



Draft Ofcom statement of charging principles

Appendix 5 to consultation on postal regulation:
transition to the new regulatory framework

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Statement of Charging Principles

1. This statement follows a consultation by Ofcom in which Ofcom consulted on the principles that it would apply in order to set annual administrative charges pursuant to the Postal Services Act 2011 ("the Act").
2. This statement is prepared under paragraph 7 of Schedule 9 of the Postal Services Act 2011 and applies in relation to the first charging year (i.e. the period beginning with the commencement of Schedule 4 of the Postal Services Act 2011 and ending with the next 31 March¹) and any subsequent charging year (i.e. any subsequent period of 12 months beginning with 1 April).

Administrative charges

3. Administrative charges will be set at a level to ensure that Ofcom will recover the estimated cost incurred in carrying out its postal services functions as set out in the Act.
4. Administrative charges will be payable by those postal operators which:
 - i. provide services in relation to which, had those services been carried out prior to 1 October 2011, it would have been required to hold a licence under the Postal Services Act 2000;and
 - ii. generated turnover (excluding access payments in the case of postal operators other than the universal service provider) exceeding £10 million, in the preceding year beginning on 1 April, from activities in relation to which, had those services been carried out prior to 1 October 2011, it would have been required to hold a licence under the Postal Services Act 2000.
5. The charge payable by a particular postal operator identified in 4 above will be calculated by multiplying the total estimated cost of regulation by that operator's share of turnover expressed as a percentage of the total turnover generated by all operators identified in 4 above.
6. Payment is due on receipt of the notice of the amount due, served on the postal operator by Ofcom.

Attribution of costs

7. Each item of cost recorded in Ofcom's accounts is attributed to the activities within a sector that Ofcom regulates.

¹ Pursuant to s.93(2) of the Act, Schedule 4 came into force on the day the Act was passed, 13 June 2011.

8. Direct costs of activities are recorded directly against a sector and indirect costs are added by either allocation or apportionment. Allocated costs represent items of operating costs or capital expenditure which can be assigned wholly to a particular sector or activity by virtue of information in the accounting records. Apportioned costs represent common costs which are spread over each of the activities on a fair and equitable basis using standard cost apportionment methods.

Costs of integration

9. Exceptional costs have been incurred as a result of integrating postal regulation into Ofcom's existing operations in the period prior to 1 October 2011, the date of vesting. The funding for these costs requires repayment before the start of the next charging year. Therefore, they will be charged to postal operators as soon as possible in the first charging year in accordance with this Statement of Charging Principles.

Over or Under Recovery of Spend

10. Subject to paragraph 9, the amounts due from postal operators will be collected annually in advance and any over or under recovery of expenditure arising in the charging year will be adjusted in the charge for the following charging year. Amounts paid to the Postal Services Commission in respect of its last "relevant year" as defined in the conditions of licences issued by it under the Postal Services Act 2000 shall be taken into account for this purpose as though the sums paid, and the regulated activities to which they related, were sums paid to Ofcom in respect of Ofcom's functions under the Postal Services Act 2011.

