



Postcode Address File

Review

Statement

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Section 1

Summary

- 1.1 The Postcode Address File, or PAF, is a list of the 28 million delivery points to which mail items are delivered in the UK. It is currently owned and maintained by Royal Mail, and made available to anyone wishing to use it. PAF has around 37,000 end users, many of whom use PAF as part of a larger product, for example, addressing solutions and software.
- 1.2 Following a request from Government, and the completion of our work on the new regulatory framework for postal services in March 2012, we undertook a review of PAF.
- 1.3 To this end, on 7 February this year, we published a consultation document. The consultation closed on 21 March, and we received 32 responses, of which five are confidential.
- 1.4 Our consultation focused on three key areas: the recovery of the costs of PAF, the simplification of the licensing regime, and the terms on which PAF is made available. We also sought views from stakeholders on quality measurements for PAF.
- 1.5 On the question of the recovery of PAF costs, the consultation set out our analysis of these costs in line with the six principles of cost recovery, and our primary duty to ensure the provision of the universal service, and proposed that Royal Mail should continue to recover the costs of PAF from PAF licensees. Having analysed the consultation responses, we remain of the view that Royal Mail should continue to recover the costs of PAF from licensees.
- 1.6 Our consultation also set out our proposal that Royal Mail should significantly simplify the licensing regime for PAF. Since publishing the consultation, Royal Mail and the Department for Business, Innovation and Skills ('BIS') have announced plans to review the licensing framework, including some immediate measures to make PAF more easily accessible to charities and small businesses in particular, and next steps for the review. This is in line with our proposals.
- 1.7 With regard to the terms on which PAF is made available, our consultation proposed that Royal Mail apply the UK Government Licensing Framework principles as part of their review, to help them design the details of the new licensing framework, and set out some objectives for the outcome of the framework review. Our decision, as set out in this document, retains those proposed principles and objectives for the outcome of the licensing review. Further, we consider that the current voluntary profit cap on PAF revenues should be removed. We have also provided some high-level guidance at Annex 1 on the factors we will consider when assessing whether the terms on which PAF is made available are reasonable.
- 1.8 On the question of quality measurements, our consultation sought views on whether the setting of quality targets for PAF would be constructive, and whether the publication of achievement against those targets would be helpful for users. We have concluded that the setting of such targets and publication of achievements against them would be appropriate, and we expect Royal Mail to develop robust, output based quality measures that are meaningful and constructive for users of PAF, within a reasonable time frame.

Section 2

Introduction and background

The Postcode Address File

- 2.1 PAF is a database containing every delivery point for mail in the UK – around 28 million addresses for over 1.8 million postcodes. PAF contains a number of information fields relating to each postcode to help accurate delivery of mail such as property numbers or street names. It includes around 1.4 million business names and details of around 200,000 vacant properties. It does not contain details of every individual property (for example, where a building contains a number of flats that share a letterbox, this is listed as a single delivery point in PAF); nor does it contain the names of individuals living at a particular address, or addresses for places such as parks etc.
- 2.2 Royal Mail currently owns and maintains PAF, so that it reflects the delivery points that are 'live' for receiving mail. Royal Mail uses PAF to sort, sequence and deliver mail. It also makes the file available to other users: other postal operators use PAF to sort mail when using Royal Mail access and bulk products.
- 2.3 There are currently around 37,000 end-users of PAF, the vast majority of which make use of PAF via a service provider or 'PAF reseller'. PAF data is central to business applications such as database management, address capture, insurance, mapping, and marketing.
- 2.4 Royal Mail currently owns the intellectual property to PAF. Under section 116 of the Postal Services Act 2000, Royal Mail is required to maintain PAF and to make it available to any person wishing to use it on reasonable terms (which can include the payment of a fee). Royal Mail fulfils this obligation by making PAF available through a licensing regime whereby end-users pay licence fees in order to use PAF data. The cost of maintaining and providing PAF to other users, around £24.5million in the year 2011/12, is currently recovered entirely from PAF users, including Royal Mail.

The current regulatory framework

- 2.5 The previous postal regulator, Postcomm, completed a review of PAF in 2007, followed by a further review in 2010/11.¹
- 2.6 Their 2007 review set a 'co-operative' regulatory approach to PAF (which was essentially retained following the later light review) including:
 - creating the independently chaired PAF Advisory Board ('PAB') to represent users and influence Royal Mail's behaviour on operational issues;
 - ring-fencing PAF into a distinct Address Management Unit ('AMU') within Royal Mail; and
 - setting a voluntary target profit cap on PAF of 8-10% above operating costs.

¹ 'Royal Mail's future management of PAF', <http://stakeholders.ofcom.org.uk/binaries/post/1263.pdf> and 'Postcode Address File: Decision following consultation on aspects of the 2007 regulatory framework', <http://stakeholders.ofcom.org.uk/binaries/post/1895.pdf>

- 2.7 Postcomm's 2010/11 review concluded that any over achievement of the profit target should be considered cumulatively over three years and linked to a three year cycle of agreed investment and/or agreed return of "excess" profits to customers.

Scope of our review

- 2.8 Our review of PAF follows a direct request from Government. A letter from Ed Davey MP (then Government Minister for Postal Affairs) in November 2011 requested that we conduct a review of the PAF pricing and licensing framework, and suggested that our review seek to:
- ensure the licensing framework incentivises wider take up and usage of PAF data;
 - ensure the data is made easily accessible to customers and users on reasonable terms;
 - ensure that the licensing terms are as simple and light touch as possible;
 - drive efficiency in the maintenance and distribution of PAF; and
 - ensure the integrity of the data is maintained.
- 2.9 We committed to reviewing PAF after we completed our work on the new regulatory framework for postal regulation. This concluded in March 2012 with a regulatory statement (the 'March 2012 statement').² Our review has a broad scope in line with Government's priorities and in cognisance of our legal powers and duties in relation to PAF (discussed in greater detail in our consultation document³).
- 2.10 In June 2012, we received a letter from Norman Lamb MP, the then Postal Affairs Minister, requesting that Royal Mail's cost base for PAF should be explicitly brought within the scope of our review.

Our consultation

- 2.11 On 7 February this year, we published a consultation on our review of PAF. In this consultation, we provided an overview of how PAF is created and maintained, the cost base for PAF, and the pricing and licensing framework.
- 2.12 Firstly, we sought stakeholders' views as to whether the setting of quality targets for PAF would be constructive, and if so, whether the publication of achievement against those targets would be helpful for users.
- 2.13 We then set out our proposals in three key areas.
- 2.14 Having analysed the regulatory options, we provisionally concluded that it would be most appropriate for Royal Mail to continue to recover all of the costs of PAF from licensed users. This preferred approach has regard for the principles of cost causation, and our primary and general duties with regard to the postal service.

² Ofcom, Securing the Universal Service – Decision on the new regulatory framework, 27 March 2012 <http://stakeholders.ofcom.org.uk/consultations/review-of-regulatory-conditions/statement/>

³ Ofcom, Postcode Address File: Review, 7 February 2013 <http://stakeholders.ofcom.org.uk/binaries/consultations/postcode-address-file/summary/PAF.pdf>

- 2.15 With regard to licensing, we encouraged Royal Mail to use its current pricing and licensing framework review to simplify the framework, making it more approachable for current and prospective users of PAF. We proposed principles to which we hoped Royal Mail would have regard when undertaking its framework review.
- 2.16 Finally, we set out our concerns about the current profit cap applied to the profits of PAF, and its negative impact on Royal Mail's incentives to grow the take-up and use of PAF and to make efficiencies in the cost base. The sequencing of the current framework review and our review made it difficult for us to consider an alternative such as a price cap; as such, we proposed high-level guidance as to the factors we propose to consider when assessing the reasonableness of the price terms on which PAF is made available.

PAF as an open dataset

- 2.17 A significant proportion of respondents to our consultation expressed a desire to see PAF made freely available and free at the point of use. Responses from the Open Data User Group (ODUG) and Open Data Institute (ODI), as well as several responses from individuals, were particularly supportive of this position.
- 2.18 As set out in our consultation, this issue fell outside the scope of our consultation. The decision as to whether to make PAF an open dataset is one for Government to take. In April, BIS made a statement that Government had decided Royal Mail would continue to own PAF; and that BIS, Cabinet Office, Royal Mail and Ofcom would enter into discussions to see what could be done to make licences better suit the needs of small companies.

Royal Mail review of PAF pricing and licensing framework

- 2.19 Since the publication of our consultation earlier this year, and following the discussions resulting from the BIS statement in April, Royal Mail has made progress on its review of the pricing and licensing framework for PAF. On Friday 14 June, Royal Mail announced a package of measures that aim to simplify PAF licensing.
- 2.20 Following extensive input from Government and market representatives, Royal Mail will shortly begin a market consultation, proposing a licensing framework that is permissive and much simplified, following a direct licensing model and, much shorter and more clearly written.
- 2.21 In addition, Royal Mail announced a handful of measures that were implemented at the beginning of July, that are designed to make PAF more accessible to small businesses and charities. These include:
- free access to PAF for independent⁴ small charitable organisations⁵;
 - free access to PAF for one year for independent⁶ micro businesses⁷; and
 - an increase in free online address look-ups on Royal Mail's website from 15 to 50 per day.

⁴ Independent – not associated or affiliated with any existing Solutions Provider

⁵ Small charitable organisations – less than £10m per annum income who are registered charities or CICs

⁶ Independent – not associated or affiliated with any existing Solutions Provider

⁷ Micro businesses – 0-9 employees and/or £2m turnover

Section 3

Legal framework

- 3.1 The statutory definition of PAF is contained in section 116(3) of the Postal Services Act 2000 (the '2000 Act'). It states PAF is:

'(a) the collection of relevant information which, immediately before the coming into force of this section, was owned by the Post Office, or

(b) that collection as it is from time to time revised'

'relevant information' is defined as 'postcodes in the United Kingdom which may be used to facilitate the identification of delivery points⁸ for the purpose of providing postal services.'

- 3.2 The owner for the time being of the Postcode Address File (currently Royal Mail)⁹ is required to maintain the PAF and make it available *'to any person who wishes to use it on such terms as are reasonable'*.¹⁰ These terms may include terms as to the payment of such fee (if any) as the owner considers appropriate.¹¹

Ofcom's powers

- 3.3 Section 116 of the 2000 Act also sets out our powers in the regulation of the PAF. Under section 116(5) we may direct Royal Mail as to the terms, including the fees payable, that may be imposed on those wishing to use the PAF.¹² If we do so, no term that contravenes the direction may be imposed under that provision.¹³
- 3.4 We may also direct Royal Mail to issue, and comply with, a code of practice dealing with the making of revisions to the PAF or to make such modifications of the code as are specified in the direction.
- 3.5 On 1 October 2011, we made a direction under this provision.¹⁴ The direction requires Royal Mail to make the file available to any person who wishes to use it in an electronic format that can be read by computer software packages that are

⁸ Delivery points are the points at which a postman or woman delivers post. For example, blocks of flats may contain numerous households but if mail is delivered to a central point in that block, that will be listed in PAF as one delivery point.

⁹ For ease of reference we will refer to Royal Mail throughout this document rather than the "owner for the time being". It is important to note, however, that there is no requirement for the PAF to be owned by Royal Mail or another postal services operator and section 116 of the 2000 Act makes specific provision to take account of a situation where the PAF is owned by a person who is not providing a postal service.

¹⁰ Section 116(1) of the 2000 Act.

¹¹ Section 116(4) of the 2000 Act.

¹² On 1 October 2011, Ofcom made a direction under this provision. See "The Postcode Address File – Access", Direction under s.116(5)-(6) Postal Services Act 2000

<http://stakeholders.ofcom.org.uk/binaries/consultations/postal-regulation/statement/update-statement.pdf>

¹³ Section 116(6) of the 2000 Act

¹⁴ The Postcode Address File – Access, Direction under s.116(5)-(6) Postal Services Act 2000,

<http://stakeholders.ofcom.org.uk/binaries/consultations/postal-regulation/statement/update-statement.pdf>

commonly available, and to furnish a copy of the File to any person who may request it upon payment of a reasonable charge.

- 3.6 The direction goes on to provide that Royal Mail shall not impose as a term or condition (however expressed) of furnishing a copy of PAF (or of any revision or update to it) any term or condition other than reasonable restrictions to ensure:
- that such intellectual property rights in PAF as are vested in Royal Mail are protected;
 - that the PAF and any updates to it are utilised in an appropriate manner to encourage correct addressing; and
 - that such reasonable charges are paid.

Ofcom's duties

- 3.7 In exercising our powers in relation to PAF, Ofcom must act in a manner which is consistent with its duties as set out in the Postal Services Act 2011 Act (the '2011 Act') and the Communications Act 2003 (the '2003 Act').

Duty to secure the provision of a universal postal service

- 3.8 Section 29(1) of the 2011 Act provides that Ofcom must carry out its functions in relation to postal services in a way that we consider will secure the provision of the universal postal service.¹⁵ Section 29(3) requires that, in performing our duty under section 29(1), we must have regard to the need for the provision of a universal postal service to be:
- financially sustainable; and
 - efficient before the end of a reasonable period¹⁶ and for its provision to continue to be efficient at all subsequent times.
- 3.9 The concept of financially sustainable is not exhaustively defined. However, section 29(4) of the 2011 Act states that it includes the need for a reasonable commercial rate of return for any universal service provider on any expenditure incurred by it for the purpose of, or in connection with, the provision by it of a universal postal service.

Ofcom's general duties

- 3.10 Section 3 of the Communications Act 2003 (the '2003 Act') provides that it shall be our principal duty, in carrying out our functions, to further the interests of citizens in relation to communications matters and to further the interests of consumers in relevant markets, where appropriate by promoting competition.
- 3.11 This principal duty applies also to functions carried out by us in relation to postal services.¹⁷ Section 3(6A) of the 2003 Act provides that the duty in section 29 of the

¹⁵ The expression 'postal services' is defined in section 27(1) as meaning the service of conveying postal packets from one place to another by post, the incidental services of receiving, collecting, sorting and delivering postal packets, and any other service which relates to, and is provided in conjunction with, any of those services.

¹⁶ A "reasonable period" is defined in section 29(5) of the 2011 Act.

2011 Act takes priority over our general duties in the 2003 Act in the case of conflict between the two where we are carrying out our functions in relation to postal services.

- 3.12 In performing our general duties, we are also required under section 3(4) of the 2003 Act to have regard to a range of other considerations, which appear to us to be relevant in the circumstances. In this context, we consider that a number of such considerations appear potentially relevant, including:
- the desirability of encouraging investment and innovation in relevant markets;
 - the opinions of consumers in relevant markets and of members of the public generally; and
 - the extent to which, in the circumstances of the case, the furthering or securing of the matters mentioned in section 3(1) is reasonably practicable.
- 3.13 Section 3(5) of the 2003 Act provides that in performing our duty to further the interests of consumers, we must have regard, in particular, to the interests of those consumers in respect of choice, price, quality of service and value for money.
- 3.14 Pursuant to section 3(3) of the 2003 Act, in performing our general duties, we must have regard, in all cases, to the principles under which regulatory activities should be transparent, accountable, proportionate, consistent and targeted only at cases in which action is needed, and any other principles appearing to us to represent the best regulatory practice.
- 3.15 In this regard, we note our general regulatory principles¹⁸ including in particular the following in the present context:
- operating with a bias against intervention, but with a willingness to intervene firmly, promptly and effectively where required;
 - ensuring that our interventions are evidence-based, proportionate, consistent, accountable and transparent in both deliberation and outcome;
 - seeking the least intrusive regulatory mechanisms to achieve our policy objectives; and
 - consulting widely with all relevant stakeholders and assessing the impact of regulatory action before imposing regulation upon a market.
- 3.16 Finally, we have an ongoing duty under section 6 of the 2003 Act to keep the carrying out of our functions under review with a view to ensuring that regulation by us does not involve the imposition of burdens which are unnecessary or the maintenance of burdens which have become unnecessary.

¹⁷ Section 1(1) of the 2003 Act refers to such functions as may be conferred on Ofcom by or under any enactment. The reference to ‘communications matters’ in section 3(1) also refers generally to matters in relation to which we have functions, and similarly the reference to ‘relevant markets’ means markets for any of the services, facilities, apparatus or directories in relation to which we have functions: section 3(14) of the 2003 Act.

¹⁸ <http://www.ofcom.org.uk/about/what-is-ofcom/statutory-duties-and-regulatory-principles/>

General impact assessment

- 3.17 The analysis presented in this document represents an impact assessment, as defined in section 7 of the 2003 Act.
- 3.18 Impact assessments provide a valuable way of assessing different options for regulation and showing why the preferred option was chosen. They form part of best practice policy-making. This is reflected in section 7 of the 2003 Act, which means that generally Ofcom has to carry out impact assessments where its proposals would be likely to have a significant effect on businesses or the general public, or when there is a major change in Ofcom's activities. However, as a matter of policy Ofcom is committed to carrying out and publishing impact assessments in relation to the great majority of its policy decisions. For further information about Ofcom's approach to impact assessments, see our guidelines.¹⁹
- 3.19 Specifically, pursuant to section 7, an impact assessment must set out how, in our opinion, the performance of our general duties (within the meaning of section 3 of the 2003 Act) is secured or furthered by, in relation to our decision.

Equality Impact Assessment

- 3.20 In carrying out our functions, we are also under a general duty under the Equality Act 2010 to have due regard to the need to:
- eliminate unlawful discrimination, harassment and victimisation;
 - advance equality of opportunity between different groups; and
 - foster good relations between different groups,
- in relation to the following protected characteristics: age; disability; gender re-assignment; pregnancy and maternity; race; religion or belief; sex and sexual orientation.
- 3.21 Such equality impact assessments also assist us in making sure that we are meeting our principal duty under section 3 of the 2003 Act.
- 3.22 We have therefore considered what (if any) impact the decision set out in this statement may have on equality. We do not consider the impact of the proposals in this consultation to be to the detriment of any group within society. Therefore, we do not consider it necessary to carry out a full equality impact assessment.

¹⁹ Better Policy Making – Ofcom's approach to Impact Assessment, Ofcom, 21 July 2005
http://stakeholders.ofcom.org.uk/binaries/consultations/better-policy-making/Better_Policy_Making.pdf

Section 4

Creating and maintaining PAF

- 4.1 In our consultation, we set out the elements that comprise delivery point data, the different datasets available, and how the data in PAF is created – largely by taking data from local authorities, for which Royal Mail pays those local authorities.
- 4.2 In terms of maintenance, this is managed by AMU. The majority of updates to PAF are provided by Royal Mail Operations. These updates are sourced by the postmen and women who ‘validate’ the delivery points that are live for mail as they complete their delivery walks. These updates are then collated at the Delivery Office on their return, and passed to the AMU. There are an estimated 2,000 updates to PAF each day.

The quality of PAF

- 4.3 PAF was developed for the purpose of delivering mail – specifically, to help Royal Mail ensure it knows of, and could deliver to, every single address in the UK, thereby fulfilling its obligation to provide a universal service. Royal Mail’s need to have a comprehensive and up-to-date database of all the delivery points to which it must deliver mail items is the key motivation for Royal Mail, and by extension, AMU, to maintain the PAF database to a high standard.
- 4.4 In addition, the PAF database drives the majority of the mechanised process for sorting mail into delivery walk order, meaning that PAF is an integral part not just of the delivery process, but also of Royal Mail’s modernisation programme which is currently underway. This has an impact on the nature and quality of PAF: Royal Mail has an obvious and inherent incentive for PAF to be maintained to a high quality.
- 4.5 As set out in our consultation, the Service Level Agreement between AMU and Royal Mail Operations provides incentives for the integrity of the data captured by Royal Mail Operations in two ways. It contains targets for the number of Delivery Offices that provide regular, monthly updates to PAF; it also codifies a rolling validation programme, that ensures that each delivery route is verified at least once per year.
- 4.6 These targets apply to the quality of data provided by Royal Mail Operations to AMU. There are currently no targets for the completeness or accuracy of PAF data as provided to licensees. For this reason, we asked in our consultation whether stakeholders considered that the setting of quality targets for PAF, and the publication of achievements against those targets, would be constructive.

Responses to consultation

- 4.7 Many of the respondents making substantive comments on this issue considered that the setting of quality targets would be helpful in increasing and maintaining PAF to a high quality. Some of these respondents advocated for the publication of results against these targets. Four respondents were not in favour of quality targets.

Setting and publishing quality targets: general comments

- 4.8 One individual and one organisation did not believe that the setting of targets would improve either the quality of PAF or increased take up of the database. One individual considered that quality was not an issue as mail would continue to be

delivered if some properties were omitted. One organisation considered that the setting of quality targets would not be valid unless there were some form of verification by an independent body, and a stable base for the measurement of accuracy.

- 4.9 One individual considered that PAF would be enriched by including PAF as part of a national address gazetteer.
- 4.10 Several respondents considered that the setting and publication of quality targets would improve transparency:
- one individual stated that transparency is essential for enforcing the accountability of PAF management.
 - another individual considered that transparency would be helpful as full transparency is a strong motivator for doing something accurately.
 - the Direct Marketing Association (DMA) welcomed the idea of clear, transparent targets that were subject to, ideally, independent measurement against criteria set by a body such as PAB.
 - Gavurin considered that providers of data have a responsibility to maintain quality and evidence that, and that monopoly provision must necessitate transparency of quality.
- 4.11 Other respondents thought that quality targets might improve quality and cost effectiveness:
- the Market Research Society considered that improved quality would contribute significantly to the cost effectiveness of the direct use of PAF, and would add to the quality of addressing products incorporating PAF.
 - UK Mail considered that strong targets should be set by Ofcom and reported against on a quarterly basis, to help Royal Mail achieve efficiency improvements in the delivery of post.
 - the Mail Users' Association stated that the setting of targets would be beneficial for the wider take-up and use of PAF.
 - the Office of National Statistics ('ONS') welcomed quality targets as an instrument to measure and monitor quality and improvement.
- 4.12 Royal Mail stated that it recognised and accepted its clear responsibility to continue to invest, innovate and improve the quality, transparency and accessibility of PAF.

Quality target metrics

- 4.13 A number of respondents suggested in their responses the type of metrics by which the quality of PAF might be measured. Two current PAF solutions providers considered that any targets should be effective, meaningful and measurable.
- 4.14 Several respondents suggested that data on the completeness or accuracy of PAF would be helpful. However, many of these respondents also pointed out the flaws in attempting to measure the 'completeness' of PAF – as Royal Mail is the determinant

of what constitutes a delivery point, it may not be constructive to ask Royal Mail to set the baseline for this metric, and then to measure itself against it.

- 4.15 ODI considered other metrics that could be helpful: average time taken to add a new delivery point; average time since each delivery point was validated ('data recency'). ODI also stated that the information of changing quality of PAF over time would help in providing evidence about the impact of changes to licensing terms and conditions and means of cost recovery.
- 4.16 PAB supported the idea of quality targets, pointing out that most of the quality work by Royal Mail has been directed to validation of postal walks. It considered that a wider approach would be beneficial, and could include the timeliness of updates, more accurate data as to the origin of updates to the file, ease of incorporation into software and a more sophisticated ability to match addresses against PAF.

Our assessment

- 4.17 It is clear from the responses we received that there is consensus on the view that PAF is a key input to the economy, and a key component in many other applications which support business efficiency and growth, often as part of another product, to many organisations across the UK. In their announcement on 14 June, Royal Mail set out that it is committed to driving increased usage of this data-set and thus innovation in the data business community to the benefit of the UK economy.
- 4.18 It is also clear that stakeholders support some measurements of the quality of PAF. The setting of such targets is not without complication, as highlighted by responses to this question. The issue of a national address gazetteer or database falls outside our powers and duties with regard to PAF, and therefore outside the scope of this review.

Our decision

- 4.19 We consider that the introduction of some measurement of the quality of PAF should be introduced. Given the circularity of some of the metrics proposed (for example, 'completeness'), we expect Royal Mail to work with PAB to develop robust, output based quality measures that are meaningful and constructive for users of PAF, within a reasonable time frame.

Section 5

Recovering the costs of PAF

- 5.1 Section 6 of our consultation set out our preferred approach to the recovery of the costs of PAF. We broke down the costs of PAF into two categories: internal costs that would be incurred by Royal Mail regardless of whether PAF were made available to other users; and external costs that are incurred as a result of making PAF available to other users.
- 5.2 To consider this we have used the six principles of pricing and cost recovery, developed by Oftel and used by Ofcom to analyse various pricing issues:
- **cost causation:** that costs should be recovered from those whose actions cause the costs to be incurred at the margin;
 - **cost minimisation:** that the mechanism for cost recovery should ensure that there are strong incentives to minimise costs;
 - **effective competition:** that the mechanism for cost recovery should not undermine or weaken pressures for effective competition;
 - **reciprocity:** that where services are provided reciprocally, charges should also be reciprocal; and
 - **distribution of benefits:** that costs should be recovered from the beneficiaries, especially where there are externalities;
 - **practicability:** that the mechanism for cost recovery needs to be practicable and easy to implement.
- 5.3 We assessed the issue of the recovery of the costs of PAF in light of each of these principles, noting that the application of any one of these principles to the relevant circumstances can sometimes point in a different direction to the other principles
- 5.4 In addition to the principles of cost recovery, we have to consider the regulatory options in the context of our primary duty to secure the provision of the universal service including the need for that provision to be financial sustainable and our general duties set out in section 3 of the 2003 Act. We set out that moving the costs of PAF into the universal service would require Royal Mail to either raise charges to cover the costs, or absorb the losses itself through lower profits. In the former case, there would be a disbenefit to post consumers; in the latter, reduced profits could contribute to threatening the sustainability of the universal service, by eroding Royal Mail's ability to make a commercial rate of return. We noted that, in 2011-12, PAF revenues (£27.1m) were broadly equivalent to the operating profit of Royal Mail's UKPIL business unit (£23m).

Our proposals

- 5.5 Taking into account our principles of cost recovery and our primary duty under the 2011 Act, it was our view that the most appropriate option for the recovery of the costs of PAF was that Royal Mail should continue to be able to recover both the internal and external costs of PAF from its licensed users.

- 5.6 In reaching our proposal we considered the following points:
- the potential impact on the provision of the universal service, and our primary duty to secure the provision of the universal service;
 - that we had not received any evidence that lower prices would materially increase the take-up of PAF; and
 - as Royal Mail established the current arrangements as the result of Postcomm's reviews of PAF in 2007 and 2011, it would be consistent with regulatory precedent.

Responses to the consultation

General comments on cost recovery

- 5.7 Many of the respondents to our proposals on cost recovery supported the open data position, with most preferring that PAF be made free to use and form the basis of a national addressing database. Some respondents agreed with our analysis of the PAF cost base; some queried our assessment of the benefits and causes of the costs of PAF, and the analysis against our primary duty to secure the provision of the universal postal service.
- 5.8 A number of respondents queried why we had redacted the figures from Section 5 on the costs of PAF. Several respondents questioned why the costs of maintaining PAF – in particular, the frontline costs and delivery management costs, which we stated formed the largest proportion of the PAF cost stack – were so high. Some respondents suggested that the costs of maintaining PAF are much larger than necessary, and that there are alternative ways to maintain a database of addresses that are less costly.
- 5.9 Some respondents ascribed a cost to each individual update to the file, based on the number of updates set out at figure 3.1 and the total costs of PAF, suggesting that each update 'costs' £15 or £20. Royal Mail consider that the value of PAF is not only in the addresses that are updated, but also in those that are not, and that it would be more appropriate to consider the cost as spread across all delivery points that are validated each year.
- 5.10 A number of respondents suggested that a reduction in the overall cost base would broaden the options for cost recovery, as it would increase the likelihood of options such as Government funding.
- 5.11 ODI considered that, if PAF were open data, Royal Mail would be able to use a distributed, collaborative model for maintaining PAF in which users (such as local authorities) could be motivated to contribute to its maintenance.
- 5.12 A number of respondents, in their written responses and in meetings with stakeholders, argued that a reduction in price charged for PAF would be expected to have some impact in increasing usage of PAF. One respondent to our consultation stated that the cost of PAF was a factor in their decision not to make use of it.

Cost causation and cost minimisation

- 5.13 One respondent (DMA) agreed with our position on cost causation and cost minimisation. PAB set out that it continues to push for cost minimisation; Callcredit

Information Group expressed concern that cost minimisation (along with the removal of the profit cap) could result in a reduction in quality of PAF.

- 5.14 One individual respondent suggested that property developers and owners should bear the costs of registering a new address or changing an existing address, under the principle of cost causation.
- 5.15 On cost minimisation, a number of respondents considered that there were more cost-effective ways to maintain the data that PAF contains; several respondents expressed an interest in the AMU conducting a cost minimisation exercise.

Effective competition and reciprocity

- 5.16 UK Mail disagreed with our statement at paragraph 6.12 that other postal service operators rely on PAF to provide their services. UK Mail stated that other postal operators are required to use PAF in order to meet the specifications for Royal Mail's access services. It said that PAF should be provided free of charge to all customers of Royal Mail, so far as their use of PAF is in order to use Royal Mail's postal services.

Distribution of benefits

- 5.17 A number of respondents, in their written submissions to our consultation, questioned our analysis under the distribution of benefits, noting that Royal Mail pays a licence fee on par with other major licensees, for a product that underpins a significant portion of its business. Some respondents compared the revenues of PAF (£27.1m in 2011-12) to the revenues of Royal Mail Group (£9.5bn in 2011-12), stating that PAF revenues formed a quarter of a percent of the latter.
- 5.18 DMA considered that mail operators should be treated as deriving a 'primary benefit' from PAF, along with Royal Mail, and should therefore pay a higher fee. ODI noted the figures in the PAB review of PAF licensing, which suggested that 40% of the benefits of PAF were derived by postal and goods distribution services, and the data at Figure 5.1 of our consultation, which set out that 'wholesale and distribution (including mail operators)' uses accounted for just 3.6% of PAF licence fees.
- 5.19 GB Group set out their concerns about assessing the 'benefit' of PAF to different types of licensee: whilst it is straightforward to assert that Royal Mail (and other postal operators) derive a significant benefit from PAF, and a small charity that uses PAF to cleanse a marketing database derives a comparatively small benefit, the majority of PAF licensees fall between those two more straightforward categories of user, where comparative benefits are much harder to quantify.

Practicability

- 5.20 A number of respondents suggested that the most straightforward option would be to release PAF as open data, under the Government Open Licensing framework.

Primary duty to secure the provision of the universal postal service

- 5.21 ODUG and ODI suggested that our analysis of cost recovery in light of our primary duty placed too great an emphasis on securing the provision of the universal postal service. Both responses questioned whether the recovery of the internal costs of PAF from within the universal service would genuinely put provision of the same at risk;

both expressed concerns that PAF was being exploited commercially to support the provision of the universal service, and that that was inappropriate.

- 5.22 UK Mail also disagreed with our analysis against this duty, and in particular, considering that we gave overwhelming weight to this principle.

Our assessment

General comments on cost recovery

- 5.23 Whilst some respondents have disagreed with our analysis in places, it is also clear that there is a wide range of views between stakeholders as to the way costs should be recovered according to the principles – not least around the question of the distribution of benefits. The inherent difficulty in assessing this principle is noted by one respondent.
- 5.24 With regard to the redaction of the cost figures, under section 56 of the Postal Services Act 2011, we are not permitted to publish information provided to us as confidential, unless it is necessary for the carrying out of our functions. As part of our review, we looked at the methodology used by Royal Mail for calculating the costs of PAF, and we considered that the methodology was sound; on this basis, we did not consider it necessary to publish the detail of the costs that had been provided to us as confidential.
- 5.25 The scope of our review did not include an assessment of whether the methodology used to maintain PAF as a database was the most appropriate; we consider that Royal Mail and PAB are best placed to make such an assessment. However, we have made Royal Mail aware of the suggestions made by respondents to our consultation, so that they might consider alternative methods of maintenance when conducting any future review of the costs of PAF and efficiency in its maintenance and provision.
- 5.26 We agree with respondents that a reduction in PAF prices may have some impact in encouraging greater take up and use. However, consultation responses have not provided persuasive evidence that the magnitude of any impact will be large.

Cost causation and cost minimisation

- 5.27 Having analysed the responses, we still consider that the principle of cost causation suggests that the internal costs of PAF should be recovered from Royal Mail's mail activities, and the external costs should be recovered from the licensees of PAF. We do not agree that this principle suggests that property developers should bear the cost of registering a new address. As set out above, the value of PAF is not just in the regular updates to the database, but in the validation of delivery points that remain the same; we therefore consider that recovering the costs solely from changes to the database would be inappropriate.
- 5.28 On cost minimisation, we note that one of the objectives of our review is to drive efficiency in the maintenance and distribution of PAF. We understand that PAB are looking in to opportunities to reduce PAF costs, in conjunction with AMU. We do not expect the quality of PAF to suffer as a result; as set out in Section 4, we expect Royal Mail to work with PAB to set meaningful quality targets for PAF, in accordance with our objective to ensure the integrity of the data is maintained.

Effective competition and reciprocity

- 5.29 With regard to the suggestion made by UK Mail that PAF should be provided free of charge to all customers of Royal Mail, so far as their use of PAF is in order to meet specific contractual requirements to use Royal Mail's postal services, we agree that these customers of Royal Mail are required to use PAF in order to meet the specifications for certain mail services provided by Royal Mail. However, we note that the result of this compliance with specifications enables such customers to obtain lower prices for mail services. Prices are lower because mail is prepared by customers in accordance with Royal Mail's requirements for sorting mail – with customers using the same database (PAF) as Royal Mail to sort the mail, thereby reducing the amount of work Royal Mail must do to sort the mail in order to deliver it. Therefore, use of PAF is necessary to gain these lower prices. Were customers not to sort the mail according to Royal Mail's systems, which are based on PAF, Royal Mail would incur the costs of that sorting activity, and customers would pay higher prices.

Distribution of benefits

- 5.30 We note the responses that questioned our analysis under the principle of the distribution of benefits, given that Royal Mail pays a similar licence fee to other major licensees, for a product that underpins a significant portion of its business. We observed significant disagreement amongst respondents as to whether other postal operators should pay less, or more, to licence PAF, based on their use of it.
- 5.31 In addition, we note the point made by GB Group, that it is difficult to assess the benefits to a business of their use of PAF – in particular, amongst the other major licensees are banks and utility companies, for whom PAF might similarly form a significant input to their business. We consider that it would not be practicable to implement a value-based attribution of costs.
- 5.32 With regard to comparison of revenues, paragraph 6.21 of our consultation document compared the revenues of PAF to the profit of UK PIL (parcels, international and letters), a business entity within Royal Mail Group. For the purpose of examining the financial sustainability of the universal service, we have defined a business entity referred to as the 'Reported Business', which is the business entity that provides the universal service. At the time of drafting the statement, there were no figures available for the Reported Business. The most appropriate proxy for the Reported Business was the entity UK PIL, which includes the entirety of the Reported Business, and excludes the majority of products falling outside of the universal service.

Practicability

- 5.33 For the reasons set out in further detail at section 2 of this statement, the decision to release PAF as open data sits outside the scope of our review.

Primary duty to secure the provision of a universal postal service

- 5.34 Our primary duty with regard to the postal sector is to secure the provision of a universal postal service. When analysing regulatory options, it is appropriate that we consider such options in light of this duty – including in our analysis of the options for the recovery of PAF costs.

- 5.35 The rationale behind our suggestion that recovering the internal costs of PAF could potentially threaten the sustainability of the universal service is set out at paragraph 6.20 of our consultation document. It is predicated on the basis that the most likely impact of an increase in the cost base of the universal service would not be to increase the price of universal service products, but a reduction in PAF revenues and a reduction in revenues overall. Such a reduction could potentially contribute to threatening the sustainability of the universal service by eroding Royal Mail's ability to make a reasonable commercial rate of return.

Our decision

Principles of cost recovery and our primary duty

- 5.36 As explained above, our analysis of the recovery of PAF costs against the six principles of cost recovery, as set out in the consultation document, is finely balanced. In reaching our decision, we have given weight to our primary duty to secure the provision of the universal service, with the effect that Royal Mail should be able to recover the internal and external costs of PAF from licensees.
- 5.37 We also note that since publishing our consultation document, Government announced that PAF would continue to be owned and maintained by Royal Mail, and licensed to users on a paid-for basis, as part of their Information Economy strategy paper.²⁰ Following this announcement, BIS commissioned a review into the feasibility of a national addressing database, and Government entered into discussions with Royal Mail about its licensing framework review. We will discuss this review further in section 6 of this statement.

²⁰ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/206944/13-901-information-economy-strategy.pdf

Section 6

Licensing and use of PAF

- 6.1 In our consultation, we set out a high level synopsis of the overall licensing framework, highlighting the complexity of the current PAF licensing regime, which appears to result from an incremental approach to licence reviews, adding further variants (and as a result complexity) to accommodate the needs of different users.
- 6.2 We also set out that Royal Mail is in the process of reviewing the pricing and licensing of PAF. Alongside this, PAB has consulted on the licensing regime and its simplification, supporting the review by Royal Mail.
- 6.3 We encouraged Royal Mail to maximise the opportunity offered by this review and to consider how they could redesign the licensing framework so that it is simpler, and incentivises the use of PAF. Based on our understanding that the complexity of the licensing regime is one of the most significant barriers to wider take-up and use of PAF, our consultation document encouraged Royal Mail to address this, and to provide transparency to users and potential users around the pricing of access to PAF.

Our proposals

- 6.4 Our proposals on the licensing and use of PAF fall into two parts: principles for the new PAF licensing framework, and the terms on which PAF is made available.

Principles for the new PAF licensing framework

- 6.5 Our consultation set out that we considered Royal Mail to be in the best position to decide on details of the licensing framework, working closely with users, solutions providers and PAB. We also considered that the UK Government Licensing Framework set out best practice and guiding principles for licensing the use of public sector information.
- 6.6 In light of the above, we set out a number of objectives for the outcomes of the new licence regime, resulting from their current review:
- ensuring its licence terms encourage developers to innovate and bring new PAF-based products to the marketplace;
 - ensuring the framework includes a simple means of administering PAF licences – for Royal Mail, solution providers and users – so that the licensing process does not deter resellers and users; and
 - ensuring that the nature of the licensing model (for example, whether that model is still user/transactional based, or is changed to being solely user based or transactional) and the relative pricing of licence types acts to encourage new users of PAF, the use of PAF in new contexts and the use of PAF in existing contexts, and provides sufficient clarity and understanding around licence fees.
- 6.7 We also suggested that Royal Mail might want to consider whether equating a user with a single terminal (should such an element be retained in the licensing framework) discourages use, given the increasing range of terminals now involved in business contexts.

Terms on which PAF is made available

- 6.8 In our consultation, we set out our responsibility to ensure that the terms on which PAF is made available to users are reasonable, including the price, and that we have the power to issue a direction as to those terms. We set out details of the current voluntary profit cap, and our reasons for recommending that it be removed: namely, the perverse incentives it provides for AMU to grow take-up and use, or to drive efficiency in the maintenance and provision of PAF.
- 6.9 The consultation highlighted the incompatibility of sequencing between Royal Mail's review of the pricing and licensing framework, and our work on an alternative to the profit cap, and our conclusion that it was not appropriate at that stage to set out in detail an alternative. Instead, we provided some high-level guidance on what factors we would consider when assessing the reasonableness of the terms on which PAF was made available.

Responses to the consultation

- 6.10 Around half of respondents provided a substantive response to our question about the terms on which PAF is made available, that fell within the scope of our review.

Principles for the new PAF licensing framework

Licensing complexity

- 6.11 Many respondents – GB Group, Callcredit Information Group, Dotted Eyes, PAB, Postcode Anywhere, UK Mail and one individual – considered that the current licensing regime is unnecessarily complex, to the extent that it dissuades potential users from making use of PAF. Dotted Eyes considered that the simplification of the licensing regime should go further than proposed in our consultation.
- 6.12 ONS pointed out that they had withdrawn from offering PAF-based solutions to third parties sector due to the complexity of the licensing regime, and the cost and overheads of administering the licensing, collecting revenue on behalf of Royal Mail, and having to manage the risk of having to pay upfront and collect actual revenues in arrears.
- 6.13 A number of respondents pointed out that the most simple and effective way to reduce complexity in the licensing regime would be to release PAF under the Open Government Licence.

UK Government Licensing Framework

- 6.14 Four respondents agreed with our proposal that the outcomes of Royal Mail's licensing framework review were aligned with the principles of the UK Government Licensing Framework. One respondent, GB Group, considered that these principles might not be easy to translate into a licence that would satisfy different industries and types of end user, whilst giving Royal Mail the protection it seeks. One individual considered that, if charging for PAF were the right way forward, the UK Government Licensing Framework approach should be adopted.

Terms on which PAF is made available

Removal of the profit cap

- 6.15 Three respondents – ODI, DMA and UK Mail – agreed with our conclusion that the profit cap should be removed, due to the perverse incentives it provides for Royal Mail to increase take-up and use of PAF, and drive efficiency in the maintenance and provision of the database. DMA hoped that this removal would in fact lead to transparency in terms of costs. Several respondents, though broadly in favour of the cap, urged caution with regard to the unintended consequences, such as a significant increase in PAF licence fees.

Other terms

- 6.16 UK Mail agreed with our guidance on factors that we would consider when assessing the reasonableness of price terms – namely, our views on the causes of increased profits from the licensing of PAF to users. It also agreed with our openness to adopting an alternative price control, should we consider it necessary, once Royal Mail's framework review has been completed. However, UK Mail considered that we should provide more comprehensive and explicit guidance to Royal Mail as to what the terms for licensing should be.
- 6.17 DMA set out its belief that there is a strong case for differential pricing, depending on how data is being used, and considered that there should be a better balance in the benefits between Royal Mail and its customers. DMA requested further detail around the parameters that might trigger an investigation, for example how we might quantify what a 'significant' increase in cost would be.
- 6.18 ODI encouraged us, in providing guidance on what factors we would consider when assessing the reasonableness of terms, to consider what is reasonable from the perspective of the economy as a whole. It contended that we should separate the provision of PAF from the provision of the universal service, so as to prevent Royal Mail subsidising their mail delivery business with profits derived from licensing PAF.
- 6.19 Postcode Anywhere expressed its desire to see the removal of the distinction between internal and external usage, and to encourage other major postal service providers to adopt similar licensing frameworks on the basis that it is necessary for international addressing solutions.
- 6.20 PAB set out high-level details of its current licensing review, suggesting that one possibility might be a permissive model, with end user costs attributed on the basis of easily verifiable external information, or a process that charged a fixed fee to licensed distributors who could then work within a competitive end user market.
- 6.21 Callcredit Information Group was the only respondent to consider that the pricing framework works effectively. It considered that charging was clear, and the ability to purchase access to PAF in 'blocks' supports flexibility. Their response highlighted concerns that a simplified framework may fail to offer the options required to accommodate the wide nature of the PAF user base.

Our decision

Principles for the new PAF licensing framework

- 6.22 In general, respondents agreed with our proposed approach, supporting our view that Royal Mail should make the most of the opportunity offered by its review of the PAF licensing framework to simplify the regime, encourage wider take-up and use of PAF, and provide transparency to users and potential users. We remain of the opinion that the UK Government Licensing Framework principles are appropriate to apply to the PAF licensing framework review, and strongly encourage Royal Mail to have regard to these as they progress the review.
- 6.23 Following the statement from BIS in April that BIS, Cabinet Office, Royal Mail and Ofcom would enter into discussions to see what could be done to make licenses better suit the needs of small companies, Royal Mail has made significant progress on its framework review.
- 6.24 In our consultation, we set out our belief that the details of the licensing framework would be best decided by Royal Mail working closely with users, solution providers and PAB. In an announcement on 14 June, Royal Mail set out a number of immediate measures designed to make PAF more easily accessible to small businesses and charities and set out its proposals to consult stakeholders as to the structure of the new licensing framework²¹, and an outline of the next steps to its framework review.
- 6.25 In the immediate term, Royal Mail implemented in early July a handful of measures designed to make PAF more accessible to small businesses and charities. These include:
- free access to PAF for independent²² small charitable organisations²³;
 - free access to PAF for one year for independent²⁴ micro businesses²⁵; and
 - an increase in free online address look-ups on Royal Mail's website from 15 to 50 per day.
- 6.26 Their stated objectives for the outcome of the review, which is due to be consulted on shortly, are that the framework will:
- be permissive, rather than the current restrictive licence, and simplifies licensing concepts such as derived data;
 - focus on the direct licensee and replaces the indirect licensing model;
 - minimise on-licensing and places fewer requirements on licensees than exist at present;

²¹ <http://www.royalmailgroup.com/royal-mail-unveils-improved-access-postcode-address-file>

²² Independent – not associated or affiliated with any existing Solutions Provider

²³ Small charitable organisations – less than £10m per annum income who are registered charities or CICs

²⁴ Independent – not associated or affiliated with any existing Solutions Provider

²⁵ Micro businesses – 0-9 employees and/or £2m turnover

- simplify pricing, from nearly 40 price points, and instead presents a small number of licensing choices; and
- replace the 60 pages of licensing terms and conditions with around 10 pages and uses clear, simple language.

6.27 These objectives are closely aligned with those set out in our consultation document. We will continue to engage with Royal Mail as the framework review progresses.

Terms on which PAF is made available

6.28 We note the suggestions made by respondents about the licence terms that could be removed or simplified. Variables such as the distinction between internal and external usage add additional layers of complexity to the framework. We understand that Royal Mail are aware of this, and will consider these issues when consulting on the new regulatory framework for PAF.

6.29 We note also the points made about differential pricing. As set out in our consultation document, we consider that Royal Mail and PAB are best placed to develop the detail of the framework, in consultation with industry stakeholders. For this reason, we have not set out in further detail on how the new framework should be structured.

6.30 Though one respondent suggested that the pricing framework was adequate in its current form, we have received responses from other organisations that the complexity and lack of transparency around the framework makes PAF less accessible than it could be – particularly for organisations that wish to use PAF for the first time, or smaller organisations without significant resource to dedicate to understanding the licensing terms.

6.31 In terms of the guidance as to the factors we would consider when assessing the reasonableness of terms, we do not propose to provide more specific guidance than the high level guidance set out in our consultation document. This is because should an assessment of the reasonableness of a particular term or terms become necessary, each case will be considered on its own facts and the context in which our assessment arises. Therefore, we consider high-level guidance as to the factors we may consider when assessing whether terms on which PAF is provided to users are reasonable to be most appropriate at this stage. The guidance is set out at Annex 1.

6.32 With regard to the current profit cap, we remain of the position that this cap provides no incentive for Royal Mail to grow the take-up and use of PAF, as to comply with the cap it would have to reduce prices and would make no additional profit. It also creates a perverse incentive to increase costs. These incentives contradict the general objectives for our review, particularly our objective to ensure that the new framework incentivises wider take-up of PAF, and drives efficiency in the maintenance and provision of PAF. We consider that the profit cap should be removed with immediate effect.

6.33 As set out in paragraph 7.18 and 7.19 of our consultation document, we do not feel it is appropriate for us, at this stage, to set out in detail an alternative to the profit cap. Any proposed mechanism is likely to require review once the new pricing and licensing framework is in place and could indeed have perverse incentives on the design of the new framework and the level of prices.

- 6.34 Instead, as explained above, we have provided high-level guidance on what factors we will consider when assessing whether the terms on which PAF is made available are reasonable, as required under the 2000 Act. With regard to an alternative to the profit cap, we will await the conclusion of the pricing and licensing framework review, and will reconsider the issue of an alternative to the profit cap following its conclusion, if necessary.

Section 7

Conclusion

- 7.1 Having considered the responses to our consultation and our statutory duties, for the reasons set out in this statement, we consider it appropriate to proceed with the proposals set out in the consultation document. In summary,
- 7.1.1 On the question of the quality of PAF, we believe that some measurement of the quality of PAF should be introduced. It should be useful and pragmatic, balancing the consensus of demand by stakeholders for a meaningful way of measuring quality, with a pragmatic approach to developing and measuring performance against the target. We expect Royal Mail to work with PAB in the coming weeks to develop this work further.
- 7.1.2 On cost recovery, our analysis remains that Royal Mail should continue to be able to recover both the internal and external costs of PAF from licensees. This position is shared by the Government stakeholders working with Royal Mail on its simplification of the PAF licensing framework. We note that, should the decision be taken to make PAF available as an open data set, we would likely need to review again these options for the recovery of the costs of PAF.
- 7.1.3 On the terms on which PAF is made available, we do not consider it appropriate for the current profit cap to remain in place, given the lack of incentive it provides to grow the take-up and use of PAF, and the perverse incentive it provides for the reduction of costs and increased efficiency in the maintenance and distribution of PAF to users. Instead, we have provided some high-level guidance at Annex 1 on the factors we will consider when assessing whether the terms on which PAF is made available are reasonable. Further, we understand that Royal Mail's consultation on the licensing framework will be published shortly, and that it will take account of the UK Government Licensing Framework principles set out in our consultation document.

Annex 1

Guidance on terms on which PAF is made available

Guidance on 'reasonable' terms

A1.1 We have set out below guidance giving a high-level view of the factors we may consider when assessing whether terms on which PAF is provided to users are reasonable. It should be noted that any assessment we make of a term or terms will be considered on its own facts and in the context in which our assessment arises.

Price terms

A1.2 We consider the current pricing of PAF licences to be reasonable in that it allows Royal Mail to recover its costs and does not give rise to excessive profits.

A1.3 In line with the objective of this review to broaden the take-up and use of PAF, we would not expect licensees to face significant price increases. Should PAF licence fees increase significantly, we would be likely to investigate the cause of these increased prices. Where the price rises are attributable to significant improvements in innovation or the quality of the licensed product, this may be considered reasonable. Where price rises do not appear to be related to an equivalent increase in the use of PAF, or to improved quality and innovation, this may lead us to review whether such price terms are reasonable.

A1.4 It is also likely that we would investigate the cause of significantly increased profits. Where higher revenues and profits are attributable to desirable initiatives on the part of Royal Mail, such as greater quality of PAF data or innovation in the products offered, then Royal Mail should benefit from those initiatives, and we would not expect to take the view that PAF prices were not reasonable in circumstances where higher profits reflected them. As well as providing improved incentives for Royal Mail in respect of supply and sales, this supports our primary duty to a financially sustainable universal service – the profits derived from PAF go in to the Reported Business, and support the financial sustainability of the universal service.

A1.5 In contrast, where Royal Mail exercises market power to increase prices or reduce quality in order to obtain higher profits, we may take the view that Royal Mail's terms of supply are not reasonable. Examples of circumstances which may lead us to consider a review of the pricing framework for PAF and whether the terms on which it is made available are reasonable might include (but are not limited to):

- a significant increase in profits due solely or largely to increased prices, with no innovation or quality improvements and little or no cost reductions;
- exogenous increases in demand for PAF;
- cost reductions that result in reduced quality of data or products; or
- a significant increase in the costs from universal service delivery activities which are allocated to PAF.

- A1.6 We recognise that there will be a degree of uncertainty regarding how these general principles will apply in specific cases. A simple price cap might be able to substitute for this general guidance. We would remain open to the possibility of adopting a simple price cap arrangement once Royal Mail's current review of pricing and licensing is completed.
- A1.7 With regard to the charges for access to PAF, we would expect the cost to users to take into account to any increase in the take-up and use of PAF. If the pricing framework for access to PAF is structured in such a way that users face a sharp increase in unit charges, for example when moving from the free, limited developer licence to full access, or when increasing their use of PAF, this would discourage further take-up and use of PAF. We encourage Royal Mail to take this into consideration in their review of the pricing and licensing framework for PAF.

Annex 2

List of consultation respondents

Organisations	Individuals
192.com	O Boswarva
APPSI	M Deglos
Callcredit Information Group	A Gosney
CycleStreets Ltd	R Nickerson
Direct Marketing Association	D Payne
Dotted Eyes Ltd	R Whittaker
Gavurin Ltd	C Wooding
GB Group plc	
GeoPlace	
Hopewiser Limited	
Mail Users' Association	
Market Research Society	
Office for National Statistics	
Open Data Institute	
Open Data User Group	
PAF Advisory Board	
Postcode Anywhere	
Regional Chairs Address Group	
Royal Mail	
UK Mail	