

## **“Postcode Address File”**

### **- UK Mail Response to Ofcom February 2013 Consultation March 2013**

Note: Throughout this document:

UKM	= UK Mail
RM	= Royal Mail
Consultation	= Ofcom’s February 2013 consultation on “Postcode Address File”
UPS	= Universal Postal Service (the ‘universal service’)

Numbering used in referring to the Consultation is as per the paragraph and figure numbering in the Consultation. Quotations from the Consultation are shown in *italics*; paragraph numbers are referenced in square brackets [ ]

UKM welcomes the opportunity to respond to Ofcom’s consultation on this very important facet of the UK postal market and RM’s role within it.

Our comments follow below and may be made public and attributed to UKM.

## **2. Legal Framework**

UKM notes the statutory definition PAF, as quoted by Ofcom is:

*“postcodes in the United Kingdom which may be used to facilitate the identification of delivery points for the purpose of providing postal services.”* [2.1]

and, from Ofcom’s restatement of its powers under the Postal Services Act 2000, the objective that:

*“PAF and any updates to it are utilised in an appropriate manner to encourage correct addressing”*  
[2.6]

It is therefore clear that the purpose of PAF is for addressing and delivering postal items. Any other uses of PAF, for purposes not connected to addressing and delivering postal items, are incidental in terms of the legal framework for PAF.

Given Ofcom’s duties under the Postal Services Act 2011 (restated in paragraphs 2.8 – 2.10) for provision of the UPS to be efficient, UKM suggests the aim of Ofcom in reviewing the terms on which PAF is made available must be to encourage RM efficiency in providing the UPS and must relate to the use of PAF as a database *“to facilitate the identification of delivery points for the purpose of providing postal services.”*

## **3. Creating and Maintaining PAF**

UKM has for some time been concerned by the problems stemming from RM’s inclusion of business names within PAF, especially when PAF does not include occupant names for domestic properties.

It must be the case, as with occupant name for domestic properties, that the business name is unnecessary provided the delivery point is already established by the other elements of the PAF entry.

RM's insistence on including business names for all commercial addresses causes problems for mail users seeking to access reduced prices for preparation and presentation of mail, typically in three ways:

- a) The physical delivery address is correct for a number of different businesses (e.g. where several companies have their registered office at the address of their accountants/auditors but PAF includes only the business name of the accountants/auditors)
- b) The postal item is addressed more specifically than the PAF entry, e.g.:
 

HR Department	rather than	Royal Mail
Royal Mail		Stinson Street
Stinson Street		Portsmouth
Portsmouth		PO1 1AA
PO1 1AA		
- c) The business name in PAF is out of date but the item is correctly address to the new business at that address

In each case, failure to exactly match the 'correct' PAF entry can result in mail users being penalised in terms of postal costs.

UKM notes Ofcom's statement that:

*"Royal Mail have no need for a comprehensive database of business names (they only need to know the delivery points); as a result, PAF data on business names is incomplete"* [3.19]

RM should, therefore, amend PAF such that business names are not included.

In paragraph 3.21, Ofcom refers to the Service Level Agreement between the AMU (RM's Address Management Unit) and RM Operations. UKM strongly believes that this Service Level Agreement should be provided to and reviewed by the PAF Advisory Board.

*Question 3.1: We welcome views from stakeholders on whether the setting of quality targets for PAF would be constructive. If so, would stakeholders find the publication of achievement against those targets helpful? Please state why.*

Given the vital importance of PAF to postal users and to RM in achieving efficiency improvements in delivery of post, UKM strongly believes that quality targets for PAF should be set by Ofcom and performance against those targets reported publically on a quarterly basis.

UKM suggests that the PAF Advisory Board, given it represents PAF users in general, may be a suitable body to work with Ofcom and RM in formulating PAF quality targets.

#### **4. Cost Base**

It is a severe hindrance to effective consultation that almost every quantitative figure has been redacted from this chapter.

Given that the Minister with responsibility for postal matters at the time wrote to Ofcom in June 2012 asking that:

*"Royal Mail's cost base for PAF should be explicitly brought within the scope of our review"* [1.14],

UKM feels Ofcom have failed to meet that request, to the detriment of its regulatory duties.

While UKM recognises that it may be reasonable for detailed RM financial information to be redacted from other Ofcom consultations on the grounds of confidentiality and commercial sensitivity, UKM does not see that such concerns justify the redaction of vital information on PAF.

The only useful information left unredacted in this chapter is Ofcom's statement that:

*"A large proportion of the costs of PAF would need to be incurred by Royal Mail for the purposes of providing the universal postal service. They are necessary costs for the provision of PAF in its current state. The additional costs associated with making PAF available for third party use are relatively small."* [4.20]

## **5. Pricing and Licensing Framework**

UKM notes, from Figure 5.1, that "Wholesale & Distribution" (of which postal operators are only part) accounts for just 3.6% of PAF licence revenues in 2010-11, ranking 9<sup>th</sup> out of the 11 types of end-user.

It is also clear from this chapter that the current licensing and fee structure used for PAF is excessively complex and confusing, and can result in a PAF user paying twice for the same use of PAF.

Similarly, it's clear that the licensing terms are hugely burdensome.

## **6. Recovering the Costs of PAF**

In this chapter, Ofcom sets out the six principles it seeks to apply when considering cost recovery mechanisms and considers PAF against each principle.

On Cost Causation and Cost Minimisation, Ofcom considers the principles are best met if the costs of PAF were recovered from RM itself (or at least the internal cost, which paragraph 4.20 has said are a large proportion of the costs).

On Effective Competition & Reciprocity, Ofcom is incorrect when it says:

*"PAF is an input to some of Royal Mail's competitors in delivering services which compete directly with Royal Mail's services. Other postal service operators rely on PAF to provide their services, in particular their access services to bulk mail customers"* [6.12]

The first part of this statement is correct only where the competitor is providing a 'full by-pass' service, i.e. where the competitor undertakes all parts of the service, from collection through to final delivery of the mail. According to Ofcom's Communications Market Report 2012, out of a total addressed mail market of 16.6bn items in 2011 only 8.5m items (0.05%) were delivered by operators other than RM.

The second part of this statement is simply wrong. Other postal operators are required by RM to use PAF in order to meet the specifications for RM's access services. Therefore, rather than relying on PAF to provide their services, other postal service operators are compelled to use PAF (and in turn, to require their posting customers to use PAF).

Ofcom's opinion that

*"Application of this criterion would tend to augur against recovering PAF costs from the universal services" [6.13]*

is presumably based on this incorrect view. Even then, Ofcom says:

*"although we doubt that the approach to PAF cost recovery will result in material competitive distortions either way" [6.13]*

On Practicality, Ofcom says:

*"in terms of practicality and ease of implementation on an ongoing basis, it could be argued that the recovery of costs would be easier to manage if it were just the external costs of PAF to be recovered, in the event that the internal costs of PAF are recovered from the universal service" [6.16]*

Only on Distribution of Benefits is Ofcom unequivocal that RM should continue to recover the costs of PAF from licensees (rather than internally)

Despite this clear skew to internal recovery of PAF costs best meeting the principles it has set out, Ofcom gives overwhelming weight to the remaining principle - its primary duty to secure the provision of the UPS.

On this, Ofcom says:

*"Moving PAF costs into the universal service would require Royal Mail to raise charges to recover these costs, or to absorb the losses itself through lower profits... While a cost reallocation would increase the fixed costs attributed to these services, we doubt that the Royal Mail would change its prices appreciably" [6.20]*

Hence,

*"the reduction in revenues from PAF sales to other users would mostly<sup>43</sup> translate into a reduction in Royal Mail's revenues overall. Such a reduction could potentially contribute to threatening the sustainability of the universal services" [6.20]*

Ofcom's conclusion is then:

*"taking into account our principles of cost recovery and our primary duty under the 2011 Act, it is our view that the most appropriate option for the recovery of the costs of PAF would be that Royal Mail should continue to be able to recover the internal and external costs of PAF from its licensed users" [6.26]*

*Question 6.1: Do stakeholders agree with our analysis of the options for cost recovery against the principles of cost causation, and our proposal on cost recovery? Please give reasons for your response.*

UKM does not agree with Ofcom's analysis, but recognises it would be fruitless to argue against Ofcom's conclusion that PAF costs should be recovered not internally from RM but instead from licensed users of PAF.

However, UKM would like to suggest a radical change to how that cost recovery is achieved.

As mentioned above, regarding the Legal Framework, UKM suggests the aim of Ofcom in reviewing the terms on which PAF is made available must be to encourage RM efficiency in providing the UPS and must relate to the use of PAF as a database *"to facilitate the identification of delivery points for the purpose of providing postal services."*

RM is undoubtedly able to process items showing a full and correct postcode more efficiently than items which do not (it is, after all, the reason why PAF exists).

Therefore it is in the interest of RM efficiency improvement to encourage and facilitate the use of PAF by RM's customers. RM efficiency improvement is an objective of Ofcom (as RM is the UPS provider) and increased efficiency supports achievement of Ofcom's primary statutory duty – to ensure provision of the UPS.

On that basis of that logic, UKM suggests that PAF should be provided free of charge to all customers of RM, so far as their use of PAF is in order to use RM's postal services.

The cost (£24.5m) of RM providing PAF could then be recovered through license fees from all other users of PAF, whose use of PAF is not in order to use RM's postal services but is for the users' own commercial purposes or to meet other non-postal obligations.

## **7. Licensing and Use of PAF**

*Question 7.1: Do stakeholders agree with our proposed approach to the terms on which PAF is made available, and our guidance on those terms? Please give reasons for your response.*

UKM agrees with Ofcom's

- conclusion that it is appropriate to retain the profit cap on RM's provision of PAF [7.16]
- expectation that licensees should not face significant price increases [7.22]
- view that increased profits from PAF should result from increased quality and increased use of PAF, not from increased prices or recovery of increased PAF costs [7.23 – 7.24]
- openness to adopting a price cap arrangement on PAF licensing [7.25]
- recognition that the most significant issue concerning PAF users is the length and complexity of the PAF licensing terms [7.27]

However, UKM believes Ofcom needs to give more comprehensive and more explicit guidance to RM on what the terms for PAF licensing should be.

UK Mail  
March 2013