

# Royal Mail

**Response to Ofcom's Consultation on changes to Royal Mail's reporting requirements, 20 September 2022**

Royal Mail Submission

1 November 2022

Confidential information which has been redacted is indicated by: [X]



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## Executive Summary

Ofcom's proposals could be made more proportionate while still allowing Ofcom to carry out its duties. This could be achieved by making the timelines for reporting practically achievable, requiring less prescriptive forecasts over a more realistic horizon and allowing more flexibility for the sensitivity analysis requirement.

We also do not consider that Ofcom has sufficiently demonstrated that its proposals are necessary or justified to achieve the regulatory objectives it is seeking to achieve.<sup>1</sup> Instead, the proposals materially increase the regulatory burden on Royal Mail when the business should be focussing on addressing significant financial and operational challenges. We therefore urge to reconsider these proposals.

### Context

- 1.1 We welcome the opportunity to respond to Ofcom's Consultation on its "*Review of postal regulation – Changes to Royal Mail's regulatory reporting requirements*", dated 22 September 2022. We are proud to deliver the Universal Service and remain committed to providing an affordable and sustainable 'one price goes anywhere' service to all households across the UK. As the UK's Universal Service Provider, we are in a unique position to play an active part in the UK economy.
- 1.2 We saw the 2022 regulatory review as a timely opportunity to change and modernise the regulatory framework. We also asked Ofcom to put in place a financial sustainability framework. This framework would have provided clarity over when Ofcom would consider further action in the sector was necessary due to the financial prospects of the company. As we have shared with Ofcom, the headwinds we face have intensified. Royal Mail UK is losing over £1m per day. We issued a trading update on 14 October to set out our latest view of the Royal Mail UK business. Our proposal for a financial sustainability framework with a broad range of measures would have been helpful to all stakeholders to provide clarity on when Ofcom might act.
- 1.3 Instead, in Ofcom's July 2022 Statement, it decided to increase the monitoring of Royal Mail. In the rest of this executive summary, we set out our understanding of Ofcom's objectives for increasing regulatory reporting, our most pressing concerns and the framework we have used to assess the proposals.

### Ofcom's objectives for increasing regulatory reporting

- 1.4 Ofcom sets out three main objectives for increasing the regulatory reporting requirements imposed on Royal Mail:
  - Supporting a financially sustainable postal service;
  - Supporting an efficient universal postal service; and
  - Supporting effective competition in postal services for the benefit of consumers.<sup>2</sup>
- 1.5 While we support these objectives, Ofcom's proposals are highly prescriptive and do not reflect the degree of competition in the market, and the uncertainty created by the pace of technological change and rapidly changing volumes. The detailed annual forecasting requirements go well beyond those required in other (price-controlled) regulated sectors in the UK.
- 1.6 Our three most pressing concerns with Ofcom's proposals are set out below, as well as our suggestions on more proportionate ways in which Ofcom's regulatory objectives could be achieved. We provide

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<sup>1</sup> See section "Framework for assessing Ofcom's consultation" where we explain our framework further.

<sup>2</sup> Ofcom, Changes to Royal Mail's regulatory reporting requirements, Consultation, 20 September 2022, Page 3.

further details on these and other detailed concerns along with our alternative proposals in the main body of the response.

### **A) More realistic timelines**

- 1.7 Amending the submission date for providing regulatory reports to 30 June would be more proportionate than requiring them by 31 May each year. May is the busiest time of the year for our finance team – they have to prepare for the Annual Results, including the analyst presentation to the market. Requiring significant additional regulatory reporting at broadly the same time as the full year statutory results are due is disproportionate, particularly given Ofcom’s requirement for significant and very detailed forecast information. We ask that this is revised to a more realistic and proportionate date.
- 1.8 The requirement to produce an updated annual financial forecast (AFF) within ten working days of the business plan being approved is not a reasonable timeframe. Twenty working days should be allowed. We expect that this is sufficient time for schedules to be produced, reviewed and approved and that this would not represent an undue delay in provision in order for Ofcom to carry out its duties.

### **B) Less prescriptive forecast over a more realistic period**

- 1.9 Ofcom’s proposal for an annual financial forecast in the years between a detailed five-yearly forecast is not necessary – there is an alternative that is less intrusive. Royal Mail should report to Ofcom on progress against the five-yearly financial plan and efficiency expectations, i.e. actual results. If Ofcom is concerned about Royal Mail’s performance, we can provide our most recent Business Plan for an interim update on our expected forecast performance.
- 1.10 Doubling the number of required detailed pro formas – 11<sup>3</sup> to 22<sup>4</sup> – significantly increases the prescriptive nature of Ofcom’s reporting requirements. When there is a five-yearly forecast, we have to submit up to 19 schedules to Ofcom<sup>5</sup>. All information submitted to Ofcom needs to go through appropriate levels of governance. All these schedules will require senior management review prior to approval. Due to the significant increase in prescriptive regulatory reporting, this is a material increase in the regulatory compliance burden.
- 1.11 The level of prescription set out in Ofcom’s consultation, gives the impression that Ofcom is seeking to micro-manage our business. For example, Ofcom proposes to require Royal Mail to provide a five-year forecast of how we intend to resource the hours required by the business, i.e. how many hours will be provided by our frontline staff, casual staff and through overtime. We do this manpower planning over a twelve-month horizon not five-years. It is affected by uncertain external factors such as supply of agency staff, relative wage rates, our labour agreements, and so on. We do not forecast out that far to run our business as it is not meaningful.
- 1.12 Ofcom requires five-year forecasts when only three years are normally used for our commercial purposes. Further, this requirement ignores the high degree of uncertainty we currently face. With consumer confidence at an all-time low, volume forecasts become increasingly uncertain.<sup>6</sup> It is not possible to develop a robust forecast and certainly not for a five-year period. In some schedules Ofcom requires forecast detail for years four and five on relatively immaterial items e.g. [X]. We suggest that Ofcom should consider more aggregated reporting that we believe is more practical, proportionate and that meets Ofcom’s objectives for effective monitoring.

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<sup>3</sup> Ofcom, Regulatory Accounting Guidelines, July 2019, Appendix 1 lists 11 figures.

<sup>4</sup> Ofcom’s proposed Regulatory Accounting Guidelines, September 2022, Appendix 1 lists 22 figures.

<sup>5</sup> See Table 4 for a list of Ofcom’s forecast requirements. The 19 schedules includes a sensitivity model as a requirement.

<sup>6</sup> Growth from Knowledge, UK consumer confidence hits a new record low of -44 in August 2022, <https://www.gfk.com/en-gb/press/uk-consumer-confidence-hits-new-record-low-in-august-2022>

### **C) Pragmatic approach to sensitivity modelling**

- 1.13 While we fully support Ofcom's objective to properly scrutinise the likely sustainability of the universal service in the longer term, we are concerned that increasing reporting requirements to include further downside and sensitivity analysis will not provide meaningful insights beyond what Ofcom currently receives from us in the sensitivity ready reckoner, downside scenario and market guidance. But it will significantly increase the regulatory burden.
- 1.14 In particular, our annual reported accounts include downside analyses that inform our viability statement which we share with Ofcom. We also engage with our credit rating agency and our banks. Ofcom already has this insight as well as its own sensitivity model.
- 1.15 As Ofcom is aware, we do not have a sensitivity model. We do not believe that it is possible to create a sensitivity model to meet Ofcom's timelines. Our operation is large and complex. We propose providing a more pragmatic, less detailed analysis that will set out the assumptions and the EBIT ranges around a base case, with a downside scenario. It is unlikely to be a model where these assumptions can be flexed to amend the financial outputs.

### **Conclusion**

- 1.16 For the reasons set out above, and in the remainder of this submission, we would urge Ofcom to reconsider its proposals for increasing the regulatory reporting requirements on Royal Mail at this difficult time. Instead, Ofcom should either keep the reporting requirements as they are, or consider the alternative proposals we set out in this submission.

# Framework for assessing Ofcom's Consultation

## Introduction

- 2.1 While monitoring of Royal Mail, including regulatory reporting, is an important regulatory safeguard, Ofcom's duty is to secure the provision of the universal postal service. In doing so, Ofcom must have regard to the provision of a universal postal service to be financially sustainable, and to be efficient. Ofcom's regulatory reporting proposals represent a **materially disproportionate increase in the regulatory burden** at a time when our business needs to focus on addressing the significant financial and operational challenges we face. Ofcom's proposals hark back to a traditional utility style regulation which is not appropriate in the postal industry. The postal industry faces significant uncertainty on volumes, a highly competitive parcels market and structural decline in letters as consumers substitute to other forms of communication.
- 2.2 The rest of this section sets out our understanding of Ofcom's objectives, its regulatory principles and our view that Ofcom has provided insufficient transparency in its consultation document on how these principles have been followed. This provides the context for our responses to the consultation questions provided in the rest of this document.

## The need for an impact assessment

- 2.3 Ofcom states that its consultation document represents an impact assessment (IA), as defined in section 7 of the Communications Act 2003. The Act provides that an assessment carried out under this section may both take such form<sup>7</sup> and have regard to general guidance relating to the carrying out of impact assessments as Ofcom considers appropriate.<sup>8</sup> We take this to mean the guidelines that Ofcom established in 2005 in consultation with relevant stakeholders at the time.<sup>9</sup>
- 2.4 In its guidelines, Ofcom states that it expects *"Impact Assessments to be carried out in relation to the great majority of our policy decisions"* and that the comprehensiveness of any impact assessment would be proportionate to its likely impact.<sup>10</sup> It also notes that IAs *"should enable Ofcom and our stakeholders to see more clearly the costs and benefits associated with different policy options. They will therefore be able to comment on our proposals more easily and as a result, consultations should be more effective."*<sup>11</sup>
- 2.5 We recognise that it may not be appropriate to carry out a full impact assessment in relation to every proposed change to regulation. However, we would expect at least a qualitative discussion of the key areas of the impact assessment or the reasons why Ofcom has decided to depart from its guidelines. As discussed in further detail below, we consider that the consultation document provides insufficient transparency on:
  1. The issue to be addressed and evidence that the current reporting requirements do not allow Ofcom to fulfil its regulatory duties (objective justification);
  2. The options available and identification of the least intrusive approach; and
  3. Identification and assessment of evidence of the size of likely benefits relative to the costs of implementation and monitoring on Royal Mail and other stakeholders (proportionality).<sup>12</sup>

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<sup>7</sup> Section 7(5) of [Communications Act 2003 \(legislation.gov.uk\)](#)

<sup>8</sup> Section 7(6) of [Communications Act 2003 \(legislation.gov.uk\)](#)

<sup>9</sup> [Better Policy Making - Ofcom's approach to Impact Assessment](#)

<sup>10</sup> [Better Policy Making - Ofcom's approach to Impact Assessment; paragraph 1.17](#)

<sup>11</sup> Para 2.4 [Better Policy Making - Ofcom's approach to Impact Assessment](#)

<sup>12</sup> These are consistent with the six stages set out in paragraph 5.4 of [Better Policy Making - Ofcom's approach to Impact Assessment](#)

## Objectives for increasing the regulatory reporting requirements

- 2.6 Ofcom sets out three main objectives for increasing the regulatory reporting requirements imposed on Royal Mail:
1. Supporting a financially sustainable postal service;
  2. Supporting an efficient universal postal service; and
  3. Supporting effective competition in postal services for the benefit of consumers.
- 2.7 While we support Ofcom's objectives in relation to its proposals, we are concerned that the proposals to achieve these objectives are inconsistent with Ofcom's regulatory principles.

## Objective justification

- 2.8 Objective justification requires demonstrating the limitations of the current requirements and providing evidence of the impact these limitations have had. Without this, it is not possible to assess whether the proposed modifications address those limitations in a proportionate way.
- 2.9 Ofcom states the information is required *"to ensure we understand Royal Mail's view of its longer-term financial sustainability, and there is sufficient transparency on Royal Mail's efficiency expectations and progress."*<sup>13</sup> Ofcom has not provided evidence that the current requirements and their implementation have led to any material impact on consumers or citizens. Ofcom also does not provide evidence around specifics e.g. how receiving the Strategic Business Plan several weeks later than required affected its ability to fulfil its statutory duties. Moreover, as Ofcom noted in its July 2022 statement, *"our view [is] that Royal Mail is best placed to manage the financial sustainability and efficiency of the universal postal service."*<sup>14</sup> This would avoid the need for increased regulatory reporting requirements of the nature Ofcom is proposing.

## Least intrusive approach

- 2.10 Ofcom's stated key regulatory principle is to *"operate with a bias against intervention, but with a willingness to intervene promptly and effectively when ... there is a specific statutory duty to work towards a goal that markets alone cannot achieve."*<sup>15</sup> Ofcom also states that its *"general aim is to withdraw from regulation wherever possible"*<sup>16</sup> means that *"there must be a clear case for regulation, and the prospective benefits should exceed the costs."*<sup>17</sup>
- 2.11 This echoes guidance provided by the Better Regulation Task Force:
- *"The option of not intervening...should always be seriously considered ... the effects of...regulation and its unintended consequences, may be worse than the effects of the imperfect market."*<sup>18</sup>
- 2.12 Ofcom states that *"if a case for regulation can be made, we will choose the least intrusive means of achieving our objective"*<sup>19</sup> and *"In performing its general duties, Ofcom 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."*<sup>20</sup>

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<sup>13</sup> Ofcom, Changes to Royal Mail's regulatory reporting requirements, Consultation, 20 September 2022, Paragraph 7.7.

<sup>14</sup> Ofcom, Review of postal regulation, Statement, July 2022, Para 3.4.

<sup>15</sup> See [Policies and guidelines - Ofcom](#), Regulatory Principles, accessed on 1 Nov 2022.

<sup>16</sup> See [Policies and guidelines - Ofcom](#), Better Policy Making, accessed on 1 Nov 2022. It refers to Ofcom, Better Policy Making Ofcom's approach to Impact Assessment, 21 July 2005. Quote is from Paragraph 5.11.

<sup>17</sup> See [Policies and guidelines - Ofcom](#), Better Policy Making, accessed on 1 Nov 2022. It refers to Ofcom, Better Policy Making Ofcom's approach to Impact Assessment, 21 July 2005. Quote is from Paragraph 5.24.

<sup>18</sup> Better Regulation Task Force (September 2003).

<sup>19</sup> See [Policies and guidelines - Ofcom](#), Regulatory Principles, accessed on 1 Nov 2022.

<sup>20</sup> Ofcom, Changes to Royal Mail's regulatory reporting consultation, September 2022, Para 2.12.

2.13 In its Review of Postal Regulation Statement notes that while *“the current approach to regulatory reporting is working well”*,<sup>21</sup> some requirements need updating to reflect the current regulatory framework. However, Ofcom neither outlines nor provides evidence of the specific limitations of the current reporting requirements. This means it is not possible to assess whether increased requirements would allow Ofcom to better fulfil its duties to consumers and citizens.<sup>22</sup> In addition, Ofcom does not set out alternative options. This means it is not possible to assess whether a less intrusive approach would allow Ofcom to still achieve its objectives.

### Proportionality

2.14 Ofcom stated in its July 2022 statement that *“[t]he overall proportionality of our detailed proposals will be considered as part of our consultation exercise, having regard to, for example, any potential additional work that Royal Mail may have to carry out in implementing these”*.<sup>23</sup> However, its current consultation document does not set out any assessment of the costs, nor any quantification or description of the specific benefits of doing so.

2.15 Without a clear justification (as described in the sub-section above), it is not possible to determine whether the modifications are proportionate. That is, whether the benefits to consumers and citizens would sufficiently outweigh the costs of implementation and ongoing monitoring.

2.16 Under the proposed changes, Royal Mail would be required to carry out extensive modelling work that it does not require for its commercial purposes. This would then be duplicated by Ofcom.

2.17 Ofcom’s approach for postal services appears much more onerous than its approach to telecoms, for example. Its approach seems more akin to water regulation where there is long term capital investment, stable demand and technology, very limited incentive for efficiency in the absence of ex ante regulation and the whole business is price and quality regulated. This is very different to Royal Mail:

1. We are a commercial business providing a range of products, a declining proportion of which are regulated;
2. We face strong competition at different parts of the value chain, particularly for non-USO products;
3. We face uncertain demand for both parcels and letters and are constrained by e-substitution;<sup>24</sup>
4. Our cost base consists is mostly operating costs rather than capital costs.

2.18 Table 1 below summarises some of the reporting requirements in other regulated sectors in the UK. It can be seen that:

- Detailed forecasts are typically only required at the start of each regulatory pricing determination; and
- Even in sectors where there is prescriptive regulation, there is no requirement to provide forecasts on an annual basis.

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<sup>21</sup> Ofcom, Review of postal regulation, Statement, July 2022, Para 2.104.

<sup>22</sup> No change needs to be considered in order to create a base line against which to compare other options - [Better Policy Making - Ofcom’s approach to Impact Assessment](#);

<sup>23</sup> Ofcom, Review of postal regulation, Statement, July 2022, Para 3.67.

<sup>24</sup> Ofcom states “Email is a substitute for post for many purposes”. [Ofcom’s approach to competition and consumer issues in internet-based communications markets](#), September 2022

**Table 1: Reporting requirements in other regulated sectors in the UK**

<b>Sector and characteristics</b>	<b>Regulatory reporting requirements</b>
<b>Water</b>	
<ul style="list-style-type: none"> <li>• No competition at any part of the value chain</li> <li>• No substitutes available</li> <li>• Limited technical change</li> <li>• Stable demand</li> <li>• Binding price controls</li> <li>• Majority of costs are capital investments</li> </ul>	<p>Detailed business plan and historic performance every 5 years ahead of charge control period</p> <p>Annual performance report<sup>25</sup> to demonstrate historic compliance with separate price controls.</p> <p>Audited information that can be reconciled back to statutory accounts.</p> <p>Designed to allow all stakeholders to consistently assess companies' relative and absolute performance.</p> <p>No requirement to update forecasts annually.</p>
<b>Fixed telecoms</b>	
<ul style="list-style-type: none"> <li>• High levels of long-term capital investments</li> <li>• Competition at different parts of the value chain and fixed to mobile substitution</li> <li>• Relatively stable demand</li> </ul>	<p>Forecasts only required for price control determinations (every 5 years).</p> <p>Annual regulatory reporting requirements linked to market power in wholesale markets, but information only required for previous year.</p> <p>Some competition in retail markets.</p> <p>Binding price controls for some wholesale products.</p> <p>No requirement to update forecasts annually</p>
<b>Airports</b>	
<ul style="list-style-type: none"> <li>• Binding total revenue controls</li> <li>• Uncertain demand</li> <li>• Some competition</li> <li>• High levels of capital investment</li> </ul>	<p><b>Detailed business plan and historic performance every 5 years</b> ahead of charge control period.</p> <p>Charge control includes a mechanism to share the risk of volumes being lower than forecast.</p> <p>Annual regulatory reporting on a historic basis only.</p>

<sup>25</sup> [Annual performance report - Ofwat](#)

## Annual Financial Forecasts (Q3.1)

Ofcom question 3.1: Do you agree with our proposals regarding the Annual Financial Forecasts (AFF)? Please substantiate your response with reasons and evidence.

### Summary

First and foremost, the AFF is not necessary. There are more proportionate ways for Ofcom to meet its duties and to monitor financial sustainability and efficiency. Royal Mail should only report on progress against the Five-Year Financial Forecast (FYFF) plan and efficiency expectations. If Ofcom is concerned about Royal Mail's performance, we can provide our most recent Business Plan as an interim update rather than having this as an ongoing requirement. This would be more proportionate. Ofcom's proposal is akin to having to provide a price control five-year forecast every year.

Should Ofcom still consider that the AFF is necessary, we have the following specific suggestions to seek to make the requirement more proportionate:

#### A) More realistic timelines

- The requirement to provide a five-year AFF by 31 May each year is unfeasible – this is insufficient time. Ofcom should change the submission date of the AFF to 30 June. This is to allow for sufficient time for Royal Mail to finish its preparations for its Annual Results including the analyst presentation to the market. Preparing our accounts for year-end publication is not an optional activity. We can then turn to the production of the AFF, taking into account the audited results. We estimate up to 13 schedules would need to be prepared for Ofcom, along with a new sensitivity model to meet Ofcom's AFF requirement. Based on when we have previously submitted our Business Plan to Ofcom and ongoing economic uncertainty, we believe a June deadline would allow us sufficient time to produce the information Ofcom has requested. The current date of 31 May is not proportionate taking account of the additional work we need to perform, and the existing pressures on our finance staff.
- **Requirement to produce an updated AFF within 10 working days of the business plan being approved is disproportionate. It does not allow sufficient time.** Twenty working days should be allowed. We expect that this gives sufficient time for the (up to 13) schedules and sensitivity model to be updated, reviewed and approved.

#### B) Less prescriptive forecasts for a more realistic period

- **It is not meaningful to forecast 'supply' (ordinary, casual, overtime) hours further than one year.** Ofcom should reduce requirement to forecast Gross Hours by ordinary, casual staff and overtime (Ofcom Figure 3) to one year. This is micro-management of our manpower planning to a level that is meaningless in practice. The way in which Royal Mail resources its demand for hours between ordinary, casual staff and overtime is affected by wider market in terms of availability of casual staff and our labour agreements. We propose that Ofcom's Figure 3 is amended to only require detail of hours and costs for one year, and for subsequent years, hours and costs are reported at a total level. See Annex 3.

#### C) Pragmatic approach to sensitivity modelling

- We ask that Ofcom allows **Royal Mail to follow a pragmatic and proportionate approach to meet Ofcom's requirement.** We already provide Ofcom with a ready reckoner and downside scenario. We do not have a sensitivity model. It would be disproportionate to develop, build and provide Ofcom with a sensitivity model by 31 May. Rather, we propose providing a 'high;

and 'low' scenario to reflecting the Financeability EBIT range around the base case, with a downside scenario based on the 'low' scenario with mitigations.

### Other comments

- We propose that Ofcom removes the existing requirement for a forecast of headcount and FTE forecast. This requirement for insight on frontline and manager cost can be met through the cost matrix and a new requirement to provide forecast hours (figure 8).
- We also ask that Ofcom removes the new requirements for:
  1. Reported Business volumes on Page 17 of the RAG part (c) as it duplicates the requirement in part (a); and
  2. A view of USO mail as a percentage of total volume in the Forecast Revenues and Volumes (Figure 1). This is more complex to produce and changes over time – see Annex 1 for our proposal for this schedule.

### Our understanding of Ofcom's proposals

3.1 Ofcom summarises its proposals (in its introduction to Section 3 of its Consultation) as:

- *“we propose that Royal Mail must submit an Annual Financial Forecast covering a period of five years by 31 May in each financial year. This will replace the requirement to provide a Strategic Business Plan and Annual Budget. The forecast must take into account Royal Mail’s latest available actual results, and if Royal Mail has a business plan that has been approved by the board in the previous 90 days, the forecast must be consistent with this.*
- *The information we propose to require in the Annual Financial Forecast is similar to the existing information requirements in the Strategic Business Plan, but with most metrics covering a five-year time period and with less detailed information for forecast years four and five. We also propose some changes to the specific information requirements, including:*
  - *a reduction in the level of detail of the revenues and volumes forecasts;*
  - *a new requirement for a forecast of Gross Hours and salary costs split by time category;*
  - *a new requirement for more detailed and structured information on Royal Mail’s planned efficiency initiatives, and;*
  - *removal of requirements to provide certain efficiency metrics annually.”*

**The AFF is not necessary – there is an alternative way to meet Ofcom’s requirements. Royal Mail should only report on progress against the FYFF plan and efficiency expectations. If Ofcom is concerned about Royal Mail’s performance, we can provide our most recent Business Plan.**

3.2 Ofcom has explained that it requires annual forecast information *“that is necessary for our monitoring and assessment of the financial sustainability and efficiency of the provision of the universal service in a comprehensive and consistent manner”*.<sup>26</sup>

3.3 Ofcom’s proposal for an AFF is both onerous and unnecessary. Where regulated firms are subject to price control, there would typically be a detailed submission once per regulatory cycle with high level monitoring in the intervening years. This gives the regulated firms certainty as well as a degree of operational freedom to deliver on its operational and financial objectives. **Ofcom’s proposals are akin to having to produce a price control forecast, every year.**<sup>27</sup> In Ofcom’s framework there is a detailed submission required once per regulatory cycle – the FYFF. This provides a comprehensive reference

<sup>26</sup> Ofcom, Changes to Royal Mail’s regulatory reporting requirements, Consultation, 20 September 2022, Paragraph 3.4.

<sup>27</sup> See previous chapter, Framework for assessing Ofcom’s Consultation, especially section on Proportionality and Table 1.

point against which to assess Royal Mail’s performance on efficiency and on financial sustainability. It is simply not necessary for Ofcom to impose the AFF as well.

3.4 We therefore propose in the bullet points below a more proportionate way of setting out Royal Mail’s performance.

- Royal Mail submits the FYFF in 2023 as the reference data set for the regulatory cycle.<sup>28</sup> This reference data set contains:
  - The public and confidential efficiency expectations; and
  - Financeability EBIT margin data, and detailed information on our revenues, volumes and costs.
- In subsequent years, Royal Mail:
  - Publishes actual performance against the public FYFF efficiency expectation metrics (and provides Ofcom confidentially actual performance against all the metrics it requires). In addition, Royal Mail would confirm to Ofcom on a confidential basis whether it is on track to meet its efficiency expectations. This will enable Ofcom to monitor Royal Mail’s efficiency performance.
  - Royal Mail provides Ofcom with its actual performance on volumes, revenues, costs and the Financeability EBIT. In any one year, should Royal Mail’s actual performance (or other market events occur) such that Ofcom is concerned about financial sustainability, we can provide our (three) business plan and ask us to provide a forecast view for the Reported Business.

3.5 We believe our proposal is a less intrusive regulatory intervention that Ofcom’s proposal for an annual forecast. Put simply, we believe Ofcom’s duties in relation to financial sustainability and efficiency can be addressed as per Table 2. Removing the requirement for the AFF, with Ofcom requiring Royal Mail’s Business Plan on request would be a more proportionate way of meeting Ofcom’s duties in relation to financial sustainability.

**Table 2: Royal Mail proposal for forecast and monitoring**

Ofcom duties	Forecast assessment	Monitoring
Efficiency	<ul style="list-style-type: none"> <li>• Publication of two efficiency metrics once every five years</li> <li>• All of Ofcom’s efficiency metrics required from Royal Mail to be provided confidentially once every five years</li> </ul> <p><b>Met through Ofcom’s FYFF proposal</b></p>	<ul style="list-style-type: none"> <li>• Publication of performance against the two efficiency metrics.</li> <li>• Confidential submission of performance against all metrics</li> <li>• Confidential assessment of whether on track to meet five-year efficiency expectations.</li> </ul> <p><b>Met through Ofcom’s proposals on reporting of actual efficiency results</b></p>
Financial sustainability	<ul style="list-style-type: none"> <li>• Five-yearly provision of detailed financial data (Revenue, cost etc.) for the Reported Business as required by the Five Year Financial Forecast</li> <li>• On request, Royal Mail’s three-yearly Business Plan to provide insight into future performance of the Reported Business</li> </ul>	<ul style="list-style-type: none"> <li>• Confidential submission of performance against the financial forecast that underpins the public efficiency expectations.</li> </ul> <p><b>Met through Ofcom’s proposals on reporting of actual Financeability EBIT results</b></p>

<sup>28</sup> See our comments on the FYFF set out in our response to Question 4.1.

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**Met through Ofcom’s FYFF proposal  
(and supplemented with Royal Mail’s  
three-yearly Business Plan on  
request)**

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3.6 We recognise that it is for Ofcom to decide whether to remove the requirement for an AFF. We strongly believe provision of the Royal Mail business plan, plus the FYFF and reporting against actual performance, should provide Ofcom with sufficient insight. However, if Ofcom is minded to impose the regulatory conditions as currently drafted, we have a number of detailed concerns. We set these out below.

**The requirement to provide a five-year AFF by 31 May each year is unfeasible.**

3.7 As noted in Ofcom’s regulatory reporting Consultation, Ofcom has already decided in its July 2022 Statement to require Royal Mail to provide a five-year forecast. As we stated in our March 2022 response to Ofcom’s consultation, we had to suspend our market guidance due to COVID-19 and the challenges we have faced since have meant that it has not been possible to issue new guidance<sup>29</sup>. Currently, with consumer confidence at an all-time low, postal volume forecasts become increasingly uncertain.<sup>30</sup> It is not possible to develop a robust forecast and certainly not for a five-year period.

3.8 Ofcom’s July 2022 Statement did not decide on the date when the AFF must be provided. This is to be decided as part of this Consultation. Ofcom’s proposal is that the AFF should be provided on 31 May is unachievable. **We consider that a more feasible deadline is 30 June.**

3.9 Ofcom’s rationale for 31 May is that it needs information in a timely manner. It stated *“We need the AFF to be submitted as close as possible to the start of each forecast period, so that we have Royal Mail’s forecast for the first financial year in a timely manner and we can understand how the results of future financial years are expected to evolve based on the first financial year. Ideally, and as reflected in the current requirement, we need the information to be submitted by Royal Mail before the start of the financial year.”*<sup>31</sup>

3.10 Ofcom recognises that the provision of the plan has been challenging in the past and may now be more so, as the forecast must cover five years. It also notes our feedback that our key financial teams are supporting the provision of the statutory accounts between the end of the financial year and 31 May. Ofcom’s proposal is that Royal Mail should provide the AFF by 31 May each year, to take account of this, and Ofcom’s need to have information when it ideally needs. Ofcom adds that it should also mean that the AFF should be consistent with Royal Mail’s approved Business plan. Ofcom also states that *“This submission deadline also allows Royal Mail to publish its annual results and make its market announcements in May before submitting the AFF, and meets the needs of our internal modelling work”*.<sup>32</sup>

3.11 We agree with much of what Ofcom says. We intend for our Business Plan to be approved before the start of the year. It is important that Ofcom receives timely accurate information, and for this AFF information to be consistent with our latest business plan. But our view is that 31 May is not a workable date. This is due to

- The ongoing likelihood of the Business Plan being approved after the year has started due to market uncertainty;
- The pressure on our finance team over the relevant period;

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<sup>29</sup> Royal Mail, Response to Ofcom’s Review of Postal Regulation – Consultation, December 2021, 3 March 2022, Para 2.25.

<sup>30</sup> Growth from Knowledge, UK consumer confidence hits a new record low of -44 in August 2022, <https://www.gfk.com/en-gb/press/uk-consumer-confidence-hits-new-record-low-in-august-2022>

<sup>31</sup> Ofcom, Changes to Royal Mail’s regulatory reporting requirements, 20 September 2022, Paragraph 3.9.

<sup>32</sup> Ofcom, Changes to Royal Mail’s regulatory reporting requirements, 20 September 2022, Paragraph 3.15.

- Ofcom’s ask to take account of latest results, and
- The additional schedules that Ofcom requests that are not required by our Board.

3.12 These are described in more detail below.

### 1) Impact of market uncertainty on our Business Plan.

3.13 We recognise the importance of timely accurate information for Ofcom (and other stakeholders). It is our aim to approve the budget and business plan in March of each year. This is consistent with Ofcom’s regulatory financial reporting obligations that require the provision of the budget and business plan before the start of the financial year to which they relate. This has proved challenging given the considerable headwinds our business has faced over recent years and continues to face. In some years, it has only been possible to approve (and therefore share with Ofcom) the budget year due to the high levels of uncertainty.

3.14 In our March 2022 response to Ofcom’s consultation, we stated that “Typically, years two and three of our business plan are not approved by the Group Board until late May”.<sup>33</sup> Ofcom noted this in its consultation. Reflecting on this sentence, it would be more accurate to say that “Recently, years two and three of our business plan have not been approved by the Group Board until late May at the earliest.” Table 3 below shows the submission dates for the budget (year 1) and business plan (year 2 onward) for the last seven years.

**Table 3: Submission dates for Budget (year 1) and Business Plan years (year 2 onward)**

Year	Budget (Yr 1 forecast) Submission	Business Plan (Yr 2, Yr 3) Submission	Business context
2022 Business Plan	✗	✗	✗
2021 Business Plan	✗	✗	✗
2020 Business Plan	✗	✗	✗
2019 Business Plan	✗	✗	✗
2018 Business Plan	✗	✗	✗
2017 Business Plan	✗	✗	✗
2016 Business plan	✗	✗	✗

3.15 We agree with Ofcom that the AFF should be consistent with the latest Business Plan. Reviewing the dates above, it is clear that in years where it has been possible to approve the business plan years (year 2 and year 3), a submission by 31 May would simply not have worked. Most submissions were after that date. Looking forward, we expect similar headwinds buffeting our business. We cannot with certainty be comfortable that our budget and business plan will be approved by end of March. It would be more proportionate to plan that Royal Mail’s Business Plan would not be approved until end of May at the earliest.

### 2) Pressure on our Finance team over this period.

3.16 Ofcom rightly acknowledges that our financial teams are preparing the actual financial results for publication and announcement to the market from end March to late May. Preparing our accounts for year-end publication is not an optional activity. However, it appears that Ofcom may not be aware of the full scale of the end year statutory results exercise. From the end of the financial year to the publication of the Annual Results, and accompanying analyst presentation, it is an incredibly busy time for all our finance teams, especially our central finance teams.

<sup>33</sup> Royal Mail, Response to Ofcom’s Review of Postal Regulation – Consultation, December 2021, 3 March 2022, Para 2.34.

3.17 The bullet points below describe the work required:

- The Finance teams across the business need to be comfortable that the year-end accounts are complete and accurate. Our accounts remain open for journals from the finance teams for up to a month as they finish their trueing up of the results.
- Our Finance teams spend time preparing, reviewing and approving management judgements and estimates that feed into the results. Some of the adjustments depend on the final out-turn. For example, the management bonus is influenced by the scorecard which in turn depend on the actual results.
- Briefings are prepared for the Audit and Risk Committee (ARC). It reviews, and recommends for the Board's approval, all Financial Statements and associated disclosures. The ARC will need to be comfortable with the management judgements and estimates within the results.
- Briefings are prepared for the Remuneration Committee. It determines, and recommends for the Board's approval, certain remuneration outcomes including the Short-term Incentive Plan (STIP) which sets the bonus for management. Financial measures set 75% of the STIP<sup>34</sup> and the committee review what is the appropriate remuneration outcome.
- The Finance teams work with and support the external auditor as it review our financial results. As a consequence, there can be audit changes which can occur late in the process (up to the day before publication) that need to be reflected in the financial results.
- We publish results for the International Distributions Services (IDS) Group. The same issues above also affect the GLS results. The Group accounts cannot be finalised until GLS finalises its accounts which occurs in late April / early May.
- In addition to the Annual Results, we also need to prepare a detailed and informative analyst presentation that explains our financial results to the City analysts.

3.18 Alongside the production of the Annual Results, our central finance teams also finalise budgets. While it is unlikely that the approved budget for the year will change, unless there has been a material event in recent weeks, there may be changes in the calendarisation of the budget. This is to take account of the run-rate from the previous financial year into the new financial year to avoid 'step-jumps' in the budget analysis.

### **3) Requirement to take account of latest actual results.**

3.19 Ofcom requires that *"the AFF must reflect Royal Mail's latest view of its objectives and expectations and as far as possible, take account of its latest available actual results"*.<sup>35</sup> Royal Mail's results are only finalised and approved by the third week in May. There can be amendments to the financial results late in the audit process which affect the prior year results and management insight. Sufficient time should be allowed in the production of the AFF to take the insights from the actual results for the prior year into the forecast. A 31 May deadline does not allow us to fully do so. Up to 13 of the schedules required by Ofcom may need to be changed, as well as the production of sensitivity analysis and downside.

3.20 Furthermore, some of the schedules in figure 1 require the provision of the actuals alongside them. The forecast PVEO schedule (in the FYFF) requires the opening cost base (i.e., the actuals for the prior year) to be finalised to calculate the cost movements.

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<sup>34</sup> Royal Mail, Annual Report and Financial Statements 2021-22, Page 111.

<sup>35</sup> Ofcom, Changes to Royal Mail's regulatory reporting requirements, 20 September 2022, Paragraph 3.18.

#### 4) Additional activities and schedules required.

3.21 In addition, Ofcom now expects Royal Mail to undertake additional activities that are not currently part of our planning process. These activities include:

- **Production of a five-year forecast when Royal Mail's business planning period is for three years.** Due to the high level of uncertainty in our business, we consider three years is as far as it is possible to meaningfully forecast. Years four and five will have to be high level – we have set out in our answer to Question 4.1 the need to reduce the detail in these years.
- **Production of detailed schedules.** Table 4 below sets out a list of the schedules required under the AFF and the FYFF (five rows in blue at bottom of table). The Board will need to see some of the data required by the schedules. Some of the schedules form part of the core inputs of the business plan but most of the schedules do not – for example the forecast PVEO. As a minimum, the data will require manipulation to represent the data in Ofcom's required format. For example, we will have revenue and volumes to underpin the forecast but will need to re-cut it to present the data for the reported business and other required detail in Ofcom's prescribed format.
- **Sensitivity analysis, including the use of a sensitivity model that would be shared with Ofcom.** Our issues with this are set out in paragraphs 3.35 - 3.40.

**Table 4: Ofcom’s forecast requirements**

<b>Requirement</b>	<b>Years</b>	<b>Required RM Board</b>	<b>Comment</b>
<b>Relevant Group</b> - Income statement for five yrs with balance sheet and cash flow statement for three yrs	3 & 5	✓	
<b>Explanation of the main assumptions and key drivers</b>	5	✓	
<b>Financial Health metrics</b> – covenants / credit rating metrics	3	✓	
<b>Plan on Plan comparison</b> that compares the forecast to the most recent forecast submitted to Ofcom (AFF or FYFF).	5	✓	
<b>Gross hours and pay costs</b> on a ‘supply’ basis (ordinary, casuals, overtime etc) (Figure 3)	5	✗	Presented in Ofcom’s Format (Figure 3). Suggested alternative in Annex 3.
<b>Reported Business</b> revenues, costs, volumes and EBIT with 2 yrs history	5	✗	
<b>Income statement reconciliation between Relevant Group, Royal Mail UK and Reported Business</b> with pension costs on a cash paid and in accordance with IAS 19.	5	✗	
<b>Revenue, volumes and AUR</b> with two years of actuals	5	✗	Presented in Ofcom’s format (Figure 1) incl. Reported Business. Suggested alternative in Annex 1.
<b>Cost Matrix</b> with two years of actuals	5	✗	Presented in Ofcom’s Cost Matrix format (Figure 2 AFF, Figure 5 in FYFF). Suggested alternative in Annex 2.
<b>Headcount and FTEs</b> broken down between frontline, management and other staff	5	✗	
<b>Cost movement schedule with Efficiency initiatives</b>	5	✗	Presented in Ofcom’s format (Figure 4 AFF, Figure 9 in FYFF). Suggested alternative in Annex 4.
<b>Forecast Sensitivity model</b> – that shows the calculations and outputs should risks on the main assumptions materialise	5	✗	Ofcom expects as a minimum an upside and downside scenario around the base case showing the Financeability EBIT margin.
<b>Downside analysis</b>	5	✗	Downside scenario above with mitigations to offset the impact.
<b>If a 53 week year</b> , provide the Reported Business forecast EBIT on a 53 and 52 week basis	1	✗	Also need to state the methodologies used
<b>PVEO analysis</b>	5	✗	FYFF only – Figure 6
<b>Cost metrics forecast</b>	5	✗	FYFF only – Figure 7
<b>Hours Forecast by ‘demand’</b>	5	✓	FYFF only – Figure 8.
<b>Workload forecast</b>	5	✗	FYFF only
<b>Publication of efficiency initiatives</b>	5	✗	FYFF only – Figure 10

- 3.22 Once schedules and analysis above have been produced, senior management time needs to be spent reviewing prior to approval. **This is a considerable material increase in the regulatory compliance burden at a time when senior finance personnel will just have completed an intensive year-end financial reporting process.**
- 3.23 We do not believe that there is a material impact on Ofcom’s ability to fulfil its statutory duties from allowing Royal Mail an additional month to complete. In fact, by allowing for additional time, it could materially increase the level of scrutiny and oversight on the results. A deadline of 31 May provides around two weeks from the finalisation of the year-end accounts. This two-week period also includes school holidays, when many involved in year-end accounts need to take time off. A deadline of 30 June provides a further four weeks.
- 3.24 In our view, to allow for sufficient time for Royal Mail to conclude its Annual Results and Financial Statements including the analyst presentation to the market, and to produce the AFF, taking into account these results, we propose that the submission date is 30 June. Based on historical dates when our Business Plan has been submitted to Ofcom and ongoing economic uncertainty, we believe this will allow us sufficient time to produce the information Ofcom has requested. The current date of 31 May is not proportionate. It does not take account of the additional work we need to perform and the existing pressures on our finance staff.

**The requirement to produce an updated AFF within 10 working days of the business plan being approved is unfeasible.**

- 3.25 Ofcom has stated *“if Royal Mail does not have a Board-approved business plan by 31 May, then it must still provide an AFF by that date, which reflects its latest view of its objectives and expectations;”*<sup>36</sup>
- 3.26 For Ofcom to rely on a forecast for its monitoring and to inform its policy, the forecast needs to have an appropriate level of assurance to be robust for such use. Business uncertainty (and other factors) may mean that if the Board do not approve the Royal Mail UK financial forecast by 31 May it does not agree with the forecast. In this situation, Ofcom’s proposal is that we would provide this financial information to Ofcom even though our Board do not agree with the forecast. **Royal Mail should not be required to provide a forecast that its Board do not agree with.** We would hope that by allowing for 30 June to provide the AFF would give the Board enough time to approve the plan and for Ofcom’s schedules to be produced. In the event that the Board does not approve a Business Plan in time to inform the AFF by 30 June, we propose that it would be more proportionate for Royal Mail to write to Ofcom to explain why it was not possible to approve a forecast and to commit to a date to submit the AFF.
- 3.27 Ofcom goes on to state that *“Once the Board has approved its business plan, Royal Mail must provide an updated AFF which takes account of any changes in its expectations and objectives resulting from the approval process, within 10 working days of the business plan being approved.”*<sup>37</sup>
- 3.28 Ten working days is insufficient time. Ofcom has not provided evidence as to why it considers ten days is a reasonable and proportionate time to undertake this exercise relative to receiving the information slightly later. To provide an updated AFF, we understand that we would need to provide the schedules referred to on pages 17-19 of the RAG. To do this, we would need to take the following steps:
- **Forecast forward the updated Business plan** to include the two additional years required at a high level; and then
  - **Update up to 13 schedules and the sensitivity model** – see Table 4 for the list of schedules.
- 3.29 A ten-day turnaround time for the production of the above regulatory schedules is too tight. The unintended consequence of Ofcom imposing such an obligation is a perverse incentive on Royal Mail

<sup>36</sup> Ofcom, Changes to Royal Mail’s regulatory reporting requirements, 20 September 2022, Paragraph 3.18.

<sup>37</sup> Ofcom, Changes to Royal Mail’s regulatory reporting requirements, 20 September 2022, Paragraph 3.18.

to not approve Business Plans after an AFF submission to minimise the regulatory red tape. This would not be good for Ofcom nor good for Royal Mail in not having an approved updated Business Plan.

3.30 Based on our experience of completing these schedules and on the management time to review and approve, we estimate that 20 working days would be more feasible. This is around two weeks to update all the schedules and two weeks for management review and approval. Therefore, we ask that 20 working days should be allowed.

**It is not meaningful to forecast ‘supply’ (ordinary, casual, overtime) hours further than one year.**

3.31 Royal Mail typically reports hours in two ways:

- **‘Demand hours’**: this is the volume of hours that Royal Mail needs to handle the volumes/workload in the business. To understand how many hours we need, we have to take account of absence (e.g. sick) to forecast worked hours. Ofcom requires this in the FYFF.<sup>38</sup>
- **‘Supply hours’**: this is the volume of hours that were supplied to meet the demand, i.e. what is the volume of ordinary, casual staff hours and overtime needed.

3.32 In the AFF, Ofcom requires gross hours and pay costs on a ‘supply’ basis, split between ordinary, casuals, overtime etc for five years.<sup>39</sup> Ofcom states that *“This information and the proposed level of granularity will help us better understand and model over the forecast period the evolution of Royal Mail’s people costs.”*<sup>40</sup>

3.33 This is micro-management of our manpower planning to a level that is meaningless in practice. We forecast ‘supply’ hours for one year. Each year, we look at what is the most efficient way to resource our ‘demand’ for hours. It is affected by uncertain external factors such as supply of casual staff, relative wage rates, agreements with CWU (e.g. Sunday working) and so on. Depending on these external factors, we will optimise our resourcing. A year is about as far ahead as we can reasonably forecast.

3.34 We consider forecasting over a longer time period would be unfeasible to do accurately or meaningfully. Regulatory obligations should not require this. We recognise that Ofcom may need a view on hours and costs beyond the budget year. We propose that Figure 3 is amended to only require the provision of forecast ‘supply’ hours and costs for one year, and for subsequent years, hours and costs are reported at a total level – see Annex 3 for our proposed schedule. The provision of actual ‘supply’ hours (Figure 19) can be met.

**We propose providing a Financeability EBIT range, with key assumptions and a downside case as a more pragmatic and proportionate way of meeting Ofcom’s requirements.**

3.35 Ofcom has increased the reporting requirements by requiring Royal Mail to provide additional sensitivity analyses and downsides. Ofcom summarises this as:<sup>41</sup>

- *“the range of the Financeability EBIT values as a result of the main assumptions and key drivers changing within the range of reasonably likely values*
- *Require underlying calculations including models*
- *Update to the list of main assumptions and key drivers.”*

3.36 While we fully support Ofcom’s objective to properly scrutinise the likely sustainability of the universal service in the longer term, we are concerned that increasing reporting requirements to include further

<sup>38</sup> Ofcom requires this in Figure 8 “Gross hours by hours type forecast” with actuals reported annually in Figure 20.

<sup>39</sup> Ofcom requires the forecast in Figure 3 “Gross Hours by time category” with actuals reported quarterly in Figure 19.

<sup>40</sup> Ofcom, Changes to Royal Mail’s regulatory reporting requirements, 20 September 2022, Para 3.37.

<sup>41</sup> Ofcom, Changes to Royal Mail’s regulatory reporting requirements, 20 September 2022, Table 2.

downside and sensitivity analysis will not provide meaningful insights. We already provide Ofcom with a ready reckoner and downside scenario.

- 3.37 In particular, our annual reported accounts include downside analyses that inform our viability statement which we share with Ofcom. We also engage with our credit rating agency and our banks. What we provide is sufficient for our investors and our banks. Ofcom already has this insight – it does not need us to duplicate it via a sensitivity model built only for regulatory purposes.
- 3.38 We do not currently have a sensitivity model. To meet this new requirement, we would have to create a model. We have tried to build such end-to-end financial planning models in the past and these have proven unsuccessful. We have a high fixed cost base, with declining letter volumes and increasing parcel volumes. We need to make structural changes to address this, such as revision activity and roll out of our parcel hub networks. Our business is complex. For example, we are rolling out two large parcel hubs, our mail centres are different sizes with different equipment and our Delivery Offices serve all geographies in the UK and range in sizes. We do not envisage that it would be feasible to create such a model or tool in the near future. So, it is not possible to easily flow assumption changes into new revenues and volumes to flow into new costs.
- 3.39 We have had helpful discussions with Ofcom on this issue. We all know that this is difficult. We ask that Ofcom amends its proposed framework to allow for a pragmatic approach. We propose that Royal Mail provides:
- The forecast Financeability EBIT for a high and low scenario around a base case that reflects the high and low outcomes from the main assumptions; and
  - A downside scenario based on the ‘low’ scenario above where Royal Mail has taken measures to mitigate the impact
- 3.40 Due to the reasons set out above, we expect this submission to be hard-coded rather than calculation driven outcomes, and we ask that Ofcom removes requirement for *“The sensitivity analyses must also include the supporting calculations and the models used to carry out the analyses.”*<sup>42</sup>

**We propose that Ofcom removes the existing requirement for a forecast of Headcount and FTE. Ofcom’s requirement can be met through other schedules.**

- 3.41 Ofcom proposes to continue to require *“g) Headcount and FTEs broken down between frontline, management and other staff;”*<sup>43</sup> Ofcom justified its inclusion previously stating *“We do not agree with Royal Mail’s argument that a reliable basis for providing a headcount and FTE forecast cannot be adopted. While we accept these may not form part of the forecasts done as part of Royal Mail’s Business Planning process, we believe the data is necessary and proportionate to our understanding of Royal Mail’s future efficiency plans. The ability to see separately the forecast management and frontline staff headcount and FTE provides a key indicator of how efficiency initiatives are expected to yield results, because the drivers for determining the headcounts of these two groups of staff, their costs (pay, pension, etc.) and their unionisation attributes are considerably different.”*<sup>44</sup>
- 3.42 As Ofcom notes, this schedule is only produced for Ofcom. [3<]. It adds complexity, time and risk into the process to produce the results for Ofcom.
- 3.43 We only need to forecast hours over our business plan – we do not need to forecast FTEs or headcount. Ultimately, Ofcom’s requirement is to understand the efficiency in our plan and what is being delivered. We believe that this is met through Ofcom’s PVEO efficiency approach that requires forecast pay by pipeline over five years that will show the efficiency delivered.

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<sup>42</sup> Ofcom, Changes to Royal Mail’s regulatory reporting requirements – Annex 7 RAG, 20 September 2022, Pages 19 and 22.

<sup>43</sup> Ofcom, Changes to Royal Mail’s regulatory reporting requirements – Annex 7 RAG, 20 September 2022, Page 18.

<sup>44</sup> Ofcom, Regulatory financial reporting for Royal Mail, 18 December 2017, Paragraphs 5.22, 5.23.

3.44 We note that Ofcom still has visibility of (1) forecast hours. This is provided on a 'supply' basis (Figure 3) or a 'demand' basis every five years (Figure 5); and (2) the cost matrix that shows frontline staff separate to managerial staff. Should Ofcom still require a view of headcount and FTE, then we propose that Ofcom amends this schedule to request a submission for the budget year alone.

#### **Other comments.**

3.45 We have the following comments (text in yellow below are changes from the previous version of the Regulatory Accounting Guidelines):

- Ofcom proposes to require “c) revenues, volumes and costs of the Reported Business showing how the Financeability EBIT is calculated;” on a forecast basis.<sup>45</sup> This schedule is currently produced by Royal Mail’s central planning team from its financial information. It is relatively straightforward to produce the revenue and cost. Ofcom proposes to add volumes into this requirement. But it is not necessary to require volumes for the Reported Business in this schedule; we already provide Ofcom with a Revenue and Volume Schedule for the Reported Business volumes. We propose that Ofcom removes the requirement to provide volumes in this schedule as it is a duplication of information from another schedule.
- Ofcom proposes to require Royal Mail to provide its forecast revenue and volume as set out in Ofcom’s Revenue and Volume schedule (Figure 1). This figure includes a ‘Actual USO/Total Vol’ column. We understand this to be USO Mail / Total Royal Mail UK volumes. Ofcom has indicated that it wants forecast information. If Ofcom’s intention is to require forecast USO Mail volumes, this is complex and detailed. It would require detailed mapping of each forecast revenue line whether it was USO mail or not. It is possible that some rows may contain USO Mail and other volumes. In addition, the forecast USO Mail percentage could vary over time – there may need to be a different column for each year. We ask that Ofcom removes this column from Figure 1 as it brings no clear benefit.

3.46 We address Ofcom’s proposals on the Cost Matrix (Ofcom’s Figure 2) and PVEO and efficiency reporting (Ofcom’s Figure 4) in our response to Q4.1 Five yearly financial forecasts.

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<sup>45</sup> Ofcom, Changes to Royal Mail’s regulatory reporting requirements – Annex 7 RAG, 20 September 2022, Page 17.

## Five yearly financial forecasts (Q4.1)

**Ofcom question 4.1: Do you agree with our proposals regarding the Five Yearly Financial Forecasts (FYFF), and with our proposals regarding publication of Royal Mail's efficiency expectations? Please substantiate your response with reasons and evidence.**

### Summary

We consider the requirements for forecasts to be overly prescriptive and for an excessively long period. We propose to reduce the level of detail required for the FYFF in Years 4 and 5 in the ways set out below. This is to make the requirements more proportionate while still ensuring that Ofcom has sufficient information on a timely basis in order to fulfil its duties.

- **Cost Matrix (and related schedules) should focus on material items** – some of the items for which Ofcom requires a forecast in years four and five are immaterial, e.g. [£<]. It is disproportionate to require Royal Mail to provide detail on such small figures. We propose that Ofcom aggregates the Cost Matrix and supporting schedules. Our proposal is in Annex 2.
- **Efficiency initiatives** and savings should be at an aggregate level – Ofcom requires a detailed forecast by initiative for all five years. We do not yet know all our initiatives that we intend to deploy over the next five years, the further out timewise the less certainty we have. Hence providing all the initiatives for years four and five is unfeasible. Further it is micromanagement of our business. We consider that it is more proportionate to require efficiency savings at an aggregated level only in years four and five (see Annex 4 for proposed changes to Figure 4 in the AFF and Figure 9 in the FYFF).

In addition, we have the following specific suggestions to seek to make the requirement more proportionate:

- **Removal of the reconciliation of the PVEO Efficiency to Efficiency initiative level reporting.** Ofcom's requirement is for a reconciliation of these different schedules. We expect that the reconciliation of the cost movements and PVEO analysis (as shown in Figure 9) will only occur at the net cost movement level due to the different methodologies. Disaggregating into comparisons by price, volume and other is meaningless. Therefore, we believe this becomes a 'spreadsheet' exercise that adds to Royal Mail's regulatory burden but does not provide insight. We ask for Ofcom to remove the need to reconcile these schedules (therefore the AFF and FYFF schedules would be the same – see Annex 4).
- We intend to publish the efficiency expectations (and in subsequent years, the commentary) in a separate document to our audited Regulatory Financial Statements.
- We ask Ofcom to remove the following legacy requirements that are no longer used by Ofcom:
  - To reconcile forecast operational volumes to revenue derived volumes.
  - To produce a subtotal of Delivery & Collections and Processing results in the Operational Cost Metrics forecast (Figure 7).

Our response on Ofcom's proposed submission date of 31 May is set out in our response to Question 3.1. We ask that the publication of the efficiency expectations is amended to 31 July to allow for time between submitting the FYFF to Ofcom and publication.

## Our understanding of Ofcom’s requirements.

4.1 Ofcom summarised its proposals in its introduction to Section 4 of its Consultation as:

- *“To give effect to these decisions, we propose that every five years, by 31 May, Royal Mail must submit a financial forecast covering a five-year period to Ofcom, and that this must include a forecast of Workload, PVEO, Productivity (WIPGH and WIPWH), Gross Hours Reduction, Gross Hours broken down by hours type, and a reconciliation of Royal Mail’s planned efficiency initiatives to the forecast PVEO. It must also include the information required for the AFF (with some changes), meaning that every five financial years (starting in 2023/24) the requirement to provide an AFF will be replaced by the requirement to provide a FYFF. We will not accept updates to the FYFF, except in exceptional circumstances agreed with Ofcom.*
- *The information we propose to require in the FYFF must cover a five-year time period, with the same level of detail for each of the years in the FYFF.*
- *We also propose that every five years, starting in June 2023, Royal Mail must publish its five-year PVEO and Productivity (WIPGH) expectations, and that these must be consistent with those provided confidentially to Ofcom in the FYFF. We expect that these would be published in the regulatory financial statements.”*

## We ask Ofcom to amend the templates to require less detail in the Five-Yearly Financial Forecast

4.2 Ofcom’s proposal is that detail is provided for all five years for the Cost Matrix (Figure 5), PVEO (Figure 6), Operational Cost Metrics (Figure 7), Gross Hours forecast (Figure 8), and Efficiency initiatives (Figure 9). Ofcom acknowledges that there may be issues with this *“For example, precise efficiency initiatives are unlikely to be known across the whole period. However, we expect Royal Mail to be clear on the ambition it has within different areas.”*<sup>46</sup>

4.3 However, Ofcom has not set out why this level of detail is necessary in order to fulfil its duties. For example, in the cost matrix, in the Total Other Cost Categories Ofcom requires visibility of all the cost rows in the five-year forecast, but only the first two rows in AFF. As you can see in Table 5, some of these costs, e.g. [X] are [X]% or less of the Reported Business total cost base, based on the 2021-22 and 2020-21 data. This appears to be micro-management of our business. Ofcom has not set out why it would need such detailed information in order to discharge its duties. Therefore, we propose that Ofcom uses the format set out in Figure 2 instead of Figure 5 and uses the same format in the PVEO.

**Table 5: Extract from Q4 2021-22 Cost Matrix**

Cost Categories	21-22	20-21	21-22	20-21
	£m	£m	% of total	% of total
POL costs				
Bad Debts and Bank Charges				
Audit, Assurance, Consulting, Marketing & Legal				
Compensation				
Staff & Agents Related Costs & Consumables				
Low Value Assets, Other Outsourcing, Stamp Production				
Other External Costs				
Total Other Costs				

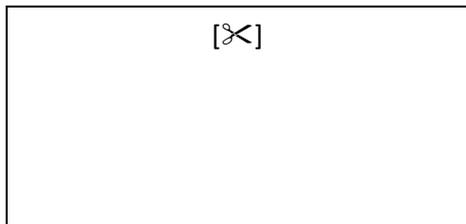
<sup>46</sup> Ofcom, Changes to Royal Mail’s regulatory reporting requirements, 20 September 2022, Paragraph 4.44.

**Ofcom’s proposal to apply the PVEO calculation for each type of transformation cost is too detailed.**

4.4 The cost matrix structure is also used in the PVEO. The PVEO calculation is performed over each of the five years. As shown in Table 6, this would require performing calculations on relatively immaterial items within Transformation costs.

**Table 6: Extract from Q4 2021-22 Cost Matrix**

Cost Categories	21-22	20-21	21-22	20-21
	£m	£m	% of total	% of total
Project Specific costs				
Voluntary redundancy - Frontline				
Voluntary redundancy - Management				
Voluntary redundancy - Other staff				
Business Transformation payments				
Other Transformation costs				
Transformation Costs				



4.5 We note that in Ofcom’s 2019 RAG, its pro forma for the PVEO only required the calculation to be performed on Transformation costs in total. We propose that Ofcom aggregates the cost rows for Transformation costs into one row for the purposes of the PVEO calculation (i.e. Figure 6 should be amended).

4.6 We propose that Ofcom aggregates the Cost Matrix to remove the excessive detail as per our proposal in Annex 2. We suggest that this replaces Ofcom’s Cost Matrix for the AFF (Figure 2) and Cost Matrix for the FYFF (Figure 5) and is used in Ofcom’s forecast PVEO (Figure 6).

**Ofcom’s proposal for efficiency level reporting by initiative for each year is unduly onerous.**

4.7 In the FYFF, Ofcom requires that Royal Mail provides a detailed schedule that lists the initiative / cost reduction programme that supports the hours and non-hours cost reductions (Figure 9). It appears to be Ofcom’s expectation that this schedule will fully itemise, on a bottom-up basis, the efficiency savings expected across each of the five years. Ofcom recognises that this is a challenge *“For example, precise efficiency initiatives are unlikely to be known across the whole period. However, we expect Royal Mail to be clear on the ambition it has within different areas.”*<sup>47</sup>

4.8 We agree with Ofcom that the detail will become progressively more meaningless the more years that it goes out. Within our three-year Business Plan horizon, there may be placeholders as to ambition that is not underpinned by specific initiatives. We suggest that we will share the detail we have with Ofcom.

4.9 For subsequent years (years four and five), we do not have comprehensive detail at the initiative level. We may know the efficiency we need to hit to deliver our financial targets. We will not necessarily know from which part of the pipeline it will come from. From a regulatory perspective, Ofcom should be indifferent to what initiative in which part of our pipeline will deliver the efficiency, as long as we deliver on the overall efficiency ambition.

4.10 Ofcom partly recognised this in its PVEO template for the AFF (Figure 4) that showed the information rolled up at a sub-total level rather than by initiative. But, even then, we may not be able to stratify the savings meaningfully into subtotals. Therefore, we propose that Figure 4 and Figure 9 are amended to show savings at a total level (rather than by initiative) in years four and five.

4.11 In Ofcom’s Figure 4, Figure 9 and Figure 21, category 3 is titled ‘Hours Pay Cost reduction Projects (subtotal)’. If this is intended to be a subtotal of category 1 (Hours Cost Reduction Projects) and category 2 (Hours Cost reduction other), then the subtotals that are Initiatives (described as including

<sup>47</sup> Ofcom, Changes to Royal Mail’s regulatory reporting requirements, 20 September 2022, Paragraph 4.44.

category 1, 3 and 4) and Other cost reductions (described as including category 2 and 5) will overstate the totals. It would be helpful if Ofcom could clarify this schedule.

- 4.12 A further suggested amendment is to rename 'Costs Avoided' to 'Costs Saved'. This would be a more accurate reflection of our efficiency reporting. We do not intend to include avoided costs in our savings. An avoided cost is a cost that we did not occur but managed to avoid through action. In our efficiency reporting, we only report the costs that were actually saved. Therefore, we ask that 'Costs avoided' in Figures 4, 9 and 21 is replaced with 'Costs Saved'.
- 4.13 To help Ofcom we set out our proposal for forecast efficiency initiative reporting for Figures 4 and 9 in Annex 4.

#### **Removal of the reconciliation of Royal Mail's cost movement reporting and PVEO.**

- 4.14 Ofcom proposes that there is a reconciliation between Royal Mail's cost movements (where costs have been mapped into Price, Volume, Efficiency and Other) and Ofcom's PVEO calculation (Figure 9). We expect the net cost movements between the two analyses to reconcile at a total level, i.e. where PVEO has been calculated on the Reported Business and where the cost movements are on the Reported Business.
- 4.15 However, we would not expect the details for each row to align due to Ofcom's prescriptive methodology to produce the PVEO. Several examples are listed below:
- **Price (inflation)** – Royal Mail will use our pay assumptions to forecast people costs pay movements over the Business Planning period. Ofcom's methodology is to use forecast Average Weekly Earnings.
  - **Volume (workload)** – Royal Mail will use current workload weights where workload was calculated and bottom up detail on areas where workload is not calculated. Ofcom's methodology is to use workload only, calculated using 2023 planning value assumptions.
  - **Other** – it is possible that Royal Mail and Ofcom will have a different view of whether a cost is recurring and whether it is within Royal Mail's control.
- 4.16 Reconciling in this way would be a mathematical exercise, increasing the work (and therefore regulatory burden) on Royal Mail for no benefit to Ofcom or Royal Mail. Comparison by price, volume and other is meaningless. We ask for Ofcom to remove the need to reconcile these schedules. We would then expect that the AFF and FYFF schedules would be the same – see Annex 4.

#### **We intend to publish the efficiency expectations (and in subsequent years, the commentary) in a separate document to our audited Regulatory Financial Statements.**

- 4.17 Although not set out in the USPAC or the RAG, Ofcom's expectation is that the publication of the five-year cumulative expectation for PVEO and Productivity is within the Regulatory Financial Statements.<sup>48</sup> The Regulatory Financial Statements are audited. A reader of the regulatory financial statements may inadvertently conclude that this has been audited.
- 4.18 We note that Ofcom has not required the inclusion of the expectation (Figure 10) nor the reporting of actuals (Figure 22) in the Regulatory Financial Statements. We intend to publish this in a separate schedule.

#### **Removal of the requirement to reconcile on a forecast basis Operational Volumes to Revenue Derived Volumes.**

- 4.19 On Page 20 of the RAG, there is a requirement to reconcile Operational Volumes to Revenue Derived Volumes. We do not believe that this reconciliation on a forecast basis would be meaningful to Ofcom

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<sup>48</sup> Ofcom, Changes to Royal Mail's regulatory reporting requirements, 20 September 2022, Paragraph 4.110.

or to Royal Mail. We do not have insight on the detail of future differences between our operational and revenue derived volumes. We believe that this is a legacy requirement that is no longer key to Ofcom's framework.

4.20 Specifically, we suggest that four paragraphs on page 20 of the RAG are removed. These are set out below.

- *"1) reconciliation of Operational Volumes to Revenue Derived Volumes for each relevant Operational Business Processes and each relevant format;*
- *2) mapping of Revenue Derived Volumes used in (g)(1) above to Revenue Derived Volumes provided under (d) above;*
- *3) mapping of the Operational Volumes recorded to the Operational Volumes in (g)(1) above;*
- *4) breakdown of the recorded Operational Volumes in (g)(3) above by the Workload weighting categories, together with the calculations carried out and the assumptions made in preparing the Workload weighting category breakdown;"*<sup>49</sup>

**Removal of the requirement to produce a subtotal of Delivery & Collections and Processing in the Operational Cost Metrics forecast (Figure 7).**

4.21 Operational Cost Metrics forecast (Figure 7) has a subtotal that is the combination of Delivery and Collections with Processing. This is also in the reporting of actual quarterly Operational Cost Metrics (Figure 17). We believe that this is a legacy reporting when a combination of delivery and processing were all the pipeline segments for which Royal Mail had a workload calculation. We are unsure whether Ofcom uses this view of workload and hours. Accordingly, we ask that Ofcom removes this subtotal from Figure 7 and Figure 17.

**Amending the publication date for the efficiency expectations to 31 July.**

4.22 As set out in our answer to Question 3.1, we have asked Ofcom to set 30 June as the date by which the AFF and the FYFF should be provided to Ofcom.

4.23 The FYFF also requires the publication of efficiency expectations. Ofcom's proposal is *"that the deadline for publication of these expectations every five years (starting in 2023) to be 90 days after the start of the first financial year to which they relate (late June). We consider this provides Royal Mail with sufficient time to prepare this information for publication, following the submission of the FYFF by 31 May."*<sup>50</sup>

4.24 Ofcom's proposal is to allow one month between submission of the FYFF and publishing the efficiency expectations. We believe that, on the basis that the FYFF should be put back to 30 June and that the publication of the efficiency expectations should be put back to 31 July.

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<sup>49</sup> For the calculation of workload, Ofcom may wish to retain an obligation to show the operational volumes, but the paragraph will need amending to remove reference to (g)3

<sup>50</sup> Ofcom, Changes to Royal Mail's regulatory reporting requirements, 20 September 2022, Paragraph 4.110.

## Reporting on actual performance (Q5.1)

Ofcom question 5.1: Do you agree with our proposals regarding reporting on actual performance, including our proposals for the commentary Royal Mail must provide, both publicly and confidentially to Ofcom? Please substantiate your response with reasons and evidence.

### Summary

Most of the specific comments on the templates are addressed elsewhere in this document. In our answer to this question, we propose the following specific suggestions to seek to make the requirement more proportionate:

- **Remove requirement to attribute specific items in the Reported Business Annual Income Statement and Reported Business quarterly and annual income statement (Figure 11 and 12).** Specific item cost does not form part of the Financeability EBIT;
- **Remove requirement for USO mail volume percentage in the schedule actual quarterly revenue and volume (Figure 16).** It can be provided from another schedule if necessary;
- **Update the Cost Matrix template (Figure 15)** to reflect Royal Mail's current business structure and reporting to show transformation costs in pay and non-pay rows;
- **Remove the requirement for the reconciliation of operational traffic to revenue derived traffic** on a quarterly basis. We believe that this is a legacy requirement.

### Our understanding of Ofcom's requirements

5.1 Ofcom summarised its proposals (in its introduction to Section 5 of its Consultation) as:

- *"All existing requirements on Royal Mail to report its actual performance to Ofcom will be retained. However, we are proposing some changes to these requirements which largely seek to ensure that there is comparability between the financial forecasts and Royal Mail's actual performance data.*
- *In addition, we propose to require Royal Mail to publish annually, from 2024 onwards, in its regulatory financial statements, its cumulative PVEO and Productivity (WIPGH) performance, and to provide commentary on its performance in that financial year.*
- *Finally, we propose to require Royal Mail to provide some additional confidential commentary to Ofcom alongside its annual PVEO and Productivity (WIPGH) performance information."*

**The pro formas for the Reported Business Annual Income Statement and Reported Business quarterly and annual income statement (Figure 11 and Figure 12) now require the attribution of specific items. We ask that Ofcom retains the existing approach not to require attribution of this cost.**

5.2 The pro formas for the Reported Business Annual Income Statement and Reported Business quarterly and annual income statement (Figure 11 and Figure 12) show the requirement to attribute specific items to USO Mail (Figure 11) and USO Mail, Non-USO Mail and Non-Mails (Figure 12). Ofcom's existing pro formas do not require these (see Figure 1 and Figure 2 from Ofcom's 2019 RAG). These costs are not included in the Financeability EBIT. We ask that Ofcom keeps to the existing approach of not requiring the attribution of specific costs.

5.3 See also paragraph 6.14 for our proposals on the reporting of transformation in these schedules.

**The pro forma for the reporting of actual Quarterly Revenue and Volume (Figure 16) requires a view of USO Mail volume as a % of total Volume. We propose that this is removed as it can be provided from the Data Extract File.**

- 5.4 Figure 16 has a column 'Actual USO/Total Vol'. We understand this to be USO Mail / Total Royal Mail UK volumes. We consider that this new requirement is not necessary as Ofcom has the data already to calculate an analysis of USO mail volume. Royal Mail is required to provide the data extract file which provides granular revenue analysis by product. This same file also includes the SPHCC hierarchy that enables Ofcom to produce a view of USO Mail. In addition, Royal Mail provides via Figure 12 (Figure 2 from the 2019 RAG) a view of USO Mail revenue.
- 5.5 All the information in this schedule is currently sourced from our central finance systems. We may need to source the USO mail from our ABC model. It is more complex to add in information from Royal Mail's ABC system into reporting templates built into our management accounting / central finance systems. Alternatively, we would need to undertake detailed mapping of each forecast revenue line as to whether it was USO mail or not. It is possible that some revenue lines may contain both. Our suggestion is that Ofcom removes the requirement and uses the data extract file to generate the information it needs.

**The Cost Matrix template (Figure 15) should be updated to reflect Royal Mail's current business structure and reporting to show transformation costs in pay and non-pay rows.**

- 5.6 While stable reporting structures and hierarchies are required to ensure consistent reporting over time, they need to be periodically updated and refreshed to ensure that they remain relevant. However, some of the reports use structures/hierarchies that were put in place over a decade ago when Ofcom took over responsibility for post in 2011. Others were set in Ofcom's December 2017 Regulatory Reporting statement. Following Ofcom's review of regulation, there is now an opportunity to use more contemporary reporting structures for the next five years.
- 5.7 'Legacy' reporting drives additional unnecessary cost – we understand that some of Ofcom's reporting structures/hierarchies will continue for good reason. For example, we agree that the Reported Business remains the relevant regulatory reporting entity in relation to the Universal Service. However, there may be other reporting structures (e.g., transformation cost to be shown as a discrete row) which are not so integral to Ofcom's regulatory regime. Producing information using 'legacy' reporting structures drives additional cost into Royal Mail.
- 5.8 At this stage in the regulatory cycle, we consider now is an ideal opportunity to use more contemporary reporting hierarchies. We suggest that Ofcom aligns to Royal Mail's reporting structure for cost. This would be more proportionate and reduce the regulatory reporting burden on Royal Mail. We suggest that Ofcom reports these transformation costs in with the pay / non-pay category rather than a separate reporting row.

**RAG requires the reconciliation of Operational Traffic to Revenue Derived Traffic. We believe that this is a legacy requirement and propose that this requirement is removed.**

- 5.9 On Page 28 of the RAG against USPAC requirement 1.4.1h, Ofcom requires that Royal Mail reconciles the Operational volumes to Revenue Derived Volumes on a quarterly basis. This schedule takes time to produce. We believe it is a legacy requirement and we are unaware how Ofcom uses this information to discharge its regulatory duties. It may no longer be used by Ofcom. We ask that this requirement is removed.

**Issues addressed elsewhere in this document.**

- 5.10 In addition to our comments set out above, we also provide comments in relation to the requirements for reporting on actual performance in other parts of this document. In particular:

- 5.11 Our ask to remove the subtotal of the combination of Delivery & Collections and Processing from the Operational Cost Metrics (Figure 17) is covered in paragraph 4.21. We ask that this is removed as we believe it is a 'legacy' reporting requirement.
- 5.12 Our ask to clarify Category 3 in the Efficiency Initiative report (Figure 21) is set out in paragraph 4.11 and to rename 'Costs Avoided' as 'Costs saved' in addressed in paragraph 4.12. We also note that, as set out in paragraphs 4.14 – 4.16, we do not expect the individual P, V, E and O categories to reconcile in Figure 21.

## Other changes to reporting requirements (Q6.1)

Ofcom question 6.1: Do you agree with our proposals to make changes in relation to the change control requirement, the statements of capital employed and cash flow, reporting on a 52/53 week basis, and the copy on request requirements? Please substantiate your response with reasons and evidence.

### Summary

**We agree with the simplification of change control requirements in principle.** We propose a minor amendment to the reporting pro forma to reduce the burden of reporting on the changes to Royal Mail's ABC system.

**We welcome Ofcom's proposal to remove the requirement to produce a capital employed statement and cash flow statement for the Reported Business.** It reduces the regulatory burden of financial reporting.

We have several other proposals that will reduce the regulatory burden while continuing to ensure Ofcom receives the information it needs to discharge its duties. These proposals are set out below.

- **We ask that Ofcom confirms that our understanding of its requirement for 52 week reporting is correct.** We understand Ofcom's need for comparatives. As much as possible, we ask to avoid duplication of work and complexity in the production of 52 and 53 week information.
- **We ask that Ofcom replaces references to Royal Mail plc with International Distributions Services plc.** International Distributions Service plc is our new name for the group.
- **We ask that transformation costs in the Reported Business Annual Income statement and Reported Business Annual and Quarterly Income Statement (Figures 11 and 12) are reported in pay and non-pay rather than as a separate row.** This will make it consistent with our internal reporting.
- **We ask that Ofcom removes the requirement in USPAC 1.4.1c to reconcile the annual results to the quarterly regulatory income statements** – our ABC model processes cumulatively so the Q4 results are the annual results.
- **We ask that the requirement for unaudited Q4 information from the ABC system is removed.** Instead, all schedules from Royal Mail's ABC system would be provided to the same timetable as the audited regulatory financial statements. This is to avoid duplication. A view of the unaudited Reported Business results would still be provided to the existing timeline from the management accounts.
- **We ask that the audit requirement on the Annual Regulatory End to End Income statement (Figure 12) is removed.** We would continue to provide it confidentially with a reconciliation to the published schedules. This is to avoid the production of a completely separate audited schedule.
- **We ask that Ofcom amends the date by which the audited regulatory financial schedules are required to add two further weeks to the timetable.** The current timeline (changed in 2017) is extremely tight.
- **We ask that Ofcom makes a minor amendment to the Essential Condition to remove the number of prosecutions required.** We understand this is a legacy requirement that is no longer relevant.

## **Our understanding of Ofcom's requirements.**

6.1 Ofcom summarised its proposals (in its introduction to Section 6 of its Consultation) as:

- *“Specifically, we propose to simplify the change control requirement, remove the requirement to provide Reported Business statements of capital employed and cash flow, amend the definition of financial year, quarter and month, for 53-week financial years, require Royal Mail to restate some forecast and actual information on both a 52- and 53-week basis ... and the requirement to provide copies of published information to any person at their written request..”*

## **We agree with the simplification of change control requirements in principle. We propose a minor amendment to the reporting to reduce the burden.**

6.2 Broadly we agree with Ofcom's proposals that:

- An annual submission would be preferable;
- A deadline of 30 days before year-end would be proportionate;
- The level of detail should be reduced; and
- Only material changes are reported individually.

6.3 These are welcome changes that will reduce the regulatory reporting burden and means it more likely that Royal Mail will be able to make changes during the financial year rather than at the end of it.

6.4 We do propose a minor amendment to the new pro forma that has been issued by Ofcom (Table A). In Annex 6, we set out the number of model runs that would be required for six methodology changes – three material and three immaterial changes.

- To assess each change, Royal Mail needs to run its ABC system model. Six changes will require six model runs. The results could be added together to assess the impact. This would not capture the impact of cumulative changes where the impact of all the changes together would not be the same as the sum of the individual changes.
- Ofcom's proposal is to model the cumulative impact of (1) all material changes, (2) all non-material changes and (3) all changes. This means that we would need to run three additional models, so nine models in total.

6.5 We propose a more appropriate alternative where we would model the cumulative impact of all changes, i.e. in this case, we would run seven models. The combined impact of non-material changes and of material changes would be a subtotal rather than a new run. Our proposal for one combined model would capture the difference between summing all the individual models and the impact of changes on changes.

6.6 We believe our alternative is a more appropriate and proportionate response for two main reasons. First, where we know that two methodology changes affect the same part of the pipeline, we would model them together so we would understand the combined impact of the changes. Second, where two methodology changes affect different parts of the pipeline, these two changes in combination would only impact the allocation of general overheads, i.e. second-order impacts.

6.7 In Ofcom's statement, it would be helpful if Ofcom could confirm that in the pro forma in Table A that the attribution of general overheads between upstream and downstream services should follow the same apportionment as that in the Data Extract File.

**We welcome Ofcom’s proposal to remove the requirement to produce a capital employed statement and cash flow statement for the Reported Business.<sup>51</sup>**

6.8 This is a welcome appropriate step to reduce the regulatory burden.

**We ask that Ofcom confirms that our understanding of its requirement for 52 week reporting is correct. We understand Ofcom’s need for comparatives. As much as possible, we ask to avoid duplication of work and complexity in the production of 52 and 53 week information.**

6.9 Ofcom states in its consultation that:

- *“for any financial year which comprises 53 weeks, require Royal Mail to provide the revenues, volumes, costs and Financeability EBIT of the Reported Business on both the 53-week and 52-week equivalent bases; together with explanations of the methodologies applied to restate that information on an equivalent 52-week Financial Year basis; and also require Royal Mail to provide Cost Matrix, PVEO and Productivity (WIPGH) based on a 53-week Financial Year together with explanations of the appropriate methodologies to restate that information on an equivalent 52-week Financial Year basis; and*
- *for any forecast year in the AFF or FYFF which comprises 53 weeks, require Royal Mail to provide the revenues, volumes, costs and Financeability EBIT of the Reported Business for that forecast year on both the 53-week and 52-week equivalent bases, together with explanations of the methodologies applied to restate that information on an equivalent 52-week basis.”<sup>52</sup>*

6.10 The first bullet point appears to be different (in our understanding) to what is set out on Page 26 and 28 of the RAG. We believe that Ofcom’s intent in the RAG is to give effect to its proposals in the Consultation. For example,

- On Annual Product Profitability statements, the Page 28 of the RAG requires Royal Mail, in a 53-week year, to provide an explanation of the appropriate methodologies to restate that information on an equivalent 52-week Financial Year basis. This is not in Ofcom’s Consultation.
- Ofcom’s Consultation (as above) requires the revenues, volumes, costs and Financeability EBIT of the Reported Business on a 52 and 53-week basis. It does not require USO mail or any regulatory reporting entity below Reported Business to be produced on a 52 week basis. However, we understand Ofcom’s intention may be to do so. It will not be feasible to do this by re-running the ABC model onto a 52-week basis.

6.11 We ask that Ofcom confirms our understanding is as set out above and then updates the RAG and/or Consultation appropriately.

6.12 We understand that Ofcom’s need for data on a consistent basis for trend and comparative purposes. Our intention will be to be consistent with our approach for statutory reporting when we produce a 52 week equivalent. Where at all possible, we intend to follow a high-level approach. This avoids spurious detail and excessive complexity. For example, we do not consider it practical to refresh all the inputs into our ABC model onto a 52-week basis.

**We ask that Ofcom replaces references to Royal Mail plc with International Distributions Services plc.**

6.13 In the Royal Mail plc trading update for the First Quarter April to June 2022, it was announced that Royal Mail plc would be renamed International Distributions Services plc to reflect the group structure

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<sup>51</sup> Ofcom states that it has “not recently used these statements and we do not expect that we will need these statements on a regular basis in the future” Ofcom, Changes to Royal Mail’s regulatory reporting requirements, 20 September 2022, Paragraph 6.24.

<sup>52</sup> Ofcom, Changes to Royal Mail’s regulatory reporting requirements, 20 September 2022, Paragraph 6.35.

of two separate companies. This change came into effect in October 2022. We ask that Ofcom updates the relevant references in the USPAC and the RAG.

**We ask that transformation costs in the Reported Business Annual Income statement and Reported Business Annual and Quarterly Income Statement (Figures 11 and 12) are reported in pay and non-pay rather than as a separate row.**

- 6.14 We consider Ofcom's consultation is an opportunity to use more up to date reporting hierarchies. We ask that transformation costs are reported in pay and non-pay costs, rather than as a separate reporting row. We consider that transformation is an ongoing activity. It is not 'exceptional', requiring separate reporting. It should be merged with pay and non-pay. We believe that this is recognised by Ofcom as the calculation of the Financeability EBIT margin is after transformation costs. We expect that this will also benefit other stakeholders who are more familiar with Royal Mail's statutory results. These present transformation costs within pay and non-pay rows. Such a change would make the Regulatory Financial Statements more consistent with the statutory results, helping stakeholders to understand them better.

**We ask that Ofcom removes the requirement in USPAC 1.4.1c to reconcile the annual results to the quarterly regulatory income statements – our ABC model processes cumulatively so the Q4 results are the annual results.**

- 6.15 For many years, Royal Mail's ABC model has processed cumulatively. We set out below what this means:

- The Quarter 1 results = one model containing the results for periods 1 to 3 combined.
- The cumulative Quarter 2 results = one model containing the results for periods 1 to 6 combined, not Q1 model + periods 4 to 6 for Q2.
- The cumulative Quarter 3 results = one model containing the results for periods 1 to 9 combined, not Q1 model + Q2 model + periods 7 to 9 for Q3.
- The cumulative Quarter 4 results = one model for periods 1 to 12 combined, not Q1 model + Q2 model + Q3 model + periods 10 to 12 for Q4. i.e., the cumulative Quarter 4 results are the full year results.

- 6.16 This means that when the Q4 results are run through the ABC model it has the revenues, costs and volumes for the year. Put another way, the Q4 model run is the run that generates the annual results. Therefore, the requirement in USPAC for the reconciliation between the quarterly results and the annual results is not required. So, we ask that the requirement is removed.

**We ask that the requirement for unaudited Q4 information from the ABC system is removed. Instead, all schedules from Royal Mail's ABC system would be provided to the same timetable as the audited regulatory financial statements.**

- 6.17 From our ABC system, Royal Mail provides the Q4 unaudited schedules 54 days after year-end, and then the Q4 audited schedules 90 days after year-end. Ofcom receives some of the schedules twice (which is a duplication). Therefore, we ask that Ofcom removes the need for unaudited Q4 reporting from the ABC system – this affects Figures 12, Figures 14 and Figure 18. This is to reduce duplication in the production of information.
- 6.18 We understand that Ofcom will want to see the (unaudited) results as soon as possible after the year-end. Therefore, Royal Mail could provide the unaudited income statement for the Reported Business from the management accounts to the existing timescales. This will provide a reasonable early view

of the Reported Business results.<sup>53</sup> We show what this will look like in Annex 5. This schedule would be provided 54 days after year-end, and the 'full' Figure 12 would be submitted alongside the audited results (see below for proposal that our proposal the audit requirement on this schedule is removed). We note that quarterly reports sourced from Royal Mail's management accounts (Figure 15, Figure 16, Figure 17, Figure 19 and Figure 20) would be produced to the existing timetable.

- 6.19 For avoidance of doubt, Ofcom would receive all the schedules it currently receives by the time that the audited Q4 information is provided.

**We ask that the audit requirement on the Annual Regulatory End to End Income statement (Figure 12) is removed.**

- 6.20 Royal Mail publishes the Reported Business Annual Income statement in its audited Regulatory Financial Statements. This provides the Reported Business results, split into USO Mail and Other. We are also required to provide a slightly more detailed income statement to Ofcom (Regulatory End to End Income statement). This reports the Reported Business results split into USO Mail, Non-USO Mail and Non-Mail, i.e. Other is now separated into the two last categories. We have no issues with the provision of this information to Ofcom to enable it to discharge its duties.

- 6.21 However, the RAG requires that this schedule is audited.<sup>54</sup> Therefore, we have submitted this audited schedule confidentially to Ofcom. In doing so, it has required a separate audit opinion, statement of Directors' Responsibilities, basis of preparation, etc. in order to meet the requirements of USPAC 1.5.5.

- 6.22 Our view is that it is not necessary for this schedule to be audited for two main reasons. First, we provide the Regulatory End to End Income Statement to Ofcom, we can provide a reconciliation that shows the non-USO Mail and Non-Mail is the same as the 'Other' in the published statement. Second, Ofcom also receives the Data Extract File that has the detail to enable Ofcom to cross-check this analysis.

- 6.23 Therefore, we ask Ofcom to remove the audit requirement on Regulatory End to End Income statement. Instead, we propose to provide this schedule with a reconciliation back to the audited statements instead at the same time that the audited schedules are submitted.

**We ask that Ofcom adds two weeks to the timeline to produce the audited regulatory financial schedules.**

- 6.24 In Ofcom's December 2017 Statement<sup>55</sup>, it reduced the timeline to produce the regulatory financial statements from 120 days to 90 days after the period end. It has been our experience since this new framework has been put in place that this timeline is extremely tight with no flexibility.

- 6.25 There is just over five weeks from finalising the Full Year Statutory Accounts to submitting the Full Year audited Regulatory Financial Schedules. Broadly, the timing for producing the schedules and the necessary governance process is:

- 1 week to produce the schedules (the statutory results need to be finalised first);
- 1 week for first review and feedback;
- 1 week for second review with CFO and feedback;
- 1 week for Audit and Risk Committee (who need a week to review); and
- 1 week for sign-off meeting and submission.

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<sup>53</sup> There are minor differences between the reported business results calculated from the management accounts and reported in Royal Mail's ABC, with the latter being what is reported in the Annual Regulatory Financial Statements.

<sup>54</sup> Page 61 of the RAG, Ofcom requires USPAC 1.5.2 (a) Regulatory End to End Income Statement to be audited.

<sup>55</sup> Ofcom, Regulatory financial reporting for Royal Mail, 18 December 2017.

6.26 We have found this very tight to achieve. There is little time for re-work and/or any changes arising from the external audit process, review by senior management and by the Audit and Risk Committee. So, we ask for two weeks to be added back into the reporting timeline, increasing the timeline to 104 days. We consider this to be a more realistic deadline than the current deadline.

**We ask that Ofcom makes a minor amendment to the Essential Condition to remove the number of prosecutions required.**

6.27 There is a requirement within the essential condition to provide Ofcom and the Consumer Advocacy Bodies with the number of relevant 'prosecutions'. We ask that this is removed as it is no longer meaningful nor useful for Ofcom to fulfil its duties.

6.28 Since 2012, the Ministry of Justice, the Home Office and National Policing have explored 'alternative' outcome options for offenders, away from traditional prosecution routes. We have been encouraged to follow suit. We have changed our approach to dealing with Mail Integrity offenses. In particular, we have explored swift outcome resolutions through our conduct code and civil restitution methods of loss recovery, we will continue to deal effectively with all identified offending members of staff. We will continue to record offender resolutions as per previous reporting years.

6.29 We consider that removing this requirement would be a relatively minor change – like the change to the Delivery Direction - that should be made as soon as feasible.

**Other comments.**

6.30 **We agree with the requirement to remove the need to provide a copy of the published information on request.** We are unaware of anyone, in recent history, who has made such a request. All information is available on our website.

6.31 We believe that the reference to workload in Table 4 of Ofcom's consultation 'Overview of quarterly actual reporting requirements and proposed changes' should be in Table 3 'Overview of annual reporting requirements and proposed changes'. The reference to workload states that the change is that rebasing will occur on the latest FYFF than the 2015 Business Plan. The requirement in the RAG on pages 28 and 19 in relation to 1.4.1h to produce workload using the latest FYFF is only in relation to Quarter 4, i.e., an annual requirement. It would be helpful if Ofcom could confirm.

## USO delivery suspensions (Q6.2)

**Ofcom question 6.2: Do you agree with our proposal in relation to USO delivery suspensions? Please substantiate your response with reasons and evidence.**

### Summary

We agree with Ofcom's proposal to remove the requirement for Royal Mail to notify Ofcom within one week of any new multi-premises delivery suspension. As Ofcom has stated, it is a disproportionate regulatory requirement. It does not benefit consumers.

- 6.32 We are proud to deliver the Universal Service and recognise the importance consumers place on delivery of mail. Royal Mail only suspends delivery in exceptional circumstances, such as health and safety grounds. Should it be necessary to put suspend delivery, we notify consumer(s) as soon as is practicable. There is a process to review this decision. We agree with Ofcom that, after removing the notification requirement, Ofcom's framework continues to provide appropriate protections for consumers.

## Timetable and legal tests (Q7.1)

**Ofcom question 7.1: Do you agree with our proposal for the changes to the USP Accounting Condition, the RAG and the Delivery Exceptions Direction to come into force on 27 March 2023? Please substantiate your response with reasons and evidence.**

### Summary

We ask that:

(1) the changes to the Delivery Exceptions Direction comes into effect as soon as Ofcom publishes its statement; and

(2) Ofcom delays implementation of its framework to 2023/24 to provide sufficient time for us to change our processes to meet the new regulatory requirements. If not, we request that Ofcom it issues its statement as soon as possible.

- 7.1 We ask that Ofcom's changes to the Delivery Exceptions Direction comes into effect on the date of Ofcom's statement. This is because it is a discrete change that can be implemented immediately through a manual process that can be easily stopped. We do not see any reason to hold back this change to align with the other proposed changes.
- 7.2 We ask that Ofcom considers delaying implementation of its regulatory reporting framework to 1 April 2024 (i.e. the start of the 2024/25 year) for three main reasons.
- 7.3 First, there is insufficient time between Ofcom's statement and the reporting requirements coming into effect. Ofcom has stated that its changes come into effect on 27 March 2023, at the start of the 2023/24 financial year. But it has also stated that it intends to publish its statement in Q4 2022-23. In extremis, that means Ofcom could publish on the same day it expects its framework to come into effect. The last time Ofcom made significant changes to the regulatory framework it published its decision document on 18 December 2017 with its framework to come into effect on 26 March 2018 – allowing Royal Mail over three months for implementation.
- 7.4 Second, until a final statement is published it remains unclear what the reporting requirements will be. While we are making our own response to this consultation, it is unclear how other stakeholders will respond and then how Ofcom will take the submissions into account when setting the final requirements. Starting preparing now risks spending time setting up new templates and processes that may not be used or may need further changes and this could be costly. For example, the requirement on FYFF to include a sensitivity model will require material changes to our current business planning approach, including agreement over the 'high' and 'low' key assumptions.
- 7.5 Third, as we have set out elsewhere in our response, the UK macroeconomic outlook as well as our own commercial and operating challenge are highly uncertain, affecting our volume and revenue forecasts. It is far from obvious to us that 2022/23 is the right year on which to anchor five-year expectations. We believe it is appropriate for Ofcom to delay implementing its framework to get to a more 'BAU' base year. We do recognise that this presumes 2023/24 will be such a year.
- 7.6 If Ofcom decides that it does need to implement its framework from 27 March 2023, we ask that Ofcom issues its statement as soon as possible, ideally before Q4 2022-23.

## Annex 1: Proposed Revenue and Volume Forecast Template (Ofcom's Fig 1)

**Figure 1: Revenue and Volume Forecast**

	Volume					Revenue					AUR				
	f'cast	f'cast	f'cast	f'cast	f'cast	f'cast	f'cast	f'cast	f'cast	f'cast	f'cast	f'cast	f'cast	f'cast	f'cast
	Yr1	Yr2	Yr3	Yr4	Yr5	Yr1	Yr2	Yr3	Yr4	Yr5	Yr1	Yr2	Yr3	Yr4	Yr5
<b>Parcels</b>															
Domestic Account Parcels	xx	xx	xx			xx	xx	xx			x.xx	x.xx	x.xx		
Domestic Account Parcels (Amazon)	xx	xx	xx			xx	xx	xx			x.xx	x.xx	x.xx		
RM 24/48 Large Letters	xx	xx	xx			xx	xx	xx			x.xx	x.xx	x.xx		
Tracked and Tracked returns	xx	xx	xx			xx	xx	xx			x.xx	x.xx	x.xx		
Special Delivery	xx	xx	xx			xx	xx	xx			x.xx	x.xx	x.xx		
Other Domestic Account parcels	xx	xx	xx			xx	xx	xx			x.xx	x.xx	x.xx		
Less eCourier o/s RB						xx	xx	xx							
Network Access Parcels	xx	xx	xx			xx	xx	xx			x.xx	x.xx	x.xx		
<b>Account Parcels</b>	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	x.xx	x.xx	x.xx	x.xx	x.xx
Stamped Parcels	xx	xx	xx			xx	xx	xx			x.xx	x.xx	x.xx		
USO Account and Metered Parcels	xx	xx	xx			xx	xx	xx			x.xx	x.xx	x.xx		
Special Delivery - USO	xx	xx	xx			xx	xx	xx			x.xx	x.xx	x.xx		
<b>Consumer &amp; Small Business Parcels</b>	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	x.xx	x.xx	x.xx	x.xx	x.xx
International Import Parcels	xx	xx	xx			xx	xx	xx			x.xx	x.xx	x.xx		
Non-Revenue Generating Parcels	xx	xx	xx			xx	xx	xx			x.xx	x.xx	x.xx		
<b>RM Parcels (For Delivery in the UK)</b>	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	x.xx	x.xx	x.xx	x.xx	x.xx
International Export Parcels	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	x.xx	x.xx	x.xx	x.xx	x.xx
Parcel Contingency	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx					
<b>Total Parcels inc Rm 24/48 LL (A)</b>	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	x.xx	x.xx	x.xx	x.xx	x.xx
<b>Letters</b>															
Retail Addressed Advertising Letters	xx	xx	xx			xx	xx	xx			x.xx	x.xx	x.xx		
Unaddressed Advertising Letters	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	x.xx	x.xx	x.xx	x.xx	x.xx
Network Access Advertising Letters	xx	xx	xx			xx	xx	xx			x.xx	x.xx	x.xx		
<b>Advertising Letters</b>	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	x.xx	x.xx	x.xx	x.xx	x.xx
Retail Bulk Business Mail Letters	xx	xx	xx			xx	xx	xx			x.xx	x.xx	x.xx		
Network Access Business Mail Letters	xx	xx	xx			xx	xx	xx			x.xx	x.xx	x.xx		
<b>Business Mail Letters</b>	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	x.xx	x.xx	x.xx	x.xx	x.xx
USO Account and Metered Letters	xx	xx	xx			xx	xx	xx			x.xx	x.xx	x.xx		
Stamped Letters	xx	xx	xx			xx	xx	xx			x.xx	x.xx	x.xx		
<b>Consumer &amp; Small Business</b>	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	x.xx	x.xx	x.xx	x.xx	x.xx
International Import Letters	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	x.xx	x.xx	x.xx	x.xx	x.xx
Elections	xx	xx	xx			xx	xx	xx			x.xx	x.xx	x.xx		
Non-Revenue Generating Letters	xx	xx	xx			xx	xx	xx			x.xx	x.xx	x.xx		
Other	xx	xx	xx			xx	xx	xx			x.xx	x.xx	x.xx		
<b>Royal Mail Letters (For Delivery in the UK)</b>	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	x.xx	x.xx	x.xx	x.xx	x.xx
International Export Letters	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	x.xx	x.xx	x.xx	x.xx	x.xx
Letter contingency	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx					
Philatelic	xx	xx	xx			xx	xx	xx			x.xx	x.xx	x.xx		
Data & Innovations	xx	xx	xx			xx	xx	xx			x.xx	x.xx	x.xx		
Central Group Income	xx	xx	xx			xx	xx	xx			x.xx	x.xx	x.xx		
Revenue Earned from POL	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	x.xx	x.xx	x.xx	x.xx	x.xx
<b>Total Letters (A)</b>	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	x.xx	x.xx	x.xx	x.xx	x.xx
<b>Plus: inter-business charge to PFW</b>						xx	xx	xx	xx	xx					
<b>Plus: inter-company charges</b>						xx	xx	xx	xx	xx					
<b>Reported Business</b>	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	x.xx	x.xx	x.xx	x.xx	x.xx
<b>Reconciliation to RMUK</b>															
Parcelforce	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	x.xx	x.xx	x.xx	x.xx	x.xx
eCommerce Acquisitions	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx					
Plus eCourier	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx					
<b>Other Royal Mail Parcels (C)</b>	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	x.xx	x.xx	x.xx	x.xx	x.xx
<b>Romec (D)</b>	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	x.xx	x.xx	x.xx	x.xx	x.xx
<b>Royal Mail UK (A+B+C+D)</b>	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	x.xx	x.xx	x.xx	x.xx	x.xx
Addressed Letters (excl. Elections)	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	x.xx	x.xx	x.xx	x.xx	x.xx
Inland Addressed Letters	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	x.xx	x.xx	x.xx	x.xx	x.xx
Addressed UK Delivered Letters	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	x.xx	x.xx	x.xx	x.xx	x.xx
Total Addressed Letters	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	x.xx	x.xx	x.xx	x.xx	x.xx
Total Royal Mail Letters (excl. Elections)	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx	x.xx	x.xx	x.xx	x.xx	x.xx

## Annex 2: Proposed Template for Cost Matrix Forecast (Figure 2 and Figure 5) and to be used in the forecast PVEO (Figure 6)

**Figure 2: Cost Matrix forecast**

	Yr1	Yr2	Yr3	Yr4	Yr5
	£m	£m	£m	£m	£m
Processing	XX	XX	XX		
Regional Logistics	XX	XX	XX		
Delivery & Collections	XX	XX	XX		
RDC Operation	XX	XX	XX		
Other Frontline people costs	XX	XX	XX		
<b>Sub-total Frontline</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>
Network Road Operations	XX	XX	XX		
Other/Managers	XX	XX	XX		
<b>Operations</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>
Other people - Commercial	XX	XX	XX		
Other people - Technology	XX	XX	XX		
Other people - Property	XX	XX	XX		
Other people - Central Admin	XX	XX	XX		
<b>Total Other People</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>
Centrally Held (see Note 2)	XX	XX	XX		
<b>Total people costs</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>
Conveyance Charges - Domestic (see Note 2)	XX	XX	XX		
Conveyance Charges - International (see Note 2)	XX	XX	XX		
Other Distribution costs (see note 2)	XX	XX	XX		
International Terminal Dues (see Note 3)	XX	XX	XX	XX	XX
Vehicle Fleet	XX	XX	XX		
Fuel	XX	XX	XX		
<b>Total Distribution &amp; Conveyance Costs</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>
Property	XX	XX	XX		
Romec FM Costs	XX	XX	XX		
IT & Communication	XX	XX	XX		
Depreciation & Amortisation	XX	XX	XX		
<b>Total Infrastructure Cost</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>
Bad Debts and Bank Charges	XX	XX	XX		
POL costs	XX	XX	XX	XX	XX
Audit, Assurance, Consulting, Marketing & Legal Compensation	XX	XX	XX		
Staff & Agents Related Costs & Consumables	XX	XX	XX		
Low Value Assets, Other Outsourcing, Stamp Production	XX	XX	XX		
Other External Factors	XX	XX	XX		
<b>Total Other Costs</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>
Property Internal recharge	XX	XX	XX		
PFW - Internal recharge	XX	XX	XX		
Other - Internal recharges	XX	XX	XX		
<b>Total Internal recharges</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>
Budget Contingency	XX	XX	XX	XX	XX
<b>Total Other Operating Costs</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>
<b>Total non-people costs</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>
<b>Total Costs</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>
Project Specific costs	XX	XX	XX		
Voluntary redundancy - Frontline	XX	XX	XX		
Voluntary redundancy - Management	XX	XX	XX		
Voluntary redundancy - Other staff	XX	XX	XX		
Business Transformation payments	XX	XX	XX		
Other Transformation costs	XX	XX	XX		
<b>Transformation Costs</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>
<b>Total costs after Transformation Costs</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>	<b>XX</b>

### Annex 3: Proposed Template for forecast 'supply' Gross Hours (Ofcom's Gross Hours by time Category - Figure 3)

Figure 3 Gross Hours by time Category - forecast					
	Yr1	Yr2	Yr3	Yr4	Yr5
Frontline	k	k	k	k	k
<b>Ordinary/Normal (Full and part time)</b>	xx				
<i>Ordinary casual/Temporary</i>	xx				
<i>Agency Casuals/Temporary</i>	xx				
<b>Total Casuals/Temporary</b>	xx				
<i>Overtime - contractual</i>	xx				
<i>Overtime - non contractual</i>	xx				
<b>Total Overtime</b>	xx				
<b>Total Gross Hours</b>	xx	xx	xx	xx	xx
<b>Salary Costs - Including related pay</b> (excl employers NI & Pension costs)	Yr1 £m	Yr2 £m	Yr3 £m	Yr4 £m	Yr5 £m
<b>Ordinary/Normal (Full and part time)</b>	xx				
<i>Ordinary casual/Temporary</i>	xx				
<i>Agency Casuals/Temporary</i>	xx				
<b>Total Casuals/Temporary</b>	xx				
<i>Overtime - contractual</i>	xx				
<i>Overtime - non contractual</i>	xx				
<b>Total Overtime</b>	xx				
<b>Total Salaries</b>	xx	xx	xx	xx	xx

## Annex 4: Proposed Template for Efficiency initiative including related cost reporting (Figure 4 and Figure 9)

**Figure 4: Efficiency initiatives including cost information forecast**

		Forecast Yr 1	Forecast Yr 2	Forecast Yr 3	Forecast Yr 4	Forecast Yr 5		
Costs movement	Business Unit*	Efficiency initiatives/Cost Reduction Programmes	£m	£m2	£m3	£m4	£m5	PVEO Cost Type
<b>Cost savings (2)</b>	....	xx	xx	xx				E
	<b>1. Hours Cost Reduction Projects</b>	xx	xx	xx				E
	...	xx	xx	xx				E
	<b>2. Hours Cost Reduction Other</b>	xx	xx	xx				E
	...	xx	xx	xx				E
	<b>3. Hours Pay Cost Reduction Projects (subtotal)(1)</b>	xx	xx	xx				E
	...	xx	xx	xx				E
	<b>4. Non Hours Cost Reduction Projects</b>	xx	xx	xx				E
	...	xx	xx	xx				E
	<b>5. Non Hours Cost Reduction (Other)</b>	xx	xx	xx				E
	<b>(1), (3) and (4)</b>	<b>Initiatives</b>	xx	xx	xx			E
	<b>(2) and (5)</b>	<b>Other Cost Reductions</b>	xx	xx	xx			E
	<b>6. Total Cost savings</b>	xx	xx	xx	xx	xx		E
<b>Cost Pressures</b>	...	xx	xx	xx				P / V
	<b>7. Hours &amp; Pay Related Cost Pressures</b>	xx	xx	xx				P / V
	..	xx	xx	xx				P / V
	<b>8. Other Cost Pressures</b>	xx	xx	xx				P / V
<b>(7) + (8)</b>	<b>9. Total Pressures</b>	xx	xx	xx	xx	xx		P / V
<b>(9) - (6)</b>	<b>Net Cost (avoided)/pressures</b>	xx	xx	xx	xx	xx		
Note (1) - we need clarity on whether this is a subtotal or not.								
Note (2) - for forecast years 1 - 3 we will populate with the information that we have by initiative. There may be 'placeholders'								

## Annex 5: Proposed template for Q4 unaudited reporting of Reported Business results

**Figure 12 Reported Business Annual Income Statement**

	FY Current year		FY Prior year	
	Reported Business		Reported Business	
	Actual	Budget	Actual	Budget
Source:	<i>Mgmt Accounts</i>		<i>Mgmt Accounts</i>	
	£m	£m	£m	£m
Revenue	xx	xx	xx	xx
Operating Costs	xx	xx	xx	xx
People costs (excluding Transformation costs) with Pension costs on a cash paid basis	xx	xx	xx	xx
Depreciation, amortisation and impairments	xx	xx	xx	xx
Other operating costs (excluding Transformation costs)	xx	xx	xx	xx
Operating profit/(loss)	xx	xx	xx	xx
Transformation costs	xx	xx	xx	xx
Financeability EBIT	xx	xx	xx	xx
<i>Financeability EBIT as % of total revenues</i>	<i>x%</i>	<i>x%</i>	<i>x%</i>	<i>x%</i>
Other operating specific items	xx	xx	xx	xx
Non-operating specific items	xx	xx	xx	xx
EBIT	xx	xx	xx	xx
Volume (Million items)	xx	xx	xx	xx

**Note:** the above template does not include our proposal that transformation costs are shown in pay and non-pay as set out in paragraph 6.14.

## Annex 6: Change Control Reporting

Costs (Including Transformation) (£m)	Notes	Reported Business	Costs of Products and/or Services				Pipeline Costs		Number of Models Required	Alternative	
			USO	Access	Non-USO	Non-Mails	Upstream Services	Downstream Services			
Actual Published Figures		x	x	x	x	x	x	x			
Material Changes Listed:											
Material Change 1		x	x	x	x	x	x	x	1	1	
Material Change 2		x	x	x	x	x	x	x	1	1	
Material Change 3		x	x	x	x	x	x	x	1	1	
Cumulative Impact of Material Changes	2	x	x	x	x	x	x	x	1	0	
<i>Non-Material Changes Listed:</i>											
<i>Non-Material Change 1</i>	1	x	x	x	x	x	x	x	1	1	
<i>Non-Material Change 2</i>	1	x	x	x	x	x	x	x	1	1	
<i>Non-Material Change 3</i>	1	x	x	x	x	x	x	x	1	1	
Cumulative Combined Impact of Non-Material Changes - Total		x	x	x	x	x	x	x	1	0	
Cumulative Impact of All Changes		x	x	x	x	x	x	x	1	1	
Restated on New Methodologies		x	x	x	x	x	x	x			
									Total	9	7
<b>NOTES:</b>											
1. Not required in the template, included for illustration purposes											
It may be possible to identify non-material methodology changes without modelling the change but the likelihood is each change will have to be modelled											
2. Where the individual changes in methodology impact different parts of the pipeline, the sum of the 3 changes to give the combined impact would only impact the allocation of the general overheads when compared to modelling the impact of the 3 individual changes in a 4th model.											