



**Ofcom: Recovering postal regulation and consumer advocacy costs**

**24 May 2018**

## 1. Introduction

1.1 The Consumer Council is a non-departmental public body (NDPB) established through the General Consumer Council (NI) Order 1984. Our principal statutory duty is to promote and safeguard the interests of consumers in Northern Ireland (NI).

1.2 The Consumer Council welcomes the opportunity to respond to Ofcom's recent consultation, which proposes amendments to Consumer Protection Condition 1 (CP1)<sup>1</sup> so that postal operators who provide specific forms<sup>2</sup> of postal services would be liable to contribute towards the Consumer Advocacy Bodies' (CABs) consumer advocacy costs relating to postal services.

1.3 Ofcom is proposing to make amendments to CP1 so that:

- Revenues derived from services provided under single piece end to end letters services, bulk mail and parcel services is considered as relevant turnover for the purposes of recovering consumer advocacy fees;
- Revenue from services provided under mandated access agreement is to be excluded;
- Consumer advocacy costs for work on Post Office Limited are to be recovered from all relevant postal operators;
- The minimum revenue threshold for relevant letters postal services to recover advocacy costs should be £10 million; and
- The minimum revenue threshold for relevant parcels postal services to recover advocacy costs should be £350 million.

1.4 The Consumer Council's general view on the revised Ofcom proposals as detailed above, is that whilst we have an interest in how costs are recovered to fund our statutory functions it is not appropriate for us to comment on who funds the postal consumer

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<sup>1</sup> Regulatory schedule that enables Ofcom to recover expenses on behalf of the CABs and the Secretary of State.

<sup>2</sup> See 1.3 for more details on specific proposals

advocacy function. The qualifying level and mechanisms for costs incurred for funding of these statutory functions are a matter for UK Secretary of State for Business, Energy and Industrial Strategy (BEIS) and Ofcom.

- 1.5 Further we believe that it is important that any changes to CP1 should be effective to allow all CABs the freedom to work on the issues of most importance to consumers, without undue influence from funders, within its statutory remit to represent and protect all postal consumers.
- 1.6 Finally, changes to CP1 around the collection of consumer advocacy fees should be fair, adaptable and future proofed to reflect changing market conditions. The postal market in recent years has faced unprecedented change, with the separation in ownership between Royal Mail and Post Office Limited, traditional letter volumes falling and parcel volumes increasing. We would therefore suggest that as the change in the postal market is likely to continue, any proposed changes to the recovery of consumer advocacy costs are sustainable and adaptable.

## 2 Consultation questions

**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 recovering consumer advocacy costs on post? Please give your reasons.**

- 2.1 End to end postal services in the form of the Universal Postal Services is an important service in the wider communication market for many NI residential (27%) and micro and small business consumers (65%) preferring post as a communication method<sup>3</sup>. In particular, end to end letter services are principally important for consumers who are vulnerable, with almost half (49%) of those aged 65+ and a third of consumers with a disability (32%) likely to

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<sup>3</sup> Still to be published: Millward Brown Ulster Vulnerable Postal Consumers 2017

use these services to contact others<sup>4</sup>. Vulnerable consumers is an area which CABs have a particular statutory remit<sup>5</sup>.

- 2.2 Further, awareness of competition in the end to end letters market is low and therefore consumers do not benefit from the advantages competition can bring in terms of keeping costs low and quality and innovation high.

**Question 2: Do you agree that revenues from end-to-end bulk mail services should be taken into account for the purposes of recovering consumer advocacy costs on post, and that revenues from services provided under an access agreement should not be taken into account for the purposes of recovering consumer advocacy costs on post? Please give your reasons.**

- 2.3 Small business postal consumers, particularly in NI, use postal services similarly to residential postal consumers, namely nine in ten (93%) use the Universal Service stamped mail<sup>6</sup>. However, as noted in our September 2017 response to Ofcom's earlier consultation, CABs have a duty under Section 10 of the Consumer, Estate Agent and Redress Act 2007 (CEAR Act), to provide an information and advice function to all consumers. Raising awareness of how businesses can make cost savings (through interchanging bulk mail contract services with universal postal services) is a key feature of The Consumer Council's work going forward to help promote competition and savings for business postal consumers.

**Question 3: Do you agree that turnover from parcel services should be taken into account for the purposes of recovering consumer advocacy on post? Please provide your reasons.**

- 2.4 The Consumer Council believe that changes to the funding mechanism under CP1, should be effective and allow CABs the

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<sup>4</sup> Ibid

<sup>5</sup> Section 12 : Consumer, Estate Agents and Redress Act 2007

<sup>6</sup> Still to be published: Millward Brown Ulster Vulnerable Postal Consumers 2017

freedom to work on the issue of most importance and relevance to consumers under our statutory remit, without undue influence from funders.

- 2.5 The Consumer Council is of the view that Section 3 of the CEAR Act provides that a postal consumer is a person or business who purchases, uses or receives postal services. The Act does not make the distinction between the type of postal services, i.e. letters or parcels. With growth likely to continue in the parcel market by as much as 20% annually up to 2021<sup>7</sup> and the ongoing issue of parcel surcharging impacting NI consumers, consumer advocacy in this market is of increasing future importance.

**Question 4: Do you agree that consumer advocacy costs on post, in regard to work completed by the CABs on the Post Office should be recovered from all relevant postal operators. Please explain why.**

- 2.6 The Consumer Council does not hold a view on the relevant postal operators to recover consumer advocacy costs in relation to our work on Post Offices. We believe this is a matter for the UK Government.
- 2.7 It is worth pointing out however, that the exclusivity clause in the Inter Business Agreement, which outlines the exclusivity contract between Royal Mail and Post Office Limited, is due to expire in 2022. After this time, no assurances have yet been given that this exclusivity arrangement between Royal Mail and Post Office Limited will continue.
- 2.8 Further, whilst the main bulk of our previous work in relation to post office advocacy has previously centred on Post Office Limited, it should be noted that under the Postal Service Act<sup>8</sup>, the definition of a public post office extends to ‘any post office from which any postal services are provided directly to the public’. Therefore, the

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<sup>7</sup> Pitney Bowes, UK parcel market set for huge shakeup in new trends and technologies (August 2017)

<sup>8</sup> Postal Services Act 2011, Schedule 12, Part 1, Paragraph 49

recent rise in Pick Up and Drop off (PUDO) outlets by other postal operators in addition to Royal Mail, could extend CABs work in this area into the future.

**Question 5: Do you agree that the minimum revenue threshold for relevant letters postal services, for the purposes of recovering consumer advocacy costs on post, should be set at £10 million? Please explain why.**

**Question 6: Do you agree that the minimum revenue threshold for relevant parcels postal services, for the purposes of recovering consumer advocacy costs on post, should be set at £350 million? Please explain why.**

- 2.9 The Consumer Council has an interest in how costs are recovered to fund our statutory functions, however it is not appropriate for us to comment on who funds the postal consumer advocacy function. The qualifying level and mechanisms for costs incurred for funding of these statutory functions are a matter for UK Secretary of State for Business, Energy and Industrial Strategy (BEIS) and Ofcom.

**Question 7: Do you have any other comments on our proposals as set out above or our proposed amendments to our legal instruments (CP1)? Please provide your reasons.**

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