



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

**22 September 2017**

**PID 2726**

## **1. Introduction**

- 1.1 The Consumer Council (The 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 Council welcomes the opportunity to respond to Ofcom's review of recovering postal regulation and consumer advocacy costs. It is aware that the aims of the review were to continue to ensure the effective collection of postal regulation and advocacy funding requirements with the minimum administration burden on stakeholders; and to set charges in a fair and equitable manner, in accordance with Ofcom's statutory duties.
- 1.3 The Council does not believe it is appropriate to discuss how Ofcom recovers the costs of its work, therefore this response concentrates on the recovery of consumer advocacy costs only.
- 1.4 Further it is also important to note that whilst we have a vested interest in how costs are recovered to fund our function, the role of The Council and other UK postal Consumer Advocacy Bodies<sup>1</sup> (CABs), has been established through statute<sup>2</sup>. Therefore the mechanisms for recovery and approval of costs incurred for funding of this function are a matter for Ofcom and UK Secretary of State, respectively.

## **2 What is being proposed for Consumer Advocacy Bodies?**

- 2.1 Ofcom is proposing to amend its Statement of Charging Principles (SoCP) so that:
  - Turnover derived from services provided under a mandated access agreement, bulk mail services and single piece end to end letters services is considered as relevant turnover for the purposes of recovering administrative charges;

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<sup>1</sup> Citizens Advice and Citizens Advice Scotland (Consumer Futures Unit)

<sup>2</sup> Consumer Estate, Agents and Redress Act 2007

- The threshold for payment of an administrative charge is to be reduced from turnover of £10 million to relevant<sup>3</sup> turnover of £5 million; and
- Parcel operators are excluded from the recovery of costs.

2.2 Due to these changes, Ofcom is proposing to amend the Consumer Protection 1 (CP1)<sup>4</sup> so that all ‘non-call costs’<sup>5</sup> for CABs will be recovered through the same method as its own administrative charge. In essence, this will mean that those postal operators who are liable to pay Ofcom’s administrative charges would also be liable to pay the qualifying consumer expenses of CABs.

2.3 The recovery of ‘call costs’<sup>6</sup> relating to consumer helpline expenses will not be changed.

### 3 Consultation questions

3.1 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 setting administrative charges? Please give your reasons;

Question 2: Do you agree that revenues from bulk mail and access services should be taken into account for the purposes of setting administrative charges? Please give your reasons;

Question 3: Do you agree that turnover from access revenues should be calculated on a net basis (i.e. after the deduction of access charges to Royal Mail)? Please give your reasons;

Question 5: Do you agree that the minimum revenue threshold for payment of administrative charges should be lowered to £5m? Please explain why.

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<sup>3</sup> Turnover earned from mandated access agreement, bulk mail services and single piece end-to-end letters services.

<sup>4</sup> Regulatory schedule that enables Ofcom to recover expenses on behalf of the CABs and the Secretary of State.

<sup>5</sup> Non-call costs – all other costs incurred outside of the consumer advice helpline.

<sup>6</sup> Call costs – relates to costs incurred from offering access to the consumer advice helpline.

- 3.1.1 We have combined our response for questions 1, 2, 3 and 5.
- 3.1.2 The Council agrees with Ofcom's proposals to reduce the threshold for cost recovery from the same group of postal operators who have relevant revenues of £5 million or above and who provide single-piece end-to-end letter services and/or provide bulk mail or access services.
- 3.1.3 We consider that this proposal represents the most fair, simple, and cost-efficient approach. Using the same approach to recover non-call costs for CABs will be administratively efficient, and should result in greater resource savings for Ofcom and in turn cost savings for stakeholders.
- 3.1.4 The 'non-call cost' work undertaken by The Council can be broadly attributed in part to single piece end-to-end letter services and or bulk mail or access services. Therefore, covering costs from these operators demonstrates greater cost reflectivity and fairness.
- 3.1.5 Small business postal consumers, particularly in Northern Ireland (NI), use postal services similarly to residential postal consumers. 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) and giving advice and guidance on making effective complaints, is a key feature of our work going forward.
- 3.1.6 This information and advice function can also extend to the issue of scam mail which can target many small businesses<sup>7</sup>.

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<sup>7</sup> Millward Brown, Vulnerable Postal Consumers, 2017- 17% of NI businesses say they have received scam mail.

3.2 Question 4: Do you agree that turnover from parcel services should not be taken into account for the purpose of setting administrative charges? Please provide your reasons.

3.2.1 The last decade has seen a significant change in the postal market. The rise in digital communications and online shopping has led to a related drop in letters but growth in parcel volumes. Industry estimates that these trends are likely to continue<sup>8</sup>.

3.2.2 The CEAR Act<sup>9</sup> provides that a postal consumer is a person or business who purchases, uses or receives postal services. It does not make a distinction between the type of postal services, for example letters or parcels. Therefore, our role extends to consumers of parcel services, and with the growth likely to continue in this area, advocacy in this area is becoming even more important.

3.2.3 The Council continues to work on parcels, as consumers in NI can face significant detriment in this area. Despite competition and limited regulation in the parcel market, consumers in less profitable peripheral areas of the UK are being excluded from the important online shopping market as they are facing problems of increased delivery costs, excessive surcharging and delivery restrictions<sup>10</sup>.

3.2.4 It is The Council's view that CABs have a clear and agreed statutory remit to protect consumers of parcel services, and therefore our funding should be reflective of the work we do and sufficient to undertake our role adequately to protect consumers. Although we do recognise the administrative complexities on Ofcom to fairly allocate and recover costs from parcel operators.

3.3 Question 6: Do you agree with the proposed changes to CP1 that are set out in Annex 6? Please provide your reasons.

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<sup>8</sup>[http://www.royalmailgroup.com/sites/default/files/Annual%20Report%20and%20Accounts%202016-17\\_0.pdf](http://www.royalmailgroup.com/sites/default/files/Annual%20Report%20and%20Accounts%202016-17_0.pdf)

<sup>9</sup> S3 CEAR Act 2007

<sup>10</sup> <http://www.consumercouncil.org.uk/publications/the-online-parcel-premium/>

3.3.1 The Council is satisfied with the changes proposed in CP1, however, we do believe there should be further consideration given for the inclusion of other operators who provide parcel services to the recovery of CAB administrative costs.

#### **4 Further Information**

4.1 If you require any further information on this response, please contact Kellin McCloskey on 028 90251637 or [Kellin.mccloskey@consumercouncil.org.uk](mailto:Kellin.mccloskey@consumercouncil.org.uk)

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