

**Review of Regulatory Financial Reporting for
Royal Mail
Consultation**

BBC Licence Fee Unit Submission

1.1 Executive Summary

- It is essential Ofcom can react through the information supplied through accounting separation requirements to monitor new competitors and Royal Mail's response.
- It is essential Ofcom can react through the information provided to monitor operational efficiency gains made by Royal Mail.
- There is a concern that in reducing the regulatory burden on Royal Mail, in particular by reducing frequency that they supply data from monthly to quarterly, that Ofcom may not be able to fully evaluate Royal Mail's efficiency gains and any changes.
- Ofcom must be wary of shifting increasing regulatory burden back to Royal Mail as some of the reporting requirements sit outside Royal Mail's business plan.
- Transparency requirements in terms of cost data and change control are a fundamental part of the regulatory reporting framework. Such transparency provides stakeholder confidence in the postal system and the regulatory process.
- The reduction in data requirements in some areas may result in a reduced ability for Ofcom to fully understand Royal Mail cost allocation and its impact particularly on competitors and its own commercial freedom.
- The reduced deadlines will benefit Ofcom in terms of evaluation, particularly where evaluation is required of Royal Mail impact on competition through leverage of its commercial freedom and the wider stakeholder community.
- Without an effective and comprehensive margin squeeze control Royal Mail will be able to abuse their commercial freedom and apply a monopolistic handbrake on effective competition which would be at the detriment of business, mailers and consumers.
- The new regulatory financial reporting framework should ensure Ofcom is in a better position to determine and make decisions on financial sustainability, efficiency performance and the competitive framework.

2.1 Introduction

2.1.1 The BBC Licence Fee Unit welcomes the opportunity to submit evidence to the Ofcom's Review of Regulatory Financial Reporting for Royal Mail.

2.1.2 The BBC contracts with a number of companies to administer the television licensing system (together with the BBC Licence Fee Unit Management Team these companies are known publicly as TV Licensing). The BBC Licence Fee Unit sits within the BBC Finance and Business Division, and ultimately reports to the BBC Executive Board. The BBC is governed by the BBC Trust which represents the interests of licence fee payers and approves the overall strategy.

2.1.3 TV Licensing inform people of the need to buy a TV licence. TV Licensing send licence renewal letters and we process queries, applications and payments. TV Licensing also maintain a database of licensed and unlicensed addresses in the UK and use this data to identify and visit people who are believed to be using a TV receiver without a valid licence.

2.1.4 The BBC Licence Fee Unit uses the UK postal system: Access and Royal Mail Retail, to communicate with consumers. The BBC Licence Fee Unit mails approximately 55m communications each year. This mail is classified as transactional mail.

2.1.5 The BBC Licence Fee Unit is obligated to drive efficiencies regarding postal costs to the business on behalf of all licence fee payers. The BBC Licence Fee Unit constantly seek to evidence commitment to reducing costs and to continuously evaluate and deliver value to the British public.

3.1 Issues raised in Ofcom's Review of Regulatory Financial Reporting for Royal Mail Consultation

1. Question 1: Do you agree with our proposals in relation to accounting separation requirements, as presented in Section 4?

We support the proposals in relation to accounting separation requirements, as presented in section 4, and would make the following comments:

- Accounting separation requirements ensures effective financial regulatory reporting; monitoring of competition; evaluation of financial sustainability of the universal service; protecting consumers by monitoring how Royal Mail is using its commercial freedom. It also should ensure Ofcom can monitor any abuse by Royal Mail of its dominant position in the marketplace, particularly in relation to competition and any potential impact on client mailers.
- It is essential Ofcom can react through the information supplied through accounting separation requirements to monitor new competitors and Royal Mail's response.
- It is essential that Ofcom can react through the information provided to monitor operational efficiency gains made by Royal Mail.

2. Question 2: Do you agree with our proposals regarding cost and efficiency reporting, as described in Section 5?

We support the proposals regarding cost and efficiency reporting, as described in Section 5, and have the following comments to make:

- It is fundamental that the regulatory reporting framework facilitates Ofcom's ability to monitor and evaluate the financial sustainability of the universal service but it should also facilitate effective evaluation of Royal Mail's efficiency gains, both actual and planned.
- There is a concern that in reducing the regulatory burden on Royal Mail, in particular, by reducing frequency that they supply data from monthly to quarterly, that Ofcom may not be able to fully evaluate Royal Mail's efficiency gains and any changes.
- Ofcom have stated that their overall aim is to make a judgement as to whether Royal Mail's planned and achieved levels of efficiency improvement are reasonable. This is a key requirement going forward but Ofcom must ensure they have all the appropriate data and analysis to ensure this judgement is robust and sound.

3. Question 3: Do you agree with our proposals regarding the business planning information, as presented in Section 6?

We support the proposals regarding the business planning information, as presented in Section 6, and have the following comments to make:

- Ofcom's reporting requirements from Royal Mail are very comprehensive and should ensure Ofcom can evaluate future financial sustainability and efficiency performance. Ofcom must be wary of shifting increasing regulatory burden back to Royal Mail as some of the reporting requirements sit outside Royal Mail's business plan.

4. Question 4: Do you agree with our proposals regarding cost data and change control, as presented in Section 7?

We support the proposals regarding cost data and change control, as presented in Section 7, and have the following comments to make:

- Transparency requirements in terms of cost data and change control are fundamental part of the regulatory reporting framework. Such transparency provides stakeholder confidence in the postal system and the regulatory process.
- It is key that Ofcom ensure they have sufficient transparency to understand how Royal Mail allocates costs, any changes in allocation and the impact of the changes. The reduction in data requirements in some areas may result in a reduced ability for Ofcom to fully understand Royal Mail cost allocation and its impact particularly on competitors and its own commercial freedom.

5. Question 5: Do you agree with our proposals regarding reporting deadlines, as presented in Section 8?

We support the proposals regarding reporting deadlines, as presented in Section 8, and have the following comments to make:

- The reduction in data and frequency proposed by Ofcom reduces the regulatory burden on Royal Mail. In so doing a reduction in reporting deadlines is totally appropriate.
- The reduced deadlines will benefit Ofcom in terms of evaluation, particularly where evaluation is required of Royal Mail impact on competition through leverage of its commercial freedom and the wider stakeholder community.

6. Question 6: Do you agree with our proposals regarding relevant group definition, as presented in Section 8?

We support the proposals regarding relevant group definition, as presented in Section 8, and have the following comments to make:

- The change in group definition is entirely appropriate and proportional. Currently shareholders, investors and analysts evaluate Royal Mail's financial prospects and health at this group level.
- This change of definition ensures Ofcom is able to assess the financial sustainability of the provision of the universal service and also have sufficient understanding of the financial results and position of Royal Mail at the level of the group structure.

7. Question 7: Do you agree with our proposals regarding margin squeeze control, as presented in Section 9?

We support the proposals regarding margin squeeze control, as presented in Section 9, and have the following comments to make:

- The development of competition within the UK postal market has been driven by downstream access. It has allowed mailers to access lower wholesale prices in comparison with Royal Mail retail prices but the underlying problem remains that true and effective competition to Royal Mail will only come from alternative e2e network development. Ofcom have concluded that the likelihood of the emergence of a rival e2e operator has diminished and as such the constraints on Royal Mail in letters are weaker than they were in 2012.

- With such a competitive scenario it is vital and increasingly important that Ofcom's *ex-ante* margin squeeze control (USPA 6) (that is designed to ensure that the difference between Royal Mail's access price and the equivalent retail price), works effectively and facilitates effective competition between Royal Mail and access operators.
- Without an effective and comprehensive margin squeeze control Royal Mail will be able to abuse their commercial freedom and apply a monopolistic handbrake on effective competition which would be at the detriment of business, mailers and consumers.

8. Question 8: Do you agree with our proposals regarding the new regulatory financial reporting framework and our plan for its implementation, as presented in Section 10?

We support the proposals regarding the new regulatory financial reporting framework and our plan for its implementation, as presented in Section 10, and have the following comments to make:

- The new regulatory financial reporting framework should ensure Ofcom is in a better position to determine and make decisions on financial sustainability, efficiency performance and the competitive framework.
- The implementation plan ensures Royal Mail have appropriate time and is a clean break by commencing at a new financial year 2018/2019.