

Recovering postal regulation and consumer advocacy costs

Citizens Advice response
to 2nd Ofcom consultation



Introduction

As the statutory consumer advocate for postal consumers in England and Wales, Citizens Advice welcomes the opportunity to respond to Ofcom's second consultation on how the costs of postal regulation and consumer advocacy are recovered. As we noted in our response to Ofcom's original consultation on this matter, this is an appropriate time to consider how best to distribute these costs across the sector, in light of changes to the shape of the postal market over the last decade.

We reiterate that how the costs of the statutory consumer advocacy bodies (CABs) are recovered is ultimately a matter for Ofcom, whose right to levy funds from postal operators is established in statute.¹ However, we set out our view on the funding of consumer advocacy in the following response. We do not offer a view on how Ofcom recovers the costs of its own work.

¹s 51 *Postal Services Act 2011*.

Summary

Our response can be summarised as follows:

1. The consumer advocacy bodies have a broader focus than that of Ofcom.
2. There is a case for recovering the costs of consumer advocacy from a wider range of postal operators, including operators offering parcel, bulk mail and access services.

1. The consumer advocacy bodies have a broader focus than that of Ofcom

Ofcom's regulatory remit is narrower than that of the CABs. It can only recover its administrative fees from postal operators who provide services within the scope of the universal service obligation (USO).

In contrast, the CABs undertake their work in consideration of the needs and experiences of postal services consumers more broadly. Two areas where our focus and Ofcom's differ notably concern the work we undertake on parcels and on post offices.

Parcels

Our legislative remit to undertake consumer advocacy in the postal sector includes mail services under the USO.² The legislation makes clear that parcel services delivered by postal operators also fall within scope of our responsibilities.³

Moreover, both senders and recipients ('addressees') of postal services are considered consumers for advocacy purposes.⁴ As noted in our previous consultation response, this means that our role necessarily extends to the needs and experiences of consumers engaging in both the B2C and C2X segments of the parcels market.⁵

Post offices

Our statutory mandate to investigate 'any matter relating to the number and location of public post offices'⁶ is not mirrored in the remit of Ofcom, which does not consider post offices as part of its work programme. The Post Office

²s 41 *Consumers, Estate Agents and Redress Act 2007*, read together with ss 27, 65 *Postal Services Act 2011*.

³s 41 *Consumers, Estate Agents and Redress Act 2007*, read together with ss 27(1)-(3), 65 *Postal Services Act 2011*.

⁴ss 3(4)(a) and 41 *Consumers, Estate Agents and Redress Act 2007*, read together with ss 27, 65 *Postal Services Act 2011*.

⁵ See p 4 of the [Citizens Advice response](#) to Ofcom's 2017 consultation on recovering postal regulation and consumer advocacy costs.

⁶s 16 *Consumers, Estate Agents and Redress Act 2007*.

also remains an important - and for many consumers, exclusive - access point for Royal Mail products and the universal service, with its network extending into communities across the UK.

Citizens Advice considers 'post offices' in a broader sense - as a constituent part of a wider nationwide network of parcel pick-up and drop-off points (PUDOs). This means that our work on post offices often has wider relevance for the postal sector and can be linked to our broader parcels work.

For example, we are about to publish new research mapping parcel shops in the UK. This work includes around 11,500 post offices but also over 20,000 PUDOs used by Royal Mail's competitors. As another example, in 2016/17 and 2017/18 we conducted research on post offices exploring access to new model Post Office Ltd branches for disabled people. This has produced findings with applications for our advocacy work in the parcels market, particularly relating to PUDOs.⁷

⁷Citizens Advice, ['The customer journey: disabled people's access to postal services'](#) (March 2018).

2. There is a case for recovering consumer advocacy costs from a wider range of postal operators

Ofcom proposes to recover consumer advocacy fees from postal operators who provide the following types of services (subject to minimum revenue thresholds):

1. All UK domestic single piece and bulk letter services provided on an end-to-end basis
2. All UK domestic parcels services subject to certain size and weight restrictions

This marks a shift in Ofcom's view since the 2017 consultation, where it proposed to exclude operators providing certain parcel services from liability to contribute towards consumer advocacy funding. If enacted, the proposal in this consultation would result in Ofcom taking a different approach for recovering the costs of the CABs from that used to recover its own costs.

We recognise the logic of this approach. As noted above, consumer advocacy in the postal sector extends to senders and recipients of parcels delivered by postal operators. Ofcom has stated that it does little work on parcels outside of the USO, constituting around 1% of its work programme over the past 3 years.⁸

In contrast, parcels services form an increasingly important part of the work undertaken by the CABs. ONS data suggests that close to 8 in 10 (77%) GB adults are now shopping online.⁹ The resulting surge in parcel volumes means that parcels now form a key part of how consumers engage with the postal market: half of all UK consumers report receiving at least 1 small parcel per week.¹⁰

Ofcom states that it considers cost-reflectiveness the most important principle to guide recovery of the costs of consumer advocacy. Currently the costs of our parcels work is recovered solely from Royal Mail, which makes up around 50% of

⁸See 3.6 of [Ofcom's statement and consultation: Recovering postal regulation and consumer advocacy costs \(2018\)](#).

⁹ONS, '[Statistical bulletin: internet access - households and individuals](#)' (2017).

¹⁰Ofcom, '[Residential Postal Tracker January - December 2017](#)'.

the whole parcel delivery market by volume.¹¹ Applying the cost-reflectiveness principle, it would be reasonable for Ofcom to conclude that the costs of funding consumer advocacy should be spread more broadly, so that other operators providing parcels services be required to contribute.

We note Ofcom proposes to only recover consumer advocacy costs from parcel operators exceeding relevant revenue in excess of £350 million. It is intuitive that postal operators with larger revenues will engage with a wider range of consumers, and are therefore more likely to contribute to consumer issues in the market. We emphasise however that we undertake advocacy work on behalf of all postal consumers, not just those who deal with larger operators or with operators from whom our costs are recovered.

Inclusion of end-to-end bulk mail services revenue and exclusion of access services revenues

Ofcom is proposing to include revenues from end-to-end bulk mail services while excluding revenue from services provided under an access agreement for the purposes of recovering the costs of consumer advocacy. Again, this is ultimately a matter for Ofcom to decide. However, we consider it would be reasonable if Ofcom decides to require operators providing both end-to-end bulk mail and access services to contribute to the costs of advocacy, based on Ofcom's guiding principle of cost-reflectiveness.

Ofcom reasons that, as individual consumers are recipients of bulk mail but do not engage with access service operators operating upstream, then the work of the CABs is more likely to be influenced by operators of bulk mail services rather than access operators. In its statement Ofcom cites our response to the original consultation, where we noted that in practice *"as bulk and access operators do not tend to interact with the end consumer directly, our work rarely looks directly at the operations of these firms."*¹²

However, our response went on to state that *in principle* consumer problems with mail can occur at any stage in the delivery process, and that access

¹¹Ofcom, '[Annual monitoring update on the postal market](#)' (2017) and Apex Insight, '[UK Parcels Market Insight Report 2017](#)'.

¹²See p 3 of the [Citizens Advice response](#) to Ofcom's 2017 consultation on recovering postal regulation and consumer advocacy costs (2017).

operators are also relevant to advice and campaigns we run on issues such as lost or delayed mail. We reiterate these comments from our original response.

We also recognise comments made by CAS and CCNI in their responses, concerning the mandate of the CABs to represent small and medium-sized postal service consumers, who may be engaging directly with bulk or access operators.¹³

Funding the costs of post office consumer advocacy

As Ofcom notes in its consultation statement, Royal Mail and Post Office Ltd have an exclusivity arrangement in place until 2022 preventing other postal operators from providing services through the post office network. Despite this, Ofcom is proposing to recover consumer advocacy costs relating to the post office from all relevant postal operators, rather than separating out these costs and charging them directly to Royal Mail.

Currently consumer advocacy work within our post office remit is funded entirely by Royal Mail. As highlighted by Ofcom, these costs cannot be charged to Post Office Ltd under the current legislative framework.¹⁴ The decision to amend the legislation to enable the recovery of relevant consumer advocacy costs from Post Office Ltd is a matter for government. Ofcom estimates that under its proposal it is likely that Royal Mail's share of relevant revenue will ensure it continues to effectively pay for consumer advocacy costs associated with Post Office Ltd.

We do not offer a view on whether it is appropriate to charge all relevant postal operators for this consumer advocacy work. However, we note that the unprecedented scale of change under the NTP is chiefly behind the higher level of resource allocated to work on post offices in recent years. By way of illustration, our research shows that over 40 million people will have had their local post office branch changed during the period 2010 - 2018.¹⁵ As the NTP draws to a close in 2018, Citizens Advice expects to be able to scale back our resource allocation to this specific segment of the market.

¹³See 3.1.4 - 3.1.6 of the [CCNI response](#) and Q2 of the [CAS response](#) to Ofcom's 2017 consultation on recovering postal regulation and consumer advocacy costs (2017).

¹⁴Consumer advocacy costs may only be recovered from 'postal service operators', which Post Office Ltd is not within the meaning of s 27(3) *Postal Services Act 2011*.

¹⁵Citizens Advice, '[Access all areas? Assessing the outcomes of the Post Office Network Transformation Programme](#)' (July 2017).

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