
- Consumer advocacy and advice (excluding the helpline).

7.2 Like our assessment of Ofcom's administrative costs, Ofcom should use the same approach:

- Under the Act, could the service contribute to the CAB costs?
- Should the services contribute to the CAB costs?

Under the Act, all postal operators could contribute to the qualifying expenses of CAB.

7.3 In the same way that Ofcom's remit covers the entire postal sector, the qualifying expenses of the CAB, as defined in section 51 of the Act, include expenses incurred in carrying out their functions in relation to users of postal services. Section 27 of the Act states that postal services include postal packets which cover all types of mail, including parcels. Administrative costs contribute towards the product cost and so pricing. Therefore, consumers ultimately pay for CAB activity. **For all postal users to contribute equally towards the CAB costs, the cost recovery mechanism must cover all postal operators.** Senders of mail will use a range of different postal operators. A proposal that only targets certain operators – such as Royal Mail and Access operators – is not appropriate. All parcel operators should contribute to the consumer expenses under the Act to ensure all users of postal services contribute to the CAB costs.

⁷⁸ Consumer Protection Condition 1.

⁷⁹ Consumer Advocacy Bodies.

On the basis of our analytical framework, all consumers are within scope of the activities of the CAB. It is therefore fair and equitable that CAB costs should be recovered from all operators and services – Access and bulk, letters and parcels.

7.4 We have proposed four questions that Ofcom needs to consider to determine who should pay for the CAB costs:

1. Which postal users benefit from CAB activities?
2. Which postal operators are driving the CAB activities?
3. Is it administratively easy to implement?
4. Is the framework futureproof?

7.5 These questions are derived from the criteria that Ofcom takes into account in setting the Statement of Charging Principles. We set out below an assessment against each of the four questions.

1) The CAB's remit is to be consumer advocates for the entire postal sector. CAB have undertaken activity for all postal users.

7.6 Put simply, the **CAB are consumer advocates for all users of all postal services**. The CAB are not consumer advocates only for customers of Royal Mail or for letter customers of Access operators.⁸⁰ It is fair and equitable that the consumers who benefit from the advocacy pay for the advocacy. These consumers would pay for it by all operators in the postal sector – letter and parcel operators – being charged a share of the relevant CAB costs. **It is not fair, equitable or cost reflective that only customers of Royal Mail or Access operators contribute towards the CAB's costs.**

7.7 The CAB's wide remit can be seen in the broad spectrum of work undertaken by the CAB in relation to post. Annex 4 sets out a list of the research reports published by the CAB from April 2014 through to July 2017. **Only one piece of research could be classified as being solely related to the letter sector.** The remaining research relates to the parcel sector, the postal sector in general or the Post Office (which covers the entire postal sector). This is shown in the pie chart below (Figure 2).

7.8 **We remain of the view that it is not appropriate to recover all the costs of CAB activity that relates to the Post Office from Royal Mail.** For example, the CAB monitoring of the Post Office Transformation programme is conducted on behalf of the Government. We understand that the CAB's activities on the Post Office are due to decrease as the Post Office Transformation programme heads towards completion. We would welcome the opportunity to discuss with Ofcom and BEIS a more appropriate treatment of Post Office costs incurred by the CAB.

7.9 We have also summarised the Citizens Advice workplan for 2017-18 in the table below (Figure 3). Unsurprisingly, it shows a very broad range of issues that the CAB are tackling – not just issues pertinent to Royal Mail or Access operators. As we have argued for Ofcom's administrative costs, the cost recovery framework should be forward looking and address the potential range of activities the CAB may undertake. **As the remit of the CAB is to be consumer advocates for the entire postal sector, it follows that the CAB activities will continue to cover the entire postal sector.** It is – therefore – fair, equitable and cost reflective that the entire postal industry contribute towards the costs of the advocacy for the postal industry.

⁸⁰ Ofcom proposes to also include revenue from single piece end-to-end letter services. However, as these operators are unlikely to contribute with Ofcom's proposed £5million threshold, we do not mention them further in this chapter.

Figure 2: Number of CAB research reports by sector from 2014 – 2017.

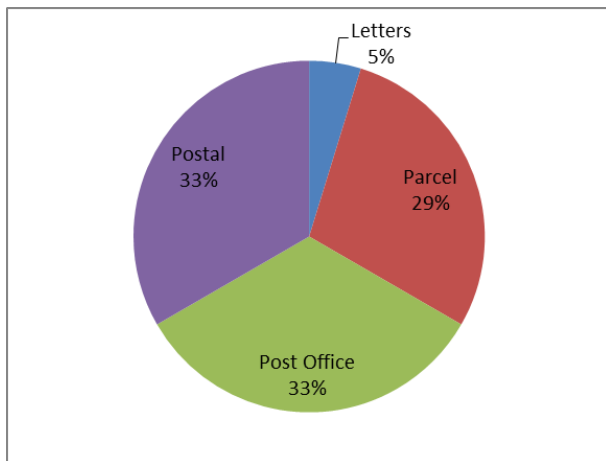


Figure 3: The Citizens workplan for 2017-18.

CAB	Themes	Sector ⁸¹	Activities
CitA	Tackling postal scams	Letters	2.1 Work in partnership with operators, enforcement bodies and consumer groups to reduce consumer harm caused by mail scams.
		Letters	2.2 Ensure that work to tackle postal scams is based on a robust understanding of 'what works'.
		Letters	2.3 Educate people about mail scams through a series of public interventions.
CitA	Supporting access to post	Parcel	2.4 Improving the experience of rural consumers of postal services now and in the future across Scotland, Wales and England. ⁸²
		Post Office	2.5 Reviewing post office service standards and accessibility to improve consumer outcomes.
		Parcel	2.6 Understanding how competition has changed consumer access to postal services across the country.
		Post Office	2.7 Researching what consumers want from post offices to develop constructive solutions to maintain service provision.
		Post Office	2.8 Continuing its work with Post Office Limited to improve outcomes for consumers from significant branch changes.
CitA	Ensuring postal services meet the needs of vulnerable consumers	Postal	2.9 Ensure postal services meet the needs of disabled consumers.
		Postal	2.10 Investigate barriers to the take-up of mail redirection services.
CitA	Promoting consumer interests in a changing world	Postal	2.11 Consolidating its understanding of the likely impact of future market developments on consumers, and ensuring their voice is heard in policy debates about the future of postal services.
		Postal	2.12 Ensuring that the protections and rights of postal consumers are not diluted as the UK leaves the European Union (EU).

⁸¹ Royal Mail's classification of the CAB's activities by sector – Parcel, Letter, Postal or Post Office.

⁸² Citizens Advice stated "Rural consumers can get a raw deal - for example paying more for parcel delivery." Page 27 of the CAB workplan.

2) The activities of all postal operators are influencing the CAB's workplan.

7.10 To be cost reflective, we need to consider which postal operators are influencing the CAB's workplan. Reviewing the 2017-18 workplan, we note that there is activity on surcharging. As the DUSP, Royal Mail charges the same price to send universal service items anywhere in the UK. Royal Mail's universal service offering does not apply surcharges. This activity – therefore – is primarily focused on other postal operators. In this instance, it is the activity of parcel operators that has led to this review. Another project is on postal scams. This is primarily focused on letter operators. **It is not one individual operator or group of operators that is influencing the CAB – it is all postal operators.**

3) It is relatively easy to recover costs across parcel and letter operators.

7.11 Ofcom proposes a single approach that should make verification easier and will improve consistency and predictability.⁸³ We agree that a single approach has some merits. However, our proposal is that the administrative costs of Ofcom as well as the CAB costs should be recovered from letter and parcel operators.

7.12 A charging framework covering letter and parcel operators should be straightforward to verify. **We propose that relevant parcel turnover is set as UK wide parcel operators – the same operators that Ofcom already collects revenue and volume information from.** Ofcom already receives letter and parcel revenue and volume information for monitoring purposes. Ofcom requests these under formal powers. The information is published in Ofcom's Annual Monitoring Update. Ofcom already has access to all the verified information it needs to widen the recovery of charges to parcel operators.

4) Recovering the CAB costs across a broader set of operators should make the charges more consistent and predictable. It helps to make the cost recovery regime futureproof.

7.13 **We agree with Ofcom's desire for consistency and predictability. In our view, a wider pool of revenue would meet that requirement more than a narrow pool of revenue focused solely on Royal Mail and Access operators.** Given the growth and innovation in parcels, a narrow pool of revenue focused solely on Royal Mail and Access operators is much less likely to reflect future market dynamics than one that includes parcel operators.

Ofcom's proposals for caller helpline costs are appropriate.

7.14 Ofcom has set out a methodology for the recovery of caller helpline costs. It appears to be cost reflective – the postal operator that has generated the call should pay for the call. We believe that this is an appropriate methodology.

Ofcom needs to take account of the different remit of the CAB.

7.15 In reaching its decision on who pays for CAB activities, Ofcom needs to take into account that the CAB's remit is different to Ofcom's. The CAB's remit is to be the advocate of the consumer. For example, both the CAB and Ofcom are planning to do work on parcels surcharging in Northern Ireland and the Highlands and Islands of Scotland. Ofcom has stated that this is not duplicative as its focus is on supply-side issues, whereas the focus of the CAB work will be on the demand-side.⁸⁴ **The CAB's work is not dominated by issues relating to the Universal Service, in the way that Ofcom's work is.** The CAB represent the end

⁸³ Paragraph 3.74 of the Consultation.

⁸⁴ Page 51 of Ofcom's Annual Plan 2017-18.

consumers. Consumers do not care whether a service is bulk or single piece; they want it delivered on time and safely.

7.17 **It is therefore clearly appropriate in terms of cost-reflectivity and fairness that other services, in particular parcel services⁸⁵, are included within the definition of relevant turnover in CP1.** For the reasons given in response to question 5, Ofcom also needs to reduce the threshold in CP1 to £1m – this would apply to the letter sector revenues. For Ofcom's administrative ease, we propose that – for the parcel sector – the revenues should only apply to parcel operators providing UK wide operations. It would, therefore, fall within the remit of Ofcom's parcel revenue and volume gathering.

⁸⁵ As per our proposals above, relevant parcel revenue should be limited to UK wide parcel operators for Ofcom's administrative ease.

Annex 1 - Summary of Royal Mail responses to consultation questions.

Question	Summary responses
<p>Question 1: <i>Do you agree that revenues from single piece end-to-end letter delivery services should be taken into account for the purposes of setting administrative charges? Please give your reasons.</i></p>	<p>Yes:</p> <ul style="list-style-type: none"> • Single piece end-to-end letter delivery services are within the scope of the universal postal service. Services within the universal postal service can contribute to the charges. • Single piece end-to-end operators (apart from Royal Mail) benefit from regulation, drive Ofcom's activities and derive benefit from Ofcom's monitoring of the letter sector.
<p>Question 2: <i>Do you agree that revenues from bulk mail and access services should be taken into account for the purposes of setting administrative charges? Please give your reasons.</i></p>	<p>Yes:</p> <ul style="list-style-type: none"> • We agree with Ofcom that bulk services including Access are reasonably interchangeable with single piece services, and therefore within scope of the universal postal service for the purposes of recovering administrative charges. • Access operators benefit from regulation and from access to Royal Mail's downstream network. All Access and bulk operators drive Ofcom's activities and derive benefit from Ofcom's monitoring of the letter sector.
<p>Question 3: <i>Do you agree that turnover from access revenues should be calculated on a net basis (i.e. after the deduction of access charges to Royal Mail)? Please give your reasons.</i></p>	<p>Yes:</p> <ul style="list-style-type: none"> • We agree with Ofcom in order to avoid double counting of revenues.

Question	Summary responses
<p>Question 4: <i>Do you agree that turnover from parcel services should not be taken into account for the purpose of setting administrative charges? Please provide your reasons.</i></p>	<p>No:</p> <ul style="list-style-type: none"> ● Single piece parcel delivery services are within the scope of the universal postal service. Other parcel services are reasonably interchangeable with services within scope of the universal postal service for the purposes of recovering administrative charges. ● Parcel competition is reducing the revenue pool available to fund the Universal Service from the market. It means Ofcom needs to monitor the parcel sector to make sure the Universal Service remains financially sustainable. Parcel operators significantly drive Ofcom's activities, benefit from regulation of Royal Mail and derive benefit from Ofcom's monitoring of the parcel sector.
<p>Question 5: <i>Do you agree that the minimum revenue threshold for payment of administrative charges should be lowered to £5m? Please explain why.</i></p>	<p>No:</p> <ul style="list-style-type: none"> ● £1m is fairer and more proportionate. It ensures the cost of regulation is borne more widely than those operators who generate £5m. For administrative ease, we propose: <ul style="list-style-type: none"> » a minimum charge of £100, and » relevant parcel turnover is limited to UK wide parcel operators – the same operators that Ofcom already collects revenue and volume information from.
<p>Question 6: <i>Do you agree with the proposed changes to CP1 that are set out in Annex 6? Please provide your reasons.</i></p>	<p>No:</p> <ul style="list-style-type: none"> ● The remit of the CAB is to cover the entire postal sector. The CAB have undertaken activity across the entire postal sector. ● All users of postal services should pay for the CAB costs through recovery of these costs from across all operators – not just Royal Mail, Access operators and smaller single piece end-to-end letter operators. ● We agree to a harmonised framework to recover Ofcom's administrative costs and CAB costs, so long as that framework includes parcel operators.

Annex 2 – Ofcom's administrative costs.

In our assessment, all letter and parcel revenues could contribute to Ofcom's administrative costs under the Act. They are either are a service within the scope of the universal postal service order or are reasonably interchangeable with a service that is within that order (as set out in Section 40(1) of the Act) for the purposes of contributing towards the administrative cost. It is also appropriate that all operators should contribute towards the administrative costs. All operators – and increasingly parcel operators – drive Ofcom's activities. Letter and parcel services remain subject to regulation, and all operators (bar Royal Mail) benefit from regulation. Our proposal is administratively easy, using information Ofcom already has.

	Letters			Parcels	
Stage 1: Under the Act, could the service contribute to Ofcom's administrative costs?					
	Single Piece	Bulk (Royal Mail)	Access	Single Piece	Bulk
Section 40(1)(a) and (b) – within the universal postal service order	✓ Royal Mail 40(1)(a) ✓ Others 40(1)(b)			✓ Royal Mail 40(1)(a) ✓ Others 40(1)(b)	
Section 40(1)(c) – interchangeable from view of postal service users – sender		✓	✓		✓
Section 40(1)(c) – interchangeable from view of postal service users – addressee		✓	✓		✓
Stage 2: Should these services contribute to Ofcom's administrative costs?					
	Single Piece	Bulk (Royal Mail)	Access	Single Piece	Bulk
Are the services regulated?	✓	✓	✓	✓	✓
Who directly benefits from that regulation?	Single piece operators benefit.	Access operators benefit from the margin squeeze test applied to certain bulk products.	USPA Condition empowers Access operators. Access operators can use Royal Mail's downstream network.	Parcel operators (excluding Royal Mail) can use regulatory framework to raise complaints about Royal Mail, for example, in relation to compliance DUSP regulatory conditions.	
Who is driving Ofcom's activity?	Other operators engage with Ofcom.	Royal Mail seeks a more appropriate level of regulation.	Access operators engage with Ofcom.	Ofcom's activity is increasingly driven by parcel competition. Parcel operators have increasingly influenced Ofcom's workplan.	
Who derives a wider benefit from Ofcom's activities and regulation?	Ofcom has stated that the " <i>monitoring framework could support the postal market itself.</i> " All other operators benefit from Ofcom's monitoring of the postal sector. Ofcom's monitoring is increasingly parcels focused, such as Ofcom's parcel surcharging activities.				
Is it administratively easy to implement?	Ofcom already receives letter and parcel revenue and volume information for monitoring purposes. We propose that relevant parcel turnover is set as UK wide parcel operators – the same operators that Ofcom already collects revenue and volume information from.				
Is the framework futureproof?	Futureproof framework should be as broad as possible to take account of the changing dynamics – letter volumes falling while parcel volumes grow, as well as including Access revenues. Including other single piece end-to-end letter operators in the remit ensures a fair cost recovery should their activities increase.				

Annex 3 – CAB costs.

In our assessment, all letter and parcel revenues could contribute to CAB costs under the Act. It is also appropriate that all operators should contribute towards the CAB costs. The CAB's remit is to reflect the entire postal sector. Its activities reflect this broad remit. Increasingly, the activity of parcel operators is driving the CAB workplan, such as on rural surcharging. It is therefore fair, equitable and cost reflective for all operators to contribute.

	Letter			Parcel	
Stage 1: Under the Act, could the service contribute to the CAB costs?					
	Single Piece	Bulk	Access	Single Piece	Bulk
Section 27 - postal services include postal packets which covers all types of mail, including parcels	✓	✓	✓	✓	✓
section 51 - include expenses incurred in carrying out their functions in relation to users of postal services	✓	✓	✓	✓	✓
Stage 2: Should these services contribute to the CAB costs?					
	Single Piece	Bulk	Access	Single Piece	Bulk
Which postal users benefit from CAB activities?	CAB's remit is to be consumer advocates for all users of all postal services. The CAB have undertaken activity for all postal users (see Annex 4).				
Which postal operators are driving the CAB activities?	There is not one individual group of operators that is influencing the CAB – it is all postal operators. For example, the in the 2017-18 workplan the CAB are undertaking activity on surcharging. Royal Mail's Universal Service products does not incur surcharges.				
Is it administratively easy to implement?	Ofcom already receives letter and parcel revenue and volume information for monitoring purposes. We propose that relevant parcel turnover is set as UK wide parcel operators – the same operators that Ofcom already collects revenue and volume information from.				
Is the framework futureproof?	A wider pool of revenue would be more likely to lead to more predictable charges than a narrower one. A narrow pool of revenue focused solely on Royal Mail, Access operators and single piece end-to-end letter operators is less likely to adapt to market changes than one that includes parcel operators.				

Annex 4 – Summary of CAB research since July 2014 – 2017.

CAB	Title of Research	Summary	Date	Sector
CitA	Consumer use of post offices	This report is a comprehensive review of how consumers use post offices today, based on telephone interviews with 2,000 consumers and 1,000 small businesses.	14-Jul-17	Post Office
CitA	Access all areas	Research on the physical impact of the Post Office Network Transformation Programme, modelling the expected shape of the network by April 2018.	14-Jul-17	Post Office
CitA	Using the Post to access benefits	This policy note looks at the use of post to access benefits, asking which services people use and investigating the impact of problems, when they arise.	13-Jul-17	Letters
CitA	The state of the Post Office Network	A review of service standards across the majority of the post office network as it reaches the end of the biggest period of change in its history.	30-Jun-17	Post Office
CitA	Parcel Delivery: Delivery Services in the online shopping market	This report explores consumer experiences of parcel deliveries, including the scale and type of problems people experience and how easy it is to resolve them.	16-Jun-17	Parcel
CAS	Consumer Tracker Survey 2017	The Consumer Futures Unit's inaugural consumer tracker survey reveals some of the experiences and habits of consumers of energy, post and water services in Scotland.	01-Jun-17	Postal
CitA	Post Office Local Review	A review of the new Post Office Local model, comparing performance to previous years and to traditional post offices.	02-Feb-17	Post Office
CAS	CFU Briefing - Postal Issues in Rural Areas	This briefing gives an overview of consumer issues in relation to postal services in rural areas, and was first used at the CFU's Rural Futures Conference in 2017.	01-Feb-17	Postal
CitA	Transformation Health Check	Post office operators' views on impact of major post office changes on customers – including customer experience, opening hours, quality of service, the future.	05-Jan-17	Post Office
CitA	Communicating change. How post offices inform customers about branch changes	Research found that many post offices need to improve how they communicate branch changes so consumers do not miss out on important information.	09-Dec-16	Post Office

CAB	Title of Research	Summary	Date	Sector
CitA	The future of consumer needs for postal services	Quantitative and qualitative study of British consumers to assess current and future needs and role for postal services, in light of changing market and regulatory environment.	11-Aug-16	Postal
CitA	Technology and change in postal services – impacts on consumers	Research conducted by WIK Consult examined the impact of innovations in technology on consumers of postal services.	04-Mar-16	Postal
CitA	Fixing the foundations	Research examined staff knowledge, reliability and consistency in new style post offices, being rolled out to over 5,000 communities by 2018.	22-Sep-15	Post Office
CAS	Remotely Excluded	This report looks at the advice given by the Citizens Advice Service in Scotland by geography and looks to highlight particular consumer markets where people in rural areas are more likely to face issues than those in urban Scotland.	01-Sep-15	Postal
CAS	The Postcode Penalty: The Distance Travelled	One of a series of reports into problems faced by consumers in Scotland when shopping online, this reports charts the progress of delivery charges from 2012-2015.	01-Sep-15	Parcel
CitA	Review of the impact of competition in the postal market on consumers	This report reviews the impact of competition on consumers in the postal sector.	13-Jul-15	Postal
CitA	Measuring consumer awareness of online delivery rights	Report looks at how well informed consumers are about online shopping rights and the experiences of online shoppers living in rural, remote and island areas.	07-Apr-15	Parcel
CitA	Pass the parcel	Citizens Advice mystery shopping exercise to test consumers' experiences of competition in the parcels market.	28-Nov-14	Parcel
CitA	Delivering satisfaction: Complaint handling in the postal market	Report on complaint handling in the postal sector.	30-Oct-14	Postal
CitA	Delivery charges for online orders	Citizens Advice has worked with industry to develop a Statement of Principles for parcel deliveries.	31-Jul-14	Parcel

CAB	Title of Research	Summary	Date	Sector
CAS	The Postcode Penalty: The Business Burden	Scottish CAB report on delivery surcharges for rural Scotland from the perspective of Scottish businesses.	01-Apr-14	Parcel

Annex 5 – Questions to be taken into account by Ofcom when setting who pays its administrative costs.

Ofcom's Criteria	Application of the criteria to the postal sector
<p>Fairness and equity: the charging structure should raise Ofcom's required funding across the regulated sectors in a manner which is fair and equitable;</p>	<p>To meet this criteria, we propose that Ofcom takes into account:</p> <ul style="list-style-type: none"> • Are the services regulated? • Who directly benefits from the regulation? • Who derives a wider benefit from Ofcom's activities and regulation?
<p>Simplicity and transparency: charges should be as simple and as clear as possible for stakeholders, and wherever practicable use data that stakeholders would anyway gather for their own management purposes. Charges should also be relatively simple to administer for Ofcom;</p>	<p>To meet this criteria, we propose that Ofcom asks is it administratively easy to implement?</p>
<p>Cost-reflective: Ofcom is required to ensure that revenues from each individual sector meet the costs of regulation for that sector. Furthermore, we also seek to ensure, so far as possible, that charges should broadly reflect the underlying cost of regulating each type of licence or regulatory activity within the sectors where such category types exist;</p>	<p>To meet this criterion, we propose that Ofcom should take into account who is driving Ofcom's activity? For example, Ofcom's monitoring of the parcel sector is due to the threat from parcel competition to the market funding of the Universal Service. In this instance, it is the parcel sector that is the key driver of the activity.</p>
<p>Verifiable: the information required for the setting of charges should be easily verifiable to ensure industry-wide compliance;</p>	<p>To meet this criterion, we propose that Ofcom asks is it administratively easy to implement?</p>
<p>Adaptable: charging principles and structures should be capable of adapting to a changing market environment and be consistent with wider policy;</p>	<p>To meet this criterion, we propose that Ofcom asks is the framework futureproof? For example, is it capable of adapting to the rapidly changing postal sector.</p>

Ofcom's Criteria	Application of the criteria to the postal sector
<p>Relevance: charges should be based on an operator's activities that flow from the licence or authorisation, but only those activities;</p>	<p>Under the Act, an operator may provide postal services without licence or authorisation.⁸⁶ This principle is therefore not relevant for the postal sector and could in fact be misleading, leading to the conclusion that no postal operator should pay Ofcom's charges. We note that this criterion may be more relevant to other sectors that Ofcom regulates.</p> <p>To the extent that this is relevant, this criterion is addressed when Ofcom considers who is driving Ofcom's activity?</p>
<p>Reliability: the charging base should be stable over time, and not prone to erratic movements. Charges should not move substantially each year so long as the overall regulatory costs for that sector remain steady</p>	<p>To meet this criterion, we propose that Ofcom asks is the framework futureproof? Ofcom's current proposals target only the letter sector which is in structural decline.</p>
<p>Harmonisation: the harmonisation of fee setting methods across the sectors, where it is practicable to do so, can help to ensure consistency and simplification, especially in an increasingly convergent communications industry.</p>	<p>In general, we agree with the principle of harmonisation, as it should allow Ofcom to achieve efficiencies which can then be passed on to those paying its charges. However, different sectors have different characteristics, which mean it will not always be appropriate to harmonise measures. We propose that Ofcom ask is it administratively easy to implement?</p>

⁸⁶ Section 28.

Annex 6 – Questions to be taken into account by Ofcom when setting who pays CAB costs.

Ofcom's Criteria	Application of the criteria to the postal sector
<p>Fairness and equity: the charging structure should raise Ofcom's⁸⁷ required funding across the regulated sectors in a manner which is fair and equitable;</p>	<p>To meet this criterion, we propose that Ofcom takes into account which postal users benefit from CAB activities?</p>
<p>Simplicity and transparency: charges should be as simple and as clear as possible for stakeholders, and wherever practicable use data that stakeholders would anyway gather for their own management purposes. Charges should also be relatively simple to administer for Ofcom;</p>	<p>To meet this criterion, we propose that Ofcom asks is it administratively easy to implement?</p>
<p>Cost-reflective: Ofcom is required to ensure that revenues from each individual sector meet the costs of regulation for that sector. Furthermore, we also seek to ensure, so far as possible, that charges should broadly reflect the underlying cost of regulating each type of licence or regulatory activity within the sectors where such category types exist;</p>	<p>To meet this criterion, we propose that Ofcom should take into account which postal operators are driving the CAB activities?</p>
<p>Verifiable: the information required for the setting of charges should be easily verifiable to ensure industry-wide compliance;</p>	<p>To meet this criterion, we propose that Ofcom takes into account whether is it administratively easy to implement?</p>
<p>Adaptable: charging principles and structures should be capable of adapting to a changing market environment and be consistent with wider policy;</p>	<p>To meet this criterion, we propose that Ofcom asks is the framework futureproof? For example, is it capable of adapting to the rapidly changing postal sector?</p>
<p>Relevance: charges should be based on an operator's activities that flow from the licence or authorisation, but only those activities;</p>	<p>Under the Act, an operator may provide postal services without licence or authorisation.⁸⁸ This principle is therefore not relevant for the postal sector and could in fact be misleading, leading to the conclusion that no postal operator should. We note that this criteria may be more relevant to other sectors that Ofcom regulates.</p> <p>To the extent that this is relevant, this criterion is addressed when Ofcom considers which postal operators are driving the CAB activities?</p>

⁸⁷ We are quoting Ofcom's principles. This principle refers directly to Ofcom. In this instance, we also believe that this principle is relevant to CAB, in that the intent is that the charging basis for CAB costs should be fair and equitable.

⁸⁸ Section 28.

Ofcom's Criteria	Application of the criteria to the postal sector
<p>Reliability: the charging base should be stable over time, and not prone to erratic movements. Charges should not move substantially each year so long as the overall regulatory costs for that sector remain steady;</p>	<p>To meet this criterion, we propose that Ofcom asks is the framework futureproof? Ofcom's current proposals target only the letter sector which is in structural decline.</p>
<p>Harmonisation: the harmonisation of fee setting methods across the sectors, where it is practicable to do so, can help to ensure consistency and simplification, especially in an increasingly convergent communications industry.</p>	<p>In general, we agree with the principle of harmonisation, as it should allow Ofcom to achieve efficiencies which can then be passed on to those paying the CAB charges. However, different sectors have different characteristics, which mean it will not always be appropriate to harmonise measures. We propose that Ofcom takes into account a wider question that is it administratively easy to implement?</p>