

Review of the regulation of Royal Mail

Ofcom

RPC rating: **validated**

Description of proposal

Ofcom regularly reviews the regulatory framework it applies to Royal Mail as the postal Universal Service Provider. As a result of the latest review, it has made a number of changes:

- Minor amendments to the processes by which other operators may make use of Royal Mail's delivery system (the Access Framework), which clarify when Royal Mail may give fewer than 10 weeks' notice of changes to terms and conditions and modify the Access Pricing Principles by which Royal Mail must abide;
- Simplification of requirements on mail integrity (relating to undamaged delivery of letters and packets), which allow operators to develop their own risk-based processes and focus the regulations more strongly on services where additional protections (such as signed-for mail) do not exist;
- Removal of the requirement for Royal Mail to give notice to competitors before reducing prices for its Universal Services;
- Removal of the requirement to comply with very specific complaints handling processes for operators other than Royal Mail;
- Removal of the consumer protection requirement for delivery of some types of mail (in particular postal packets), on the grounds that operators have other incentives to deliver these.

Ofcom argues that its amendments to the Access Framework are pro-competitive and are, therefore, non-qualifying; they are included in the assessment for completeness.

Impacts of proposal

Ofcom estimates that seven postal operators are affected in addition to Royal Mail. It argues that the costs of all the changes will round to zero or are non-qualifying, as follows:

- The minor amendments to the Access Framework will create some compliance costs as a result of alterations to process; Ofcom is not able to forecast these with any degree of accuracy, but expects them to be small on the grounds that the changes to process (which it now describes clearly) are small. Ofcom also argues that the changes improve access to markets where Royal Mail is currently dominant. In particular, it argues that its clarification around the requirement to give notice of a price change prevents RM from circumventing the requirement and is therefore pro-competitive. Similarly, it argues that its clarification on access pricing provides greater regulatory certainty as to the balance between RM and other operators and is therefore also pro-competitive. These assertions are in general supported by the responses to its consultation;
- The simplification of requirements on mail integrity has no significant impact on any operator other than Royal Mail and Ofcom does not expect Royal Mail to alter greatly its mail integrity standards. The measure is permissive, so the benefits of any such change at a later stage should outweigh the costs. Some consultation respondents had argued that the requirement should extend to other operators; Ofcom has, at this time, decided not to extend the scope because it believes operators have other incentives to maintain mail integrity.
- The removal of the requirement to give notice ahead of changes is expected to have a small direct impact on Royal Mail; Ofcom considers that it removes a small administrative requirement. Ofcom notes that some consultation respondents were concerned that this change might affect businesses and consumers who rely on delivery at particular times, but points out that such responses largely focused on actual delivery times (rather than notice of changes to those times). As Royal Mail can already change delivery times on a daily basis without notice, Ofcom considers that those responses do not provide evidence of additional costs on business;
- The removal of complaints handling requirements for operators other than Royal Mail is expected to have very limited impact because the number of complaints to which these requirements apply is very small;
- The removal of the specific consumer protection requirement around delivery of packets in connection with regulated or universal services will have limited impact because Ofcom believes that there are other strong incentives to deliver reliably which act on regulated operators.

Quality of submission

As originally submitted, the impact assessment was not fit for purpose, because it did not describe the changes and their impacts clearly and fully. In particular, it did not explain clearly why Ofcom felt that the Access Framework changes, the

simplification of requirements on mail integrity and the removal of requirements to give notice around changes, were small process changes with limited impact. It also failed to discuss consultation responses that suggested these changes might impose costs. The revised assessment describes each measure clearly and discusses the consultation evidence in some detail, explaining convincingly why Ofcom believes the impact of each change will be small. The RPC is therefore able to validate the proposed (zero) EANDCB.

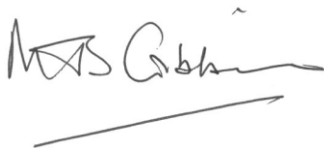
The revised assessment is also much more clearly expressed and – although it is less concise – works well as a standalone document accessible to the lay reader.

Departmental assessment

Classification	Qualifying regulatory provision
Equivalent annual net cost to business (EANCB)	£0.0 million
Business net present value	£0.0 million
Societal net present value	£0.0 million

RPC assessment

Classification	Qualifying regulatory provision
EANCB – RPC validated ¹	£0.0 million
Business Impact Target (BIT) Score ¹	£0.0 million
Small and micro business assessment	Not required



Michael Gibbons CBE, Chairman

¹ For reporting purposes, the RPC validates EANDCB and BIT score figures to the nearest £100,000.