



# Postcode Address File

Review

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Consultation

Publication date: 7 February 2013

Closing Date for Responses: 21 March 2013



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## Section 1

# Introduction

## The Postcode Address File

- 1.1 The Postcode Address File, abbreviated as 'PAF', is a database containing every address that can receive mail (i.e. every 'delivery point') in the UK. It contains 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 and street names. It includes around 1.4 million business names and details of around 200,000 vacant properties. It does not contain the names of individuals living at a particular address, addresses for places such as parks, etc. It also does not contain details of every individual property – for example, where a building contains a number of flats that share a single letter box, this will be listed as a single delivery point in PAF.
- 1.2 Royal Mail currently owns PAF and maintains it so that it reflects the postcode addresses which are 'live' for receiving mail. It makes the file available to other users.

## The uses of PAF

- 1.3 PAF was developed for and is integral to providing postal services. It is used by Royal Mail to sort, sequence and deliver mail. Other postal operators (and organisations processing or sending mail in bulk) depend on it to sort their mail when using Royal Mail access or bulk mail products.
- 1.4 Over time PAF has developed to support the delivery of a wide range of non-postal services across the UK public and private sectors. There are around 37,000 end-users<sup>1</sup> of PAF, the vast majority of which are outside of the postal sector.
- 1.5 Products based on PAF data are used in many sectors including publishing, media, utilities, retail and financial services. PAF data is central to business applications such as:
  - database management and data cleansing<sup>2</sup>;
  - address capture<sup>3</sup> (for example, the auto-completion of address information based on a postcode and property number when entering an address into a website);
  - identification;
  - insurance premium calculations;
  - mapping; and
  - marketing and market research.

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<sup>1</sup> Royal Mail defines an end-user as a single legal entity.

<sup>2</sup> Data cleansing is the process of detecting and correcting (or removing) corrupt or inaccurate records from a record set, table, or database.

<sup>3</sup> Address capture software allows the user to enter a partial address or postcode in order to obtain a full address. It can ensure consistent addressing and provides a shortcut – by speeding up and reducing errors from manually inputting full addresses.

- 1.6 Millions of citizens interact directly with solutions incorporating PAF data when shopping online, largely through the 'address look up' used in completing a billing or delivery address, or when accessing location information.

## Access to PAF

- 1.7 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).
- 1.8 Royal Mail makes PAF available through a licensing regime whereby end-users pay licence fees in order to use PAF data, either directly to Royal Mail or indirectly via resellers of products which incorporate PAF data.<sup>4</sup>

## The current regulatory framework

- 1.9 The previous postal regulator, Postcomm<sup>5</sup>, completed a review of PAF in 2007, followed by a further review in 2010/11.<sup>6</sup>
- 1.10 Their 2007 review set a 'co-operative' regulatory approach to PAF (which was essentially retained following the later 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.
- 1.11 Postcomm's 2010/11 review concluded that any over achievement of the profit target should be considered cumulatively over 3 years and linked to a three year cycle of agreed investment and/or agreed return of "excess" profits to customers.

## The driver and scope for our review

- 1.12 We are reviewing PAF following a direct request from the UK Government. In November 2011, Ed Davey MP, then Government Minister for Postal Affairs, wrote to us requesting that we conduct a review of PAF's pricing and licensing framework and suggesting that our review should seek to:
- ensure the licensing framework incentivises wider take up and use of PAF data;
  - ensure the data is made easily accessible to customers and users on reasonable terms;

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<sup>4</sup> In 2011/12, the cost of PAF was around £24.5 million, which is recovered entirely from PAF users. PAF revenues were £27.1 million.

<sup>5</sup> The Postal Services Act 2011 transferred regulatory responsibility for postal services from Postcomm to Ofcom, taking effect in October 2011.

<sup>6</sup> Postcomm, *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>

- 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.
- 1.13 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’).<sup>7</sup> 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 (which are discussed in the next Section).
- 1.14 In June 2012, we received a letter from Norman Lamb MP, the then new Postal Affairs Minister, requesting that Royal Mail’s cost base for PAF should be explicitly brought within the scope of our review.
- 1.15 As a result of our review, we are making proposals on two key aspects within the scope our review:
- we set out our preferred approach to the costs of PAF and the terms on which it is made available; and
  - we believe licensing framework should be simplified and propose a number of licensing ‘principles’ that Royal Mail should consider in creating the new licensing framework in 2013.

## Our proposals

- 1.16 Our proposals for the future regulation of PAF are set out in Sections 6 and 7 of this document. Sections 3, 4 and 5 provide the information on which we have based these proposals.
- 1.17 Our proposals focus on three areas:
- the allocation of the costs of PAF, and their recovery;
  - the pricing and licensing framework; and
  - our approach to the terms on which PAF is made available.
- 1.18 In terms of cost allocation and recovery, we propose that Royal Mail should continue to be able to recover all the costs of PAF from licensees.
- 1.19 On the pricing and licensing framework, we encourage Royal Mail to simplify the licensing regime as part of their current review of the pricing and licensing framework, supported by PAB.
- 1.20 With regard to the terms on which PAF is made available, we provide high level guidance as to the factors we may consider when assessing whether such terms – both price and non-price terms – are reasonable.

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<sup>7</sup> 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/>

## Section 2

# Legal framework

2.1 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 points<sup>8</sup> for the purpose of providing postal services.'*

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

## Ofcom's powers

2.3 Section 116 of the 2000 Act also sets out our powers in the regulation of 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 PAF.<sup>12</sup> If we do so, no term that contravenes the direction may be imposed under that provision.<sup>13</sup>

2.4 We may also direct Royal Mail to issue, and comply with, a code of practice dealing with the making of revisions to PAF or to make such modifications of the code as are specified in the direction.

2.5 On 1 October 2011, we made a direction under this provision.<sup>14</sup> 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

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<sup>8</sup> 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.

<sup>9</sup> 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.

<sup>10</sup> Section 116(1) of the 2000 Act.

<sup>11</sup> Section 116(4) of the 2000 Act.

<sup>12</sup> 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>

<sup>13</sup> Section 116(6) of the 2000 Act.

<sup>14</sup> *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.

- 2.6 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 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

- 2.7 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

- 2.8 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.<sup>15</sup> 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 period<sup>16</sup> and for its provision to continue to be efficient at all subsequent times.
- 2.9 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.
- 2.10 We note in this regard that in a letter dated 15 April 2011 to Ofcom and Postcomm<sup>17</sup>, the Secretary of State set out the government's view that the words 'reasonable' and 'commercial' in section 29(4) seek simply to ensure clarity that, where Ofcom deems it appropriate, it should take into account private sector international operators in the postal market, their respective levels of efficiency and the different markets they are operating in, as well as regulated commercial companies in other regulated sectors.

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<sup>15</sup> 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.

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

<sup>17</sup> The letter is published on BIS' website at: <http://www.bis.gov.uk/assets/biscore/business-sectors/docs/p/11-874-postal-regulatory-framework-letter-to-ofcom-postcomm>

## Ofcom's general duties

- 2.11 Section 3 of 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.
- 2.12 This principal duty applies also to functions carried out by us in relation to postal services.<sup>18</sup> Section 3(6A) of the 2003 Act provides that the duty in section 29 of the 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.
- 2.13 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.
- 2.14 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.
- 2.15 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.
- 2.16 In this regard, we note our general regulatory principles<sup>19</sup> 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

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<sup>18</sup> 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.

<sup>19</sup> <http://www.ofcom.org.uk/about/what-is-ofcom/statutory-duties-and-regulatory-principles/>

- consulting widely with all relevant stakeholders and assessing the impact of regulatory action before imposing regulation upon a market.
- 2.17 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.

## General impact assessment

- 2.18 The analysis presented in this document represents an impact assessment, as defined in section 7 of the 2003 Act.
- 2.19 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.<sup>20</sup>
- 2.20 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 what we propose.

## Equality Impact Assessment

- 2.21 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.
- 2.22 Such equality impact assessments also assist us in making sure that we are meeting our principal duty under section 3 of the 2003 Act.
- 2.23 We have therefore considered what (if any) impact the proposals in this consultation 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.

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<sup>20</sup> *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](http://stakeholders.ofcom.org.uk/binaries/consultations/better-policy-making/Better_Policy_Making.pdf)

## Section 3

# Creating and maintaining PAF

## The elements that comprise delivery point data

- 3.1 As set out in Section 2, PAF is defined as the collection of ‘relevant information’ defined as ‘*postcodes in the United Kingdom which may be used to facilitate the identification of delivery points for the purpose of providing postal services*’.
- 3.2 In its 2007 review<sup>21</sup>, Postcomm interpreted ‘postcodes’ as both the familiar alpha numeric codes themselves plus the additional pieces of information that are needed to give those codes meaning: elements such as delivery point suffixes and the unique delivery point reference number (‘UDPRN’)<sup>22</sup>, thereby enabling them to identify delivery points. This was because the alpha numeric postcodes themselves are likely to cover a number of different properties, and a property may comprise more than one delivery point (for example, a block of flats, wherein each has their own letter box).
- 3.3 Postcomm considered which elements within PAF (at that time) were typically used to identify delivery points and included them within its definition of PAF. These elements are listed at Annex 5. We agree that all these elements are needed to identify delivery points.

## The PAF datasets

- 3.4 Royal Mail provides access to a **full** PAF file and **partial** PAF file.<sup>23</sup> The main difference between them is that the partial file excludes property numbers and business names. PAF data in its raw form is a comma separated variable delimited text file; it is unprocessed, with no additional software.
- 3.5 Other addressing datasets are made available, for which Royal Mail make a separate charge, including:
- a **not yet built** file which contains records of properties planned and under construction;
  - a **just built** file which lists the properties that have just become live for mail<sup>24</sup>; and
  - a **multiple residence** file which identifies separate dwellings or businesses that sit behind a single, shared delivery point.
- 3.6 In the remainder of this document, our references to PAF equate to the **full** PAF file.

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<sup>21</sup> <http://stakeholders.ofcom.org.uk/binaries/post/1263.pdf>

<sup>22</sup> An eight character numeric code allocated to each Delivery Point as a unique identifier.

<sup>23</sup> See

[http://www.postcodeaddressfile.co.uk/products/postcode\\_address\\_file\\_paf/paf\\_product\\_detail.htm](http://www.postcodeaddressfile.co.uk/products/postcode_address_file_paf/paf_product_detail.htm)

<sup>24</sup> This information, available each month, is effectively an extract of information from the full PAF file.

## How the data in PAF is created and maintained

### Royal Mail's role in address creation

- 3.7 The address creation process involves the Land Registry providing data on a relevant land transaction and local authorities then handling most of the remaining stages including planning, design approval, demolition and archiving. Local authorities have responsibility for naming new roads.
- 3.8 Each local authority is responsible for the creation and maintenance of a database of addresses for their local authority area, called the Local Land & Property Gazetteer (LLPG). Local Authorities have the power to create and amend official street names, property numbers or names. This address information is passed to Royal Mail whose role in address creation is to assign a postcode to the street name and number. Royal Mail pays £1 to local authorities for each address entry.<sup>25</sup>
- 3.9 Royal Mail also consults on changes to existing postcode addresses. The process (including the consultation undertaken) is set out in their PAF Code of Practice.<sup>26</sup>

### Maintaining PAF data

- 3.10 Royal Mail's AMU maintains the information in PAF. The majority of the updates are from Royal Mail Operations – though some are provided to Royal Mail by local authorities and also by customers directly.
- 3.11 Royal Mail Operations' updates are sourced by the postmen and women who 'validate' the delivery points which are live for mail during their delivery walks. These delivery staff report updates on their return to the local delivery office, which passes these updates to AMU's Address Maintenance Team. The latter team then verify these changes and update PAF accordingly.
- 3.12 The updates can include:
- a postcode address becoming live for mail (i.e. a new building that now has a letterbox);
  - changes to the number of delivery points at a particular property (for example, a block of flats converting from a single shared to individual letterboxes);
  - a new business at a particular address or a change in a business name;
  - vacant properties (which are not considered 'live' for mail); and
  - properties now demolished.
- 3.13 There are an estimated 3,000 updates a day to PAF.<sup>27</sup> Royal Mail records these updates on the basis of whether they are 'additions', 'amendments' or 'deletions' to delivery points.<sup>28</sup> It also notes the updates according to the categories below.

<sup>25</sup> This is separate from any payment made by a local authority for the use of an addressing product containing a postcode, and incurring a PAF licence fee.

<sup>26</sup> See <http://www.royalmail.com/sites/default/files/Royal-Mail-PAF-Code-of-Practice.pdf>

**Figure 3.1: Reasons for total PAF delivery point changes - June 2012**

Reason	Number
New property	16,353
Corrections	40,374
Demolition	748
Coding revision	1
Change of organisation/business name	82
Change of status	0
Large user moving or ceasing to trade	2,676
Change of name, number or sub-building name	52
Change of address of large user	0
<b>TOTAL</b>	<b>60,286</b>

- 3.14 As Figure 3.1 shows, most of the delivery point changes to PAF are 'Corrections', followed by changes related to new property. 'Corrections' represent changes to addresses, such as a householder changing the name of a house, or a business expanding into a neighbouring office, reducing two delivery points to one.

### How the data is supplied

- 3.15 PAF data is supplied either by physical CD, or by electronic file transfer (FTP). Depending on the type of licence purchased, updates to the PAF file are provided bi-annually, quarterly, monthly or daily.
- 3.16 Within the AMU team that deal with updates and amendments to PAF data there are a number of employees who deal with licensing queries.
- 3.17 In addition, the AMU provides a website dedicated to compliance with PAF licensing, central to which is their Compliance Engine<sup>29</sup>, providing training and support for licensees in understanding their licence and the potential uses for PAF. PAF data is accessible to a limited extent for free via the Royal Mail website – members of the public may look up a maximum of 10 addresses each day.

### Quality issues

- 3.18 PAF was developed for the purpose of delivering mail – specifically, to help Royal Mail to ensure that it knows of, and could deliver to, every single address in the UK,

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<sup>27</sup> According to PAB – figures quoted in their 4 October 2012 licence consultation at [http://www.pafboard.org.uk/documents/PAF\(12\)29%20LICENCE%20CONSULTATION%20SEPTEMBER%202012.pdf](http://www.pafboard.org.uk/documents/PAF(12)29%20LICENCE%20CONSULTATION%20SEPTEMBER%202012.pdf).

<sup>28</sup> See *PAF statistics (updated 25 June 2012)* at [http://www.royalmail.com/sites/default/files/062012\\_Delivery\\_point\\_changes.pdf](http://www.royalmail.com/sites/default/files/062012_Delivery_point_changes.pdf)

<sup>29</sup> <http://www.pafcompliancecentre.com/>

thereby fulfilling its obligation to provide a universal service. This has shaped the nature and quality of PAF: the high level of completeness of address data results from its obligation to provide a universal service.

- 3.19 The history and development of PAF also explains some of its perceived shortcomings: 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.<sup>30</sup> Similarly, PAF does not provide details of individuals – only delivery points and postcode addresses. PAF does not provide details of places that do not have mail delivered to them, such as parks, nor does it list individual properties or households in multi-occupancy dwellings that share a common letterbox, as this will be listed in PAF as a single delivery point.
- 3.20 Royal Mail Operations provides extensive support to the AMU. Postmen and women verify address data while they deliver mail; this information is fed back to the AMU which then updates the PAF database accordingly. This regular feedback on changes to delivery points and postcode addresses is the most significant contributor to the integrity of PAF, and so is the cost of this activity to the total cost of maintaining PAF.
- 3.21 The Service Level Agreement between the AMU and Royal Mail Operations provides incentives for the integrity of the data captured by Royal Mail Operations in two ways. Firstly, it contains targets for the number of Delivery Offices that provide regular, monthly updates to PAF; and secondly, it codifies a rolling validation programme, that ensures that each delivery route is verified at least once per year. These targets apply to the quality of data provided by Royal Mail Operations to the AMU.
- 3.22 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, the AMU, to maintain the PAF database to a high standard. 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.
- 3.23 The completeness and quality of PAF data is also important to other users of PAF. As such, we are interested to hear from respondents whether the publication of data on the completeness and accuracy of PAF data, and perhaps the setting of targets against which to benchmark these measures, would be beneficial for the wider take-up and use of PAF, or in growing the user base for PAF.
- 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.*
- 3.24 In addition, the commercial nature of the licensing framework provides incentives for Royal Mail to improve PAF data quality and to innovate – for example, to develop a more complete database of business names linked to addresses.

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<sup>30</sup> We understand from stakeholders that most PAF licensees that make use of a directory of business names and addresses acquire the business name data from sources other than PAF.

## Possible substitutes to PAF

- 3.25 In 2012, PAB commissioned a report into the economic value of PAF, part of which examined the suitability of possible substitutes to PAF.<sup>31</sup> The report concluded that none of the possible alternatives in existence at that time were appropriate to replace PAF in their then current form. The report identified that the National Address Gazetteer<sup>32</sup>, local authority property and street gazetteers were all based in some way on PAF, and that they therefore couldn't replace it. Telephone directory services, such as the Phone Book and directory enquiry services, based on BT's OSIS<sup>33</sup> database, exist primarily to relate people to telephone numbers, rather than to identify addresses, and therefore didn't include all of the data required, with some additional data that was not necessary. The report also considered the Electoral Roll to be insufficiently complete for the purpose of replacing PAF.<sup>34</sup>
- 3.26 The development of an alternative remains a possibility – if the quality or completeness of PAF data were to deteriorate, or if prices for access to PAF increased significantly. Such an alternative could, in theory, provide competition to PAF, encouraging improved quality and innovation, constraining prices, and ultimately benefitting consumers. However, we think that the development of an alternative to PAF is unlikely in the foreseeable future – the ubiquity of PAF as a source of addressing data the national address dataset provides synergies between companies whose location-related tools are based on the same address data. In addition, the PAB-commissioned report assessed the possibility of the future development of an alternative to PAF, and identified that significant investment would be needed to develop an alternative, with no guarantee of a return on such an investment.

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<sup>31</sup> PAF Advisory Board, *Estimating the Economic Value of PAF*  
[http://www.pafboard.org.uk/documents/PAF\(12\)24%20Estimating%20the%20Economic%20Value%20of%20PAF.pdf](http://www.pafboard.org.uk/documents/PAF(12)24%20Estimating%20the%20Economic%20Value%20of%20PAF.pdf)

<sup>32</sup> The National Address Gazetteer is a database of spatial addresses.

<sup>33</sup> The OSIS database is the UK's telephone directory database, owned and maintained by BT.

<sup>34</sup> Further analysis of the current possible alternatives to PAF can be found at page 16 of the above report.

## Section 4

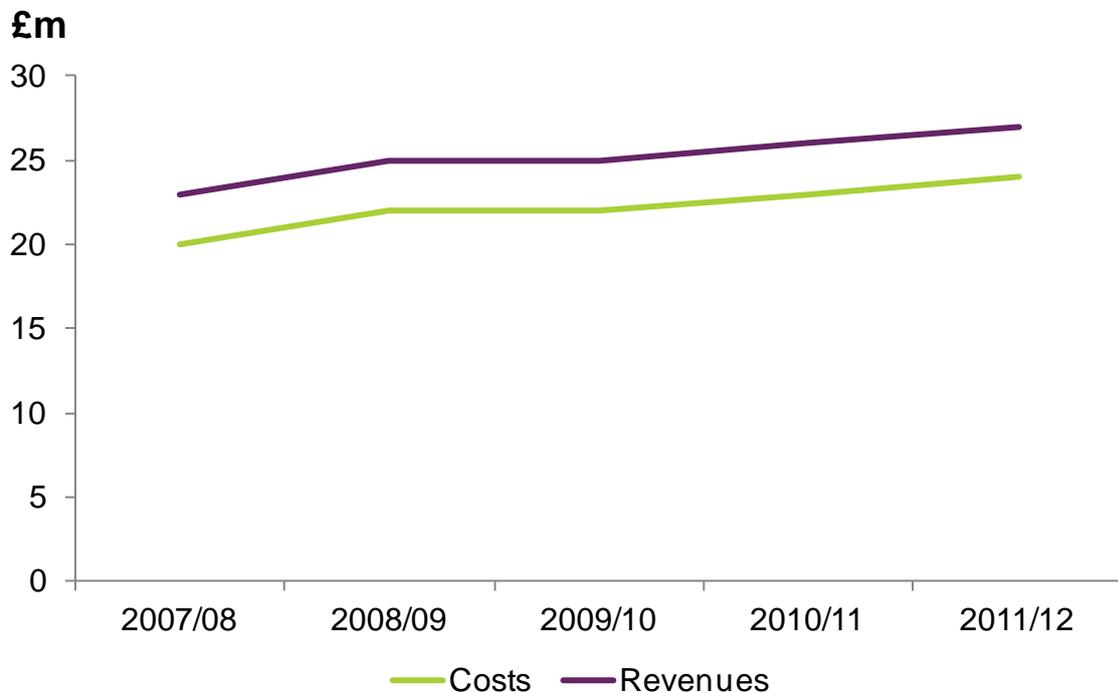
# The cost base

## The cost base

4.1 Royal Mail has published the revenues and total costs of PAF in their regulatory financial statements from 2007/08 onwards. In 2011/12 Royal Mail estimated the total cost of the PAF service to be £24.5m.

4.2 Figure 4.1 below shows the total costs and revenues over the period which Royal Mail has reported the costs of PAF. Although the costs increase over time, from 2008/9 to 2011/12 the increase was below RPI.

**Figure 4.1: total revenue and costs of PAF, 2007 - 2012**



4.3 The costs base of PAF can be broken down into five broad areas. Figure 4.2 below shows the costs allocated to PAF for 2011/12.

**Figure 4.2: 2011/12 PAF cost stack**

Costs allocated to PAF	£m
AMU direct costs	[X]
Customer services	[X]
Frontline costs	[X]
Delivery management	[X]
Legal, property, billing and IT	[X]
<b>Total</b>	<b>24.5</b>

4.4 These costs can be divided into two categories:

- those costs which would be incurred by Royal Mail, absent the provision of the PAF product, in order to fulfil its obligations under the universal service ('internal costs'); and
- those costs which are incurred as a result of making PAF available to other users ('external costs').

4.5 The internal costs comprise the significant majority part of the total costs of PAF. They include the frontline costs, delivery management and customer service costs, all of which are incurred in obtaining the data to maintain PAF and incorporating it in to the database. In addition, a significant portion (but not all) of the costs listed as 'Legal, property, billing and IT' costs would be considered to be internal costs, where they relate to the people, buildings and equipment which contribute to the composition and maintenance of the PAF database. All of these costs are currently recovered from licensees as part of their licence fee.

4.6 The external costs consist mainly of the support provided by AMU to handle licensing and related queries, and the costs of managing the provision of PAF data – people costs, legal costs around licensing, and the costs of buildings and equipment used in the provision of PAF to other users and of support for licensees. These costs are a minority portion of total PAF costs, and are currently recovered from licensees.

### Frontline costs and delivery management costs

4.7 The largest proportion of the PAF cost stack is the cost of frontline staff, allocated to PAF. These costs make up [X] of the PAF cost stack and represent the costs of Royal Mail Operations delivery staff correcting, updating and validating the PAF.

4.8 As set out in Section 3, much of the data used to maintain the PAF database is provided by Royal Mail Operations staff – postmen and women who record addressing information and amendments while delivering mail. This data is then received by the customer services team who validate the data and make the necessary changes.

- 4.9 Royal Mail allocates a proportion of salaries of postmen and women to PAF in order to reflect the time spent on PAF. The 2011/12 Service Level Agreement between AMU and Royal Mail uses an estimate of [X] minutes per week per walk to represent the time spent by each postman or woman verifying address data to pass on to the AMU. This was based on a time and motion study conducted by Royal Mail, which looked into how much time staff spent on different tasks, and represents an increase to the [X] minutes estimated several years ago. The increase was driven in part by a decrease in the total number of walks and an increase in the length of time spent on PAF-related activity within each walk.
- 4.10 The total cost allocated to PAF in 2011/12 was [X]. In addition, a further [X] of costs represent management support at the Delivery Office for frontline activity ('delivery management costs').
- 4.11 These costs represent the incremental costs of providing the PAF service. This appears to us to be a reasonable general approach for allocating the costs of postmen and women to PAF, as it is based on the time and motion study as set out above.

### Customer services

- 4.12 Part of the work undertaken by Royal Mail's Customer Experience team involves verifying and making amendments to PAF, based on data provided by Royal Mail Operations' delivery staff, and local authorities. This includes corrections to PAF, changes to reflect new properties and changes of business names and locations. This is defined as 'Customer services' by the AMU.
- 4.13 Costs relating to contact centre staff in relation to the PAF product account for around [X] of the costs of PAF. The cost is allocated to PAF based on analysis of the number of hours which are spent on PAF-related activity. Royal Mail has informed us that the analysis will be refreshed and the update will be applied in 2012/13.

### AMU direct costs

- 4.14 The direct costs of AMU of [X] represent staff costs and non-staff costs attributable to the AMU. This represents around [X] of the costs of providing the PAF service.
- 4.15 AMU staff deal with, amongst other things, licensing queries from service providers and direct licensees and commercial enquiries from potential new licensees. The direct costs of providing the service are wholly allocated to the cost stack, whereas costs such as office space for AMU staff are allocated on the split of staff costs.
- 4.16 Some of the AMU direct costs are internal – where staff are engaged in maintaining PAF, and would need to continue to do so were PAF not made available to other users. Some of these costs are external, such as time spent dealing with licensing queries and commercial enquiries – costs which are directly related to making PAF available to others.

### Legal, property, billing and IT costs

- 4.17 PAF also receives an allocation of legal, property, billing and IT costs. These are allocated using the following basis:

- legal costs are allocated based on the time spent on individual cases relating to PAF;
- property and equipment are allocated based on headcount;
- 90% of the billing costs incurred are allocated to PAF based on time spent on PAF-related billing activity; and
- shared hardware and software are allocated based on an assessment of use for PAF-related activity.

4.18 We have examined the methodologies for the allocation of these costs and we understand them to have been reasonably allocated.

4.19 Like the AMU direct costs, a portion of these costs is internal, and a portion is external. For example, the IT costs relating to computer equipment used in the maintenance and updating of the PAF database would be internal; the majority of the billing costs allocated to PAF are external, as they largely relate to the billing of licensees.

## Summary

4.20 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.

4.21 Based on confidential information provided to us by Royal Mail, we have examined the methodology for the allocation of each of the above allocated costs. The costs have been allocated according to estimates of the amount of time spent on PAF-related activities, or (for buildings and equipment) the amount of use pertaining to PAF-related activities. This methodology for allocating costs is one of a number of possible methodologies used for the allocation of costs, and our analysis leads us to believe it is reasonable.

## Section 5

# The pricing and licensing framework

## Introduction

- 5.1 In this Section, we set out our view of the pricing and licensing framework. In doing so, we discuss:
- who uses PAF;
  - how users access PAF data, i.e. via the supply chain; and
  - the licensing framework including the fees for different licence types (we cover this in detail due to its complexity).
- 5.2 We also discuss why we believe there is an opportunity to simplify the regime and also consider the concept of licensing principles, which are used by Government for licensing publicly owned data. We then explain our proposal that Royal Mail should consider applying these licensing principles (through its own consultation with users) as it designs the details of the new PAF licensing regime in later this year

## PAF user base

- 5.3 There are around 37,000 end-users of PAF. Usage of PAF is spread across many sectors as show in Figure 5.1 below. As a group public sector organisations are major users of PAF based products<sup>35</sup>, as are businesses involved in financial services, publishing, retail and distance selling.

**Figure 5.1 - Percentage of PAF licence revenues by type of end-user, 2010-11<sup>36</sup>**

Sector	%
Distance selling	10.8%
Education	3.2%
Financial services	17.3%
Government & Health	19.0%
Manufacturing	4.6%
Media & co-suppliers	3.2%
Other business	10.8%
Publishing	12.4%
Retail	10.7%
Utilities	4.4%
Wholesale & distribution (including mail operators)	3.6%

- 5.4 Organisations of all sizes use PAF based products – from very large businesses in the banking, utility and insurance sectors to small businesses.<sup>37</sup> Around 55% of PAF end-users are organisations with less than 10 employees.<sup>38</sup>

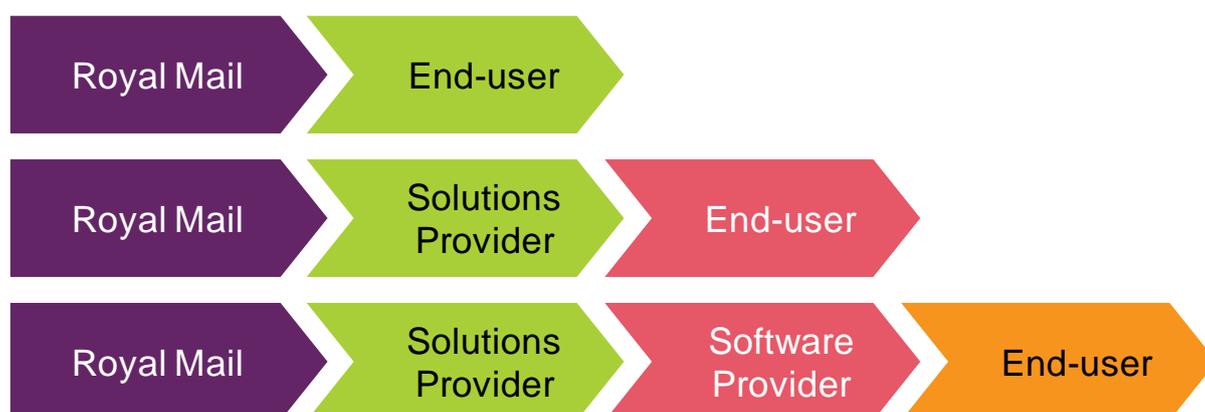
<sup>35</sup> Around 2,000 public sector organisations use PAF.

<sup>36</sup> From a report by the PAF Advisory Board (based on work by ESL & Network, Europe Economics, and Data Advance), *Estimating the Economic Value of PAF*, September 2012 - [http://www.pafboard.org.uk/documents/PAF\(12\)24%20Estimating%20the%20Economic%20Value%20of%20PAF.pdf](http://www.pafboard.org.uk/documents/PAF(12)24%20Estimating%20the%20Economic%20Value%20of%20PAF.pdf)

## The supply chain

- 5.5 End-users access PAF data either directly from Royal Mail or via intermediaries. Some direct end-users pay licence fees to Royal Mail to access raw PAF data which they are allowed to incorporate in their own business tools.
- 5.6 Around 95% of PAF revenues are generated indirectly from end-users accessing PAF via resellers, commonly known as solution providers.<sup>39</sup> There are around 250 solution providers licensed by Royal Mail to use, modify and combine PAF datasets into value-added products such as customer relationship management systems. The PAF fees of end-users are included in the charges for PAF-based products sold by these solution providers (who pass the fees to Royal Mail).
- 5.7 In some cases, the supply chain also includes software providers or similar organisations, who licence PAF data from a solution provider and embed the data into a software package for end-users. Figure 5.2 below illustrates the potential supply chains for PAF:

**Figure 5.2: examples of PAF supply chains**



## Licence agreements

- 5.8 PAF is distributed by Royal Mail via the terms of a generic 'data supply agreement' which covers the medium of provision, i.e. FTP or CD, as well as the frequency of data updates.
- 5.9 The use of PAF and the permission to license end-users is covered by Royal Mail's separate 'data licence agreement'. Royal Mail administers the licences for its direct end-users, including corporate group licences, the latter of which is a particular licence type.
- 5.10 Solution providers license end-users to access PAF based solutions via generic terms. They are responsible for administering the licences for these users.

<sup>37</sup> We also note that Royal Mail itself as a user of PAF pays a licence fee to AMU.

<sup>38</sup> From the open meeting presentation at PAB 17 January 2012 - slide 11 [http://www.pafboard.org.uk/documents/OPEN%20MEETING%20\(slides\).pdf](http://www.pafboard.org.uk/documents/OPEN%20MEETING%20(slides).pdf). Slide 12 also shows that around 85% of end-users have a turnover of more than £250k.

<sup>39</sup> PAF solution providers include Experian QAS, GB Group/Capscan, AFD Software Ltd, Postcode Anywhere, Ordnance Survey, Hopewiser Ltd, Allies Computing etc. A full list of resellers can be searched at <http://www.poweredbyfaf.com/end-user/>

## The licensing regime

5.11 PAF licence fees vary depending on whether the licensee wishes to:

- access the full PAF file or partial file (the latter excludes building numbers and business names);
- use data for specific postcodes or access national data for postcodes; and
- receive daily, monthly or less frequent updates to the data.

5.12 The fees also vary according to the type of licence required, as set out below.

### The model for data licences and associated fees

5.13 The typology of the licences is itself a complex area. The data licence agreements model provides for two approaches to pricing: user-based licensing and transactional licensing.

- With user-based licensing, a 'user' is defined as a particular terminal or workstation – the people sharing that terminal or workstation are treated as one user – and the licence allows unlimited use from that terminal. User licences are available individually or in multiple user blocks.
- Transactional licensing is based on a per-transaction or 'per-click' model. These licences can be 'per-click', bought in blocks of 100, or for unlimited numbers of transactions within the legal entity.

5.14 Licences also vary by internal and external use.

- Internal use licences only permit the user to use PAF for internal purposes, for example when an employee of a company uses PAF to look up a customer's address; PAF data cannot be shared with another legal entity.
- External use licences permit use of PAF which involves sharing that data with persons or bodies outside of the licensed legal entity – for example, when a customer fills in a web form to order goods online, and uses the 'address look-up' function to search for and complete their address.

5.15 Further, there are different rates for single legal entities, and multiple legal entities such as groups of related companies forming corporate groups. Figure 5.3 sets out some of the licence variations available for the data licensing agreement.

**Figure 5.3: Data licence agreement types and fees**

	Internal use For example in a call centre	External use For use online	
Single Legal Entity	Per Transaction (click) Shared across the entity <small>per transaction</small>	8p	
	OR Per User Unlimited annual use for a single terminal <small>per User</small>	£75	
	Multiple User Blocks For more than 300 users Upto 3 Multiple User Blocks	£4,125	
Multiple Legal Entities	Corporate Groups	£90,000	
	Associate, Broker and Extended Use Groups	Upto £49,500	
		Per Transaction (click) <small>per transaction</small>	1p
		OR Unlimited Transactions Fixed annual fee <small>per User</small>	£4,000
		Corporate Groups	£45,000

Source: Royal Mail

5.16 The following examples below are used in order to illustrate the complexity of the licensing regime, as applied to different practical scenarios.

a) **User based fee for a call centre.**

A call centre has 50 employees sharing 15 PCs and one copy of PAF on a single application. It would buy 15 user licences @ £75 = £1,125

b) **A mix of user and transactional fees for a retailer.**

The retailer has 280 internal users on one system and also a website offering goods and services with an unforeseeable number of transactions. It would buy a block of 300 users at £4,125 and an unlimited transaction fee at £4,000 = £8,125.

c) **Options for a small office.**

A three person office, each with a separate user, with a variety of PAF internal use e.g. User 1 has 1,500 transactions, User 2 has 750 transactions and User 3 has 250 transactions. They have 3 options potentially:

i) 3 users @ £75 each = £225

ii) or 2,500 transactions @ 8p each = £200

iii) Or 1 user @ £75 + 1000 transactions @ 8p each = £155

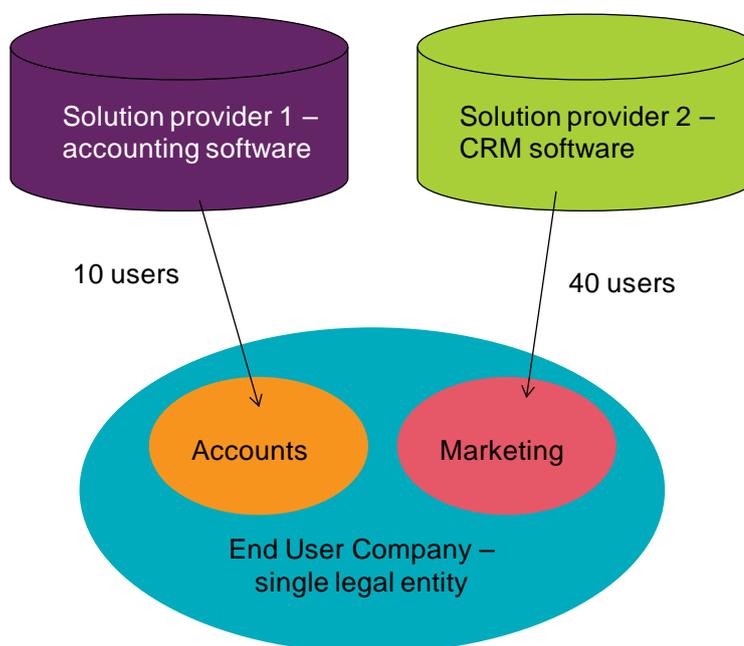
5.17 In addition, Royal Mail has specific licence terms for market research uses and for bureau services – organisations who cleanse databases for PAF end-users. Bureaus pay a fee depending on the volume of records they cleanse and process in third party databases.

- 5.18 Royal Mail offers free, limited usage of PAF for developers. Once the product in development is commercially viable, it is subject to a PAF licensing fee.<sup>40</sup>

### Multiple licences for different uses

- 5.19 Royal Mail's model can mean that some organisations potentially have to pay for multiple licences for accessing PAF, in cases where organisations use PAF based products for different purposes.
- 5.20 One example – shown in Figure 5.4 below – is a user having access to a marketing/CRM related product from one solutions provider and an accounting based product from another provider. This means that a single user is accessing PAF data for two different business applications within the same legal entity which has required the payment of two PAF licence fees.

**Figure 5.4: licensing an organisation which uses PAF in two different ways**



### Non-price terms

- 5.21 As set out in paragraphs 2.5 to 2.6 above, we have directed that in providing access to PAF, Royal Mail cannot impose a term or condition other than reasonable restrictions to ensure (1) the intellectual property rights in the file (which currently vest with them) are protected; (2) the file and any updates are used in an appropriate manner to encourage good addressing; and (3) any reasonable charges are paid.
- 5.22 At present, our main concern with the non-price terms for PAF licensing is the way in which they are presented – we believe they are too lengthy. For example, the current data licence agreement for a direct end-user is 32 pages in length, and more than half of these pages are related to the non-price terms.

<sup>40</sup> We note that the postcodes in PAF (each with a precise geographical location) are made available free to view, download and use through an Ordnance Survey product, *Code-Point Open*. Additionally, postcode look-ups are available for non-commercial users on the Royal Mail website (up to 10 daily searches per day at no charge) - <http://www.royalmail.com/postcode-finder>

## Section 6

# Recovering the costs of PAF

## Introduction

- 6.1 In Section 4 we described the types of costs associated with the production and provision of PAF and concluded that the general approach used to allocate these costs to PAF were reasonable. Currently all these costs are recovered from the licensees of PAF (including Royal Mail). In this section we discuss whether this is appropriate.
- 6.2 We consider that the six principles of pricing and cost recovery established by Ofcom provide an appropriate basis for assessing how the PAF costs should be recovered. The six principles of pricing were developed by Oftel in the context of number portability, endorsed by the Monopolies and Mergers Commission<sup>41</sup> and have subsequently been used by Ofcom in analysing various pricing issues (see below).
- 6.3 As set out in Section 4, we have broken 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 a result of making PAF available to other users.

## Principles of cost recovery

- 6.4 The six principles of cost recovery are:
- **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.
- 6.5 The application of any one of these principles to the relevant circumstances can sometimes point in a different direction to other principles. But the set of principles provides a framework to identify such trade-offs and to facilitate the use of judgement to strike an appropriate balance in reaching conclusions.

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<sup>41</sup> *Telephone Number Portability: A Report on a reference under s13 of the Telecommunications Act 1984* (MMC, 1995):

[http://www.competition-commission.org.uk/rep\\_pub/reports/1995/374telephone.htm#full](http://www.competition-commission.org.uk/rep_pub/reports/1995/374telephone.htm#full)

- 6.6 We have also taken into account our primary duty under the 2011 Act, i.e. to ensure the provision of a financially sustainable and efficient universal postal service, and our general duties under the 2003 Act.

### **Cost causation**

- 6.7 The cost causation principle states that costs should be recovered from those whose actions cause them to be incurred at the margin. Since it is generally efficient for charges to reflect costs, it is usual to give most weight to this principle unless there are good reasons for not doing so in a particular case.
- 6.8 This principle suggests that:
- the internal costs of PAF should be recovered from Royal Mail's mail activities— as Royal Mail's primary reason for compiling and maintaining the PAF database is to enable its mail delivery business; and
  - the external costs of PAF should be recovered from the licensees of PAF as these costs are only incurred because Royal Mail is required to make PAF available to third parties.

### **Cost minimisation**

- 6.9 The principle of cost minimisation implies that cost recovery should facilitate productive efficiency by providing an incentive for costs to be minimised.
- 6.10 The voluntary profit cap applied to PAF has poor incentive qualities for cost minimisation. Conversely, delivery of core mail services have stronger incentive properties since there is no price cap on most services and the business that provides the universal service, the Reported Business, is subject to an obligation to become more efficient, which Ofcom monitors through a formal monitoring regime. Therefore, this principle would suggest that Royal Mail would have more incentives to minimise the costs of PAF if it were to recover these costs from its 'Reported Business' than from PAF users.

### **Effective competition and reciprocity**

- 6.11 Consistency with the principle of effective competition requires that costs should be recovered in such a way as does not undermine the pressure for effective competition. The principle of reciprocity requires that where services are provided reciprocally, charges should also be reciprocal.
- 6.12 The recovery of PAF costs from Royal Mail's postal services might create competition distortion. 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. If Royal Mail were to continue to provide PAF services to its competitors but recover the costs of PAF from its postal activities, it might be placed at competitive disadvantage as, all else being equal, its cost base would be higher than that of its rivals.
- 6.13 Application of this criterion would tend to augur against recovering PAF costs from the universal services, although we doubt that the approach to PAF cost recovery will result in material competitive distortions either way.

## Distribution of benefits

- 6.14 The principle of the distribution of benefits argues that those who benefit from a particular product or service should contribute to the cost of that product or service.
- 6.15 It is clear that the licensees of PAF derive a great benefit from the provision of PAF. As we have seen in Section 3, PAF is used by a large number of organisations of different sizes, in different sectors and for a wide range of activities. Given the current pricing structure the maximum paid by any one corporate entity is about £200k per year. The PAB review estimated the value of PAF to the UK economy to be nearly £1bn per year.<sup>42</sup> In that context the costs charged to PAF users of £25m appears reasonable.
- 6.16 This is consistent with a view that Royal Mail should continue to recover both the internal and external costs of PAF from licensees.

## Practicability

- 6.17 Consistency with this principle requires that cost recovery should be practicable and relatively easy to implement.
- 6.18 In terms of regulatory implementation, maintaining the status quo would be the most simple to implement, as it would not require a change from the current regime. Conversely, 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.

## Primary duty to secure the provision of the universal postal service

- 6.19 Section 29(1) of the 2011 Act requires us to carry out our functions in relation to postal services in a way that we consider will secure the provision of the universal postal service.
- 6.20 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. We consider that the most likely result of changing the cost allocation in this way would be to reduce Royal Mail's revenue from PAF by at least [X]. Royal Mail is currently largely free to set prices for mail services in order to maximise 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, with the consequence that 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 (e.g. by eroding the Royal Mail's ability to make a reasonable commercial rate of return).

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<sup>42</sup> Based on foregone revenue estimates and additional cost estimates. The full report can be found here:

[http://www.pafboard.org.uk/documents/PAF\(12\)24%20Estimating%20the%20Economic%20Value%20of%20PAF.pdf](http://www.pafboard.org.uk/documents/PAF(12)24%20Estimating%20the%20Economic%20Value%20of%20PAF.pdf)

<sup>43</sup> To the extent that the Royal Mail did increase its prices for postal services to compensate for the loss of PAF revenue, there would be a disbenefit to post consumers.

- 6.21 While in 2011/12 PAF's revenues of £27.1m are equivalent to only c.0.4% of the revenues of Royal Mail's UKPIL business unit, they are larger than the £23m operating profit made by that same business in the same year.
- 6.22 Therefore, we consider that our primary duty to secure the provision of the universal postal service suggests retaining the current cost recovery approach.
- 6.23 In addition to the primary duty, we have general duties as set out earlier in this document. These general duties, provided in Section 3 of the 2003 Act, require us to further the interests of citizens and consumers, where appropriate by promoting competition. We are also required to have regard to a range of other considerations as may be relevant in the circumstances. We consider our proposal to retain the current cost recovery approach is consistent with these duties. In particular, PAF has become an important service to the UK economy and is of significant benefit to government and citizens and to businesses and consumers. We consider that our proposals support the continuation of this service and increase incentives for innovation and investment.
- 6.24 As such, we consider that our general duties suggest retaining the current cost recovery approach.

### Proposal on cost recovery

- 6.25 In reaching our proposal we have 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 have not received any evidence that lower prices will 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.
- 6.26 Therefore, 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. This view is also consistent with the regulatory precedent set out by Postcomm in their 2007 review, and followed in their 2011 review.

### Open data debate

- 6.27 On 1 November 2011, the Open Data User Group (ODUG) published a paper which argued that PAF should be made available to everyone, and free at the point of use. ODUG argued that Royal Mail would have to incur the costs of maintaining a database of delivery points in order to fulfil its universal service obligations, regardless of whether it commercialised access to that database or not, and that therefore the internal costs of PAF should be recovered from within the universal service – that is to say, Royal Mail should absorb the costs of maintaining PAF as part of the costs of providing the universal service. The paper argues that any additional costs – those which we call external costs in this paper – should be covered by the Government, and indirectly, the taxpayers who would benefit from the data being open to all.

- 6.28 We understand that ODUG is currently preparing a paper for submission to the Data Strategy Board, which reports to the Cabinet Office, making the economic case for PAF to be an open data set. We understand that at this point in time Government has taken no view on this issue.
- 6.29 Our analysis in this document is based on the current business model for the provision of PAF. We have not analysed the cost recovery implications of any decision to make PAF an open data set. Should a decision be taken to make PAF available as an open data set, it is likely that we would consider it necessary to review again the options for the recovery of the internal and external costs of PAF.

*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.*

## Section 7

# Licensing and use of PAF

## Moving to simplify the complex licensing regime

- 7.1 Section 5 provides a very high level synopsis of the overall licensing framework – which combined with the lengthy documentation for price and non-price terms – reflects the complexity of the PAF licensing regime.
- 7.2 The complexity in the PAF licensing regime appears to be the result of an incremental approach adopted in their own licence reviews, which have been undertaken periodically in consultation with users. Royal Mail has often added further variants (and in doing so, complexity) to the regime to accommodate different users' needs and protect their revenues. However, a regime which is built on incremental changes is likely to become more complicated over time. Ultimately it risks confusing and deterring new users and usage due to its intricacy.
- 7.3 We understand that Royal Mail is in the process of reviewing the pricing and licensing of PAF. Alongside this work, the PAB is currently consulting on the licensing regime and its simplification, timed to support the review by Royal Mail.
- 7.4 We understand that Royal Mail has begun to explore several options which might simplify the regime, working closely with PAB – and that this will include considering evidence of how licensing works for postcode address datasets in other countries as well as for products in other sectors.
- 7.5 We would thus encourage Royal Mail to maximise this opportunity for renewal and consider with PAB and users generally how they could redesign the licensing framework so that it is simpler (and incentivises the use of PAF). The simplification of this complex regime should aim to encourage wider take-up and use of PAF, and to provide transparency to users and potential users around the pricing of access to PAF.

## Proposed principles for the new PAF licensing framework

- 7.6 We believe that the details of the licensing framework including whether it is a direct or indirect licence model; whether pricing is user and/or transactional; and any licence typology that exists alongside the regime – is best decided by Royal Mail working closely with users, solutions providers and the PAB.
- 7.7 We also believe Royal Mail should apply some principles and objectives as they undertake their licence review to help them design the details of the new licensing regime.
- 7.8 We consider that some principles which govern public sector data could be particularly relevant. The National Archives produce the UK Government Licensing Framework (UKGLF) which provides a policy and legal overview of the arrangements for licensing the use and reuse of public sector information both in central Government and the wider public sector. The UKGLF sets out best practice and a set of guiding principles for licensing the use of public sector information which are:

- **simplicity of expression** – the terms should be expressed in such a way that everyone can understand them easily;
- **non-exclusivity** – so that access can be provided to a range of users on fair and equal terms;
- **fairness of terms;**
- **non-discrimination** – the terms are extended fairly to all for similar uses;
- the need for **acknowledgement and attribution;** and
- the need for **transparency.**

7.9 These principles apply to the free use and reuse Open Government licence and Non-commercial Government licence. They can also be considered in those licences where charges are applicable.<sup>44</sup>

## Objectives of the licensing regime for PAF

7.10 Overall, we would stress the importance of the redesigned licensing framework incentivising the take-up and use of PAF data.

7.11 PAF is already central to postal and non-postal services in the UK and Royal Mail should build on this strong foundation by continuing to work with solution providers, developers and users to revise the licensing framework so that it encourages the full possible exploitation of PAF.

7.12 Therefore, we would encourage Royal Mail to consider making it an objective of the new licence regime to both grow the number of PAF end-users and also the actual use of PAF data, for example by:

- 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 .

7.13 If there is still a user element, Royal Mail may also wish to consider whether equating a user as a single 'terminal' discourages use given the increasing range of terminals now used in business contexts e.g. desktop PC, laptop, tablet and other mobile devices.

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<sup>44</sup> For example, to licences issued by Trading funds – Government departments which charge for the services they provide – such as the Ordnance Survey, Met Office and Land Registry.

## Terms on which PAF is made available

- 7.14 As set out in Section 3, the 2000 Act sets out that Royal Mail (as the current owner of PAF) must make PAF available to users on reasonable terms. It also provides us with the power to set a direction for Royal Mail as to the terms on which PAF is made available to users.
- 7.15 Currently, PAF prices are constrained by a voluntary profit cap of 8-10% of operating costs. As the PAF costs are largely fixed, Royal Mail has little incentive to grow the take-up and use of PAF, as to comply with the cap it would have to reduce its prices and would make no additional profit. The only way for Royal Mail to increase revenues from PAF is to increase operating costs.
- 7.16 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. As such, we consider it is not appropriate to retain the profit cap.
- 7.17 Given the monopoly position of Royal Mail in the provision of PAF data and therefore the risk of it being able to set excessive prices we have considered alternatives to the profit cap. However, any alternative would have to be suitable both for the current regime, and for the pricing and licensing framework following Royal Mail's current review of pricing and licensing.
- 7.18 Therefore, there is an incompatibility between the sequencing of the pricing and licensing framework review, and our current work on an alternative to the current profit cap. At this stage we do not feel it is appropriate for us 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.
- 7.19 Instead, we provide below some 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 await the conclusion of the pricing and licensing framework review, and will reconsider the issue of an alternative to the profit cap following this conclusion, if necessary. In any event, in setting its prices Royal Mail is required to comply with all applicable legislation, including competition law.

## Guidance on 'reasonable' terms

- 7.20 We propose 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

- 7.21 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.
- 7.22 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.

- 7.23 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.
- 7.24 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.
- 7.25 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.
- 7.26 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.

## **Non-price terms**

- 7.27 Stakeholders have told us that the most significant issue facing them is the length and complexity of the licensing terms. We understand from stakeholders that this is a barrier to both take-up and use of PAF, as set out above.
- 7.28 Beyond this issue, we have not been made aware of any significant cause for concern at the current time as to the non-price terms on which PAF is made available.

*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.*

## **Monitoring of PAF**

- 7.29 In our March 2012 statement, we set out our plans for the monitoring programme, which would allow us to follow the progress and development of both Royal Mail's financial and operational performance, and the postal sector more widely. As well as the annual monitoring review, published each autumn, we carry out regular internal monitoring. Our monitoring will now include PAF activities.
- 7.30 In addition, we consider it appropriate to review PAF alongside our review of the regulatory framework for postal services. In our March 2012 statement, we suggested that this would take place seven years from our 2011-12 review. We therefore propose that the framework for PAF should be included as part of this wider review of the regulatory framework for Royal Mail.

## Section 8

# Provisional conclusions

- 8.1 This consultation document sets out our proposals in three key areas.
- 8.2 Having analysed the regulatory options, we have 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.
- 8.3 With regard to licensing, we encourage Royal Mail to use their current pricing and licensing framework review to simplify the framework, making it more approachable for current and prospective users of PAF. We have proposed principles to which we hope Royal Mail will have regard when undertaking their framework review.
- 8.4 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 makes it difficult for us to consider an alternative such as a price cap; as such, we provide high-level guidance as to the factors we propose to consider when assessing the reasonableness of both the price and non-price terms on which PAF is made available.

## Annex 1

# Responding to this consultation

## How to respond

- A1.1 Ofcom invites written views and comments on the issues raised in this document, to be made **by 5pm on 21 March 2013**.
- A1.2 Ofcom strongly prefers to receive responses using the online web form at <http://stakeholders.ofcom.org.uk/consultations/postcode-address-file/howtorespond/form>, as this helps us to process the responses quickly and efficiently. We would also be grateful if you could assist us by completing a response cover sheet (see Annex 3), to indicate whether or not there are confidentiality issues. This response coversheet is incorporated into the online web form questionnaire.
- A1.3 For larger consultation responses - particularly those with supporting charts, tables or other data - please email [carina.tillson@ofcom.org.uk](mailto:carina.tillson@ofcom.org.uk) attaching your response in Microsoft Word format, together with a consultation response coversheet.
- A1.4 Responses may alternatively be posted or faxed to the address below, marked with the title of the consultation.
- Carina Tillson  
Floor 4  
Competition Group  
Riverside House  
2A Southwark Bridge Road  
London SE1 9HA
- Fax: 020 7981 3807
- A1.5 Note that we do not need a hard copy in addition to an electronic version. Ofcom will acknowledge receipt of responses if they are submitted using the online web form but not otherwise.
- A1.6 It would be helpful if your response could include direct answers to the questions asked in this document, which are listed together at Annex 4. It would also help if you can explain why you hold your views and how Ofcom's proposals would impact on you.

## Further information

- A1.7 If you want to discuss the issues and questions raised in this consultation, or need advice on the appropriate form of response, please contact Carina Tillson on 020 7981 3807.

## Confidentiality

- A1.8 We believe it is important for everyone interested in an issue to see the views expressed by consultation respondents. We will therefore usually publish all responses on our website, [www.ofcom.org.uk](http://www.ofcom.org.uk), ideally on receipt. If you think your

response should be kept confidential, can you please specify what part or whether all of your response should be kept confidential, and specify why. Please also place such parts in a separate annex.

- A1.9 If someone asks us to keep part or all of a response confidential, we will treat this request seriously and will try to respect this. But sometimes we will need to publish all responses, including those that are marked as confidential, in order to meet legal obligations.
- A1.10 Please also note that copyright and all other intellectual property in responses will be assumed to be licensed to Ofcom to use. Ofcom's approach on intellectual property rights is explained further on its website at <http://www.ofcom.org.uk/about/accoun/disclaimer/>

## Next steps

- A1.11 Following the end of the consultation period, Ofcom intends to publish a statement in May 2013.
- A1.12 Please note that you can register to receive free mail Updates alerting you to the publications of relevant Ofcom documents. For more details please see: [http://www.ofcom.org.uk/static/subscribe/select\\_list.htm](http://www.ofcom.org.uk/static/subscribe/select_list.htm)

## Ofcom's consultation processes

- A1.13 Ofcom seeks to ensure that responding to a consultation is easy as possible. For more information please see our consultation principles in Annex 2.
- A1.14 If you have any comments or suggestions on how Ofcom conducts its consultations, please call our consultation helpdesk on 020 7981 3003 or e-mail us at [consult@ofcom.org.uk](mailto:consult@ofcom.org.uk) . We would particularly welcome thoughts on how Ofcom could more effectively seek the views of those groups or individuals, such as small businesses or particular types of residential consumers, who are less likely to give their opinions through a formal consultation.
- A1.15 If you would like to discuss these issues or Ofcom's consultation processes more generally you can alternatively contact Graham Howell, Secretary to the Corporation, who is Ofcom's consultation champion:

Graham Howell  
Ofcom  
Riverside House  
2a Southwark Bridge Road  
London SE1 9HA

Tel: 020 7981 3601

Email [Graham.Howell@ofcom.org.uk](mailto:Graham.Howell@ofcom.org.uk)

## Annex 2

# Ofcom's consultation principles

A2.1 Ofcom has published the following seven principles that it will follow for each public written consultation:

### Before the consultation

A2.2 Where possible, we will hold informal talks with people and organisations before announcing a big consultation to find out whether we are thinking in the right direction. If we do not have enough time to do this, we will hold an open meeting to explain our proposals shortly after announcing the consultation.

### During the consultation

A2.3 We will be clear about who we are consulting, why, on what questions and for how long.

A2.4 We will make the consultation document as short and simple as possible with a summary of no more than two pages. We will try to make it as easy as possible to give us a written response. If the consultation is complicated, we may provide a shortened Plain English Guide for smaller organisations or individuals who would otherwise not be able to spare the time to share their views.

A2.5 We will consult for up to 10 weeks depending on the potential impact of our proposals.

A2.6 A person within Ofcom will be in charge of making sure we follow our own guidelines and reach out to the largest number of people and organisations interested in the outcome of our decisions. Ofcom's 'Consultation Champion' will also be the main person to contact with views on the way we run our consultations.

A2.7 If we are not able to follow one of these principles, we will explain why.

### After the consultation

A2.8 We think it is important for everyone interested in an issue to see the views of others during a consultation. We would usually publish all the responses we have received on our website. In our statement, we will give reasons for our decisions and will give an account of how the views of those concerned helped shape those decisions.

## Annex 3

# Consultation response cover sheet

- A3.1 In the interests of transparency and good regulatory practice, we will publish all consultation responses in full on our website, [www.ofcom.org.uk](http://www.ofcom.org.uk).
- A3.2 We have produced a coversheet for responses (see below) and would be very grateful if you could send one with your response (this is incorporated into the online web form if you respond in this way). This will speed up our processing of responses, and help to maintain confidentiality where appropriate.
- A3.3 The quality of consultation can be enhanced by publishing responses before the consultation period closes. In particular, this can help those individuals and organisations with limited resources or familiarity with the issues to respond in a more informed way. Therefore Ofcom would encourage respondents to complete their coversheet in a way that allows Ofcom to publish their responses upon receipt, rather than waiting until the consultation period has ended.
- A3.4 We strongly prefer to receive responses via the online web form which incorporates the coversheet. If you are responding via email, post or fax you can download an electronic copy of this coversheet in Word or RTF format from the 'Consultations' section of our website at [www.ofcom.org.uk/consult/](http://www.ofcom.org.uk/consult/).
- A3.5 Please put any parts of your response you consider should be kept confidential in a separate annex to your response and include your reasons why this part of your response should not be published. This can include information such as your personal background and experience. If you want your name, address, other contact details, or job title to remain confidential, please provide them in your cover sheet only, so that we don't have to edit your response.

**Cover sheet for response to an Ofcom consultation**

**BASIC DETAILS**

Consultation title:

To (Ofcom contact):

Name of respondent:

Representing (self or organisation/s):

Address (if not received by email):

**CONFIDENTIALITY**

Please tick below what part of your response you consider is confidential, giving your reasons why

Nothing  Name/contact details/job title

Whole response  Organisation

Part of the response  If there is no separate annex, which parts?

If you want part of your response, your name or your organisation not to be published, can Ofcom still publish a reference to the contents of your response (including, for any confidential parts, a general summary that does not disclose the specific information or enable you to be identified)?

**DECLARATION**

I confirm that the correspondence supplied with this cover sheet is a formal consultation response that Ofcom can publish. However, in supplying this response, I understand that Ofcom may need to publish all responses, including those which are marked as confidential, in order to meet legal obligations. If I have sent my response by email, Ofcom can disregard any standard e-mail text about not disclosing email contents and attachments.

Ofcom seeks to publish responses on receipt. If your response is non-confidential (in whole or in part), and you would prefer us to publish your response only once the consultation has ended, please tick here.

Name

Signed (if hard copy)

## Annex 4

# Consultation questions

- A4.1 We have included a number of specific consultation questions throughout this document and we would like you to consider these when responding. We have set out these questions below for ease of reference. However, we are not seeking to limit the issues on which respondents may wish to comment, and respondents are invited to include representations on any issues that they consider to be relevant.

*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.*

*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.*

*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.*

## Annex 5

## Definition of PAF

Fields in full PAF	COMMENTS
<b>Organisation Name</b>	The Organisation name is one of the elements that may be used to generate a postal address e.g. Lloyds TSB plc rather than 10 High Street. This may also be a company or firm's name.
<b>PO Box</b>	Details of users of the Post Office Box (PO Box) service are allocated a separate postcode to their normal geographic address and are held on PAF® to facilitate the identification and sortation of PO Box mail.
<b>Sub Building Name</b>	This field is used where a building number and / or building name exists and is subdivided into separate delivery points. Examples may include:- Flat, Apartment, Block, Maisonette, Suite or Unit.
<b>Building Name</b>	This field may contain: <ul style="list-style-type: none"> <li>• House names for properties without a premise number.</li> <li>• A Building name for a property that is occupied by an organisation/organisations.</li> <li>• If a delivery point has no known identifiable address other than the occupants Surname, the Surname is held in the building name field within brackets e.g. (Jones) but this is very uncommon.</li> </ul>
<b>Building Number</b>	This field holds the premise numbers where they exist.
<b>Dependent Thoroughfare</b>	A Dependant thoroughfare name may be required where two instances of the same name occur in an area.
<b>Thoroughfare</b>	Where an officially named thoroughfare name exists e.g. High Street, it will be held in this field.
<b>Dependent Locality</b>	A Locality name may be required to differentiate between duplicate road names within a local area or for routing and sorting purposes. A Locality name may have also been added as part of the PAF® Code of Practice process.
<b>Double Dependent Locality</b>	A secondary Locality name is sometimes required when there is duplicate road name within a Locality area. Locality names may have also been added as part of the PAF® Code process.
<b>Post Town</b>	The Post Town is also a clearing point for a particular district and is the basic unit of a Postal Delivery system.
<b>Postcode</b>	The Postcode is a combination of five and seven letters and numbers, which define four different levels of geographic unit 'Postcode Area', 'Postcode District', 'Postcode Sector' and 'Unit Postcode'. It is part of a coding unit created and used by Royal Mail across the UK for the sortation of mail. The Postcodes are an abbreviated form of address, which enable a group of delivery points (delivery point being a property or a post box) to be specifically identified. There are two types of postcodes large and small user Postcodes. Large User Postcodes are postcodes assigned to one single address. Small User Postcodes refer to a group of Delivery Points.
<b>Address/Organisation Keys</b>	The numeric address/organisation keys are fundamental to the PAF® database design and facilitate the identification and storage of addresses on PAF®.
<b>Alias Data</b>	The alias file holds details of address information e.g. building names, Thoroughfare, Locality and the County alias field contains up to three options of County names – former Postal, Traditional and Administrative County, which although not officially required are commonly used.
<b>Welsh Alternatives</b>	Welsh equivalent details are held for Thoroughfare and localities, where they exist.
<b>UDPRN</b>	An eight character numeric code allocated to each Delivery Point as a unique identifier.