
Changes to Royal Mail's regulatory reporting requirements

Part of our 2022 review of postal regulation

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CONSULTATION:

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1. Overview

This document sets out Ofcom's proposals for changes to the regulatory reporting requirements imposed on Royal Mail.

In July 2022, we published our Review of Postal Regulation Statement. It sets out our decision on the regulation of postal services from 2022 to 2027, with the aim of ensuring postal users have access to simple, affordable and reliable postal services that meet their needs; supporting a financially sustainable and efficient universal postal service; and supporting effective competition in postal services for the benefit of consumers.

As part of this decision, we decided to strengthen our monitoring framework in relation to reporting on the financial sustainability and efficiency of the universal service. Royal Mail will now be required to annually submit to us a view of the financial sustainability of the universal service over a five-year period. It will also be required, every five years, to provide a detailed confidential forecast containing certain efficiency metrics over a five-year period and publish two measures of its efficiency expectations from that forecast. Royal Mail will also be required to publish annually its progress against those expectations. This consultation sets out how we propose to give effect to these decisions.¹

The regulatory reporting requirements imposed on Royal Mail provide us with the information we need for our monitoring regime, which is a key safeguard of our regulatory framework for postal services. The changes we are proposing in this consultation largely build on the information we already require Royal Mail to provide. We have taken a proportionate approach, with the aim of removing requirements where possible and appropriate.

¹ We also propose a small number of other changes not related to our decisions in the July 2022 Statement, to ensure that we continue to receive the information we need from Royal Mail to fulfil our duties in relation to sustainability and efficiency, while also ensuring that the reporting burden on Royal Mail is proportionate.

What we are proposing – in brief

- **To require Royal Mail to submit to Ofcom annually a financial forecast covering a period of five years (the Annual Financial Forecast).** This would replace the current requirement to provide its Strategic Business Plan and Annual Budget. The contents of the Annual Financial Forecasts would be similar to the current content requirements of the Strategic Business Plan and Annual Budget, but the forecast length would be specified and the requirement to submit certain efficiency metrics annually would be removed. The forecasts would also have to take account of Royal Mail's latest actual results and be consistent with Royal Mail's own board-approved business plan, ensuring that our monitoring of the financial sustainability of the universal service is based on Royal Mail's latest information, objectives and expectations. The forecasts would have to be submitted by 31 May every year.
- **To require Royal Mail to submit to Ofcom every five years a financial forecast which includes key efficiency information covering a period of five years (the Five-Yearly Financial Forecast).** The Five-Yearly Financial Forecasts would be used as a benchmark against which we will track Royal Mail's efficiency progress. The forecasts would have to be submitted to Ofcom by 31 May every five years.
- **To require Royal Mail to publish, every five years, two measures of its efficiency expectations from the Five-Yearly Financial Forecast and in each subsequent year to publicly report on progress against those expectations.** One measure will provide a high-level overview of its efficiency ambitions, while the other will provide insight into the expected operational efficiency of its frontline staff. These expectations would provide stakeholders with visibility of Royal Mail's view of the scope for efficiencies and a benchmark for measuring its progress. Royal Mail would also have to comment on its annual progress, so that stakeholders can understand the factors that have affected it. The expectations and annual progress will likely be published in Royal Mail's regulatory financial statements.
- **To continue to require Royal Mail to regularly report to Ofcom its actual performance** against a number of metrics, with some new requirements and some changes to the granularity of the information required and the rules relating to the preparation of supporting information. These changes would ensure Royal Mail's actual results can be directly compared with its forecasts so that we can accurately track Royal Mail's progress, and ensure that we have the information we need for our consideration of the financial sustainability and efficiency of the universal service.

The changes to the reporting requirements would come into force at the start of the 2023-24 financial year, on 27 March 2023.

The overview section in this document is a simplified high-level summary only. The proposals we are making and our reasoning are set out in the full document.

We invite responses to the questions raised in this consultation, which are summarised in Annex 4, by 5pm on 1 November 2022. Details on how to respond to this consultation are set out in Annex 1. We intend to publish our statement on the future regulatory reporting by Royal Mail in Q4 2022-23.

2. Background and introduction

- 2.1 In this document we set out our proposed changes to the Universal Service Provider Accounting Condition and the Regulatory Accounting Guidelines. We also propose one change to the Delivery Exceptions Direction.²
- 2.2 This section sets out the legal duties and powers relevant to our consultation and describes our existing regulatory reporting regime. It also sets out the scope of and approach to this consultation and provides a brief overview of the decisions made in sections 3 and 4 of our July 2022 Review of Postal Regulation Statement ("the Statement"), which this consultation seeks to implement.

Our legal duties and powers

Our statutory duties

- 2.3 We briefly set out below Ofcom's main statutory duties relating to postal services, as contained in the Postal Services Act 2011 (the "PSA 2011") and the Communications Act 2003 (the "CA 2003"). The legal framework relevant to our review is set out in more detail in Annex 2 to the Statement.³

Securing the provision of the universal postal service

- 2.4 Section 29(1) of the PSA 2011 requires Ofcom to carry out its postal functions in a way that it considers will secure the provision of a universal postal service.
- 2.5 In performing that duty, Ofcom is required by section 29(3) of the PSA 2011 to have regard to the need for a universal postal service to be:
- financially sustainable; and
 - efficient before the end of a reasonable period (and for its provision to continue to be efficient at all subsequent times).
- 2.6 Section 29 of the PSA 2011 does not require that Ofcom give more weight to one of those considerations over the other. Ofcom must take them both into account in arriving at a judgment as to how it ought to carry out its functions, including when considering imposing or modifying regulatory conditions.
- 2.7 Section 29(4) of the PSA 2011 states that the reference to "financially sustainable" in section 29(3) of the PSA 2011 includes the need for a reasonable commercial rate of return for any universal service provider on any expenditure incurred by it for the purpose of, or in connection with, the provision by it of a universal postal service.

² The direction under Designated USP condition 1.3.2 and 1.3.2A regarding deliveries.

³ See Ofcom, 2022. [Review of Postal Regulation: Statement, Annex 2](#).

Ofcom's general duties

- 2.8 Section 3 of the CA 2003 sets out Ofcom's general duties. Ofcom's principal duty in carrying out its functions is to further the interests of citizens and consumers, where appropriate by promoting competition.⁴ This duty, together with Ofcom's general duties, also applies when we carry out our functions in relation to post.
- 2.9 In performing our general duties, we are required to have regard to a range of other considerations, which appear to us to be relevant in the circumstances, including:
- the desirability of promoting competition in relevant markets;
 - the desirability of encouraging investment and innovation in relevant markets;
 - the needs of persons with disabilities, of the elderly and of those on low incomes;
 - the different interests of persons in the different parts of the United Kingdom, of the different ethnic communities within the United Kingdom and of persons living in rural and in urban areas; and
 - the extent to which, in the circumstances of the case, the furthering or securing of the matters mentioned in section 3(1) is reasonably practicable.⁵
- 2.10 In performing our duty to further the interests of consumers,⁶ we must also have regard, in particular, to the interests of those consumers in respect of choice, price, quality of service and value for money.
- 2.11 When carrying out any of our functions relating to postal services, if we were to consider that any of our general duties conflict with our duty under section 29 of the PSA 2011 to secure provision of a universal postal service, priority must be given to the latter.⁷
- 2.12 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. Ofcom has published a set of general regulatory principles on its website.⁸
- 2.13 Ofcom also has an ongoing duty under section 6 of the CA 2003 to keep the carrying out of its functions under review with a view to ensuring that regulation by Ofcom does not involve the imposition of burdens which are unnecessary or the maintenance of burdens which have become unnecessary.

Our powers

- 2.14 Under the PSA 2011, Ofcom has the power to impose regulatory conditions⁹ on a universal service provider (under section 36 of the PSA 2011). This power is wide-ranging and allows Ofcom to impose a condition requiring the universal service provider to do anything that

⁴ Section 3(1) of the CA 2003.

⁵ Section 3(4) of the CA 2003.

⁶ Section 3(5) of the CA 2003.

⁷ Section 3(6A) of the [Communications Act 2003](#).

⁸ Section 3(3) of the CA 2003. See Ofcom's [policies and guidelines](#).

⁹ See Ofcom, 2022. [Review of Postal Regulation: Statement, Annex 2](#).

Ofcom considers appropriate for the purposes of, among other things (a) providing a universal postal service (or part of such a service) throughout the UK or in a specified part of the UK; and (b) providing specified information (at such times and in such manners as Ofcom may direct) to users of postal services about the universal postal service.

- 2.15 Furthermore, Ofcom has the power to impose a Universal Service Provider Accounting Condition (USP Accounting Condition) on the universal service provider (under section 39 of the PSA 2011). This type of condition may require the universal provider to do one or more of the following:
- maintain a separation for accounting purposes;
 - comply with rules set by Ofcom made by us in relation to the identification of costs and cost orientation;
 - comply with rules made by Ofcom about the use of cost accounting systems; and
 - secure that the universal service provider's compliance with those systems is audited annually by a qualified independent auditor,¹⁰ including an obligation to meet the costs of the audit.
- 2.16 Our power to impose a regulatory condition, like the USP Accounting Condition, includes powers to impose obligations also requiring the universal service provider to comply with directions and impose obligations with respect to the matters to which the condition relates.¹¹ The process for giving, modifying or withdrawing such directions is similar to the statutory process for imposing, modifying or revoking regulatory conditions, including to consult for a minimum of one month prior to making our decision.
- 2.17 We may, however, impose or modify a regulatory condition only if we are satisfied that the general test set out in paragraph 1 of Schedule 6 to the Act is met. According to this test, Ofcom must be satisfied that the condition is objectively justifiable, does not discriminate unduly against particular persons or a particular description of persons, is proportionate to what it is intended to achieve and is transparent in relation to what it is intended to achieve.

The purpose of regulatory reporting

- 2.18 As noted in Section 2 of the Statement, our regulatory framework for postal services grants Royal Mail considerable commercial and operational flexibility. This flexibility is accompanied by a number of safeguards, including a comprehensive monitoring regime. Monitoring is a key part of our regulatory framework for postal services, as it enables us to assess how well the current framework is working to meet our regulatory objectives, and whether there might be any need to intervene.
- 2.19 The information we receive as part of our monitoring regime plays an important role in our understanding of the financial sustainability and efficiency of the provision of the universal

¹⁰ Under section 39, a qualified independent auditor means a person who is eligible for appointment as a statutory auditor under Part 42 of the Companies Act 2006 and, if the appointment were an appointment as a statutory auditor, would not be prohibited from acting by section 1214 of that Act (independence requirement).

¹¹ Paragraph 2 of Schedule 6 to the Act.

service. It is a key input to our Annual Monitoring Updates (AMU) and ensures that we can carry out our statutory duties under section 29 of the PSA 2011 (where necessary by conducting our own financial modelling). That information also ensures that we understand the changing needs of users and changing dynamics in the postal market, and enables us to monitor compliance with our regulatory controls, including our access regulations and margin squeeze control.

- 2.20 Our monitoring regime relies on regulatory reporting requirements imposed on Royal Mail (as the designated universal service provider). In line with our statutory powers and duties, we have imposed requirements on Royal Mail to provide us with financial and non-financial information.
- 2.21 The requirements on Royal Mail to provide us with financial information are set out in the USP Accounting Condition and supplemented by the Regulatory Accounting Guidelines (RAG). The requirements to provide us with non-financial information are mostly set out in the Designated Universal Service Provider Condition (DUSP Condition), with a small number contained within the Consumer Protection Conditions and the Essential Condition. We briefly summarise these below.

Existing reporting requirements on Royal Mail

- 2.22 We summarise below the reporting requirements currently applicable to Royal Mail and to which we are, as part of this consultation, proposing changes. The USP Accounting Condition and RAG contain financial reporting requirements, while the DUSP Conditions contain, among other requirements, non-financial reporting requirements.¹²

The USP Accounting Conditions and the RAG

- 2.23 Ofcom has imposed USP Accounting Conditions on Royal Mail.¹³ This includes requirements in relation to accounting separation, costing methodologies and reporting. With regard to reporting requirements, Royal Mail is required to:
- prepare financial information and statements for the Relevant Group¹⁴ as defined in the USP Accounting Condition, including a consolidated cash flow projection statement, a Strategic Business Plan and an Annual Budget;
 - prepare financial information and statements (on an annual, quarterly or monthly basis in some cases) for the Reported Business as defined in the USP Accounting Condition, including income statement, statement of capital employed, cash flow statement, and product profitability statement as part of the quarterly and annual regulatory financial statements ('RFS'), and as well as various other reports containing revenue, cost and volume data provided separately. In doing so, Royal Mail is also required to provide

¹² All of the existing [conditions imposed on Royal Mail](#) (and other postal operators) are listed on our website.

¹³ Ofcom, [Consolidated USP Accounting Condition \(as at 26 March 2018\)](#).

¹⁴ While the Strategic Business Plan and Annual Budget are part of the regulatory reporting requirements applicable to Royal Mail in respect of the Relevant Group, we require (as part of these requirements) the provision of a range of information specifically about the Reported Business (for example, forecast revenues and costs for the Reported Business, including its Financeability EBIT).

Ofcom with various reconciliations (e.g. between the statements prepared on a quarterly and annual basis, or between statements prepared for the Reported Business with equivalent information prepared for the Relevant Group) to help ensure the accuracy and consistency of information. Royal Mail is also required to provide a regulatory costing methodology manual (which is also published) and an accounting methodology manual, together with methodology change control reports; and

- ensure that these statements are audited by an external auditor, except where otherwise specified.

2.24 In addition, we have imposed Regulatory Accounting Guidelines (RAG).¹⁵ While the USP Accounting Condition contains the core financial reporting requirements, the RAG is more detailed and sets out how Royal Mail must prepare the submissions required by the USP Accounting Condition.

The Designated Universal Service Provider conditions

2.25 The DUSP Conditions impose the core obligations on Royal Mail to provide the universal service as the designated universal service provider (for example, the requirement to deliver letters to every premise in the UK six days a week). We have also issued two directions under the DUSP Conditions (the Delivery Exceptions Direction and the Collection Exceptions Direction).¹⁶ The purpose of these directions is to set out clearly those exceptional circumstances in which Royal Mail can depart from the universal service requirements regarding the delivery and collection of mail (for example, where delivering to the delivery point concerned involves an immediate hazard to the health or safety of Royal Mail's staff).

2.26 In addition to the core universal service requirements included in the DUSP Condition, the condition also contains a number of reporting and publication requirements on Royal Mail, including to report on and publish its Quality of Service performance quarterly and annually, to report on the provision of letter boxes across the UK, to publish its statement of arrangements for premises more than 10km from an access point and people with mobility challenges.

2.27 These requirements help us to understand whether Royal Mail has met its Quality of Service targets, and help to provide transparency to consumers about how Royal Mail is performing as the universal service provider. We also use the information gathered under these requirements to summarise Royal Mail's quality of service performance in our AMUs.

¹⁵ Ofcom, [Consolidated Regulatory Accounting Guidelines \(as at 29 March 2020\)](#).

¹⁶ See Ofcom, 2013, [Delivery Exceptions Direction](#) and Ofcom, 2013, [Collections Exceptions Direction](#).

Scope and overview of this consultation

Our proposals seek to implement the decisions made in the 2022 Review of Postal Regulation Statement

- 2.28 We set out our decisions on how we will consider the sustainability and efficiency of the universal service in sections 3 and 4 of the Statement. This consultation sets out the proposed amendments to the current reporting requirements (specifically, the USP Accounting Condition and the RAG) that we consider are necessary to give effect to these decisions.

We are also proposing a small number of other minor changes to the reporting requirements on Royal Mail

- 2.29 While this consultation is primarily focused on the changes to the reporting requirements that are necessary to implement decisions made in the Statement, we have taken the opportunity to also propose a small number of other changes that are not linked to our Statement decisions. These changes aim to remove unnecessary requirements on Royal Mail and tighten existing requirements to ensure we have the information we need to monitor effectively.

Overview of our proposals as set out in this consultation

- 2.30 The following sections of this consultation set out our detailed proposals to amend the regulatory reporting requirements for Royal Mail.
- 2.31 We propose to implement our decisions in the Statement by requiring Royal Mail to:
- a) Submit to Ofcom an Annual Financial Forecast covering a period of five years together with more prescriptive sensitivity and downside analyses – See Section 3.
 - b) Submit to Ofcom every five years an enhanced version of the Annual Financial Forecast, referred to in our requirements as the Five-Yearly Financial Forecast, which will include the efficiency expectations Royal Mail expects to achieve across the five-year period together with the supporting information and calculations for those expectations – See Section 4.
 - c) Submit to Ofcom broadly the same financial information and statements for the actual performance as currently required, with proposed changes to ensure the data relating to actuals required is consistent and comparable with the forecasts proposed above – See Section 5.
 - d) Publish selected metrics for efficiency expectations from the Five-Yearly Financial Forecast; and publish annually the actual progress achieved against those expectations – See sections 4 and 5.
- 2.32 In Section 6, we set out the other changes we are proposing to make to the reporting requirements, which are not specifically related to the decisions made in the Statement.

- 2.33 Finally, in Section 7, we set out our proposals for when these requirements should come into effect and set out how we consider that that our proposals meet the relevant tests set out in the 2011 Act.
- 2.34 Our proposed modifications to the USP Accounting Condition and the RAG are published in the statutory notifications at Annexes 6 and 7. Our proposed modification to the Delivery Exceptions Direction is published in the statutory notification at Annex 8.

Impact Assessment

- 2.35 The analysis presented in the entirety of this consultation represents an impact assessment, as defined in section 7 of the CA 2003.
- 2.36 Impact assessments provide a valuable way of assessing different options for regulation and showing why the preferred option was chosen. They form part of best practice policy-making. This is reflected in section 7 of the CA 2003, which means that generally Ofcom has to carry out impact assessments where its proposals would be likely to have a significant effect on businesses or the general public, or when there is a major change in Ofcom's activities. However, as a matter of policy Ofcom is committed to carrying out and publishing impact assessments in relation to the vast majority of its policy decisions.
- 2.37 For further information about Ofcom's approach to impact assessments, see the guidelines, [Better policy-making: Ofcom's approach to impact assessment](#). Specifically, pursuant to section 7, an impact assessment must set out how, in our opinion, the performance of our general duties (within the meaning of section 3 of the CA 2003) is secured or furthered by or in relation to what we propose.

Equality Impact Assessment

- 2.38 Section 149 of the Equality Act 2010 (the "EA 2010") imposes a duty on Ofcom, when carrying out its functions, to have due regard to the need to eliminate discrimination, harassment, victimisation and other prohibited conduct related to the following protected characteristics: age; disability; gender reassignment; marriage and civil partnership; pregnancy and maternity; race; religion or belief; sex and sexual orientation.
- 2.39 The EA 2010 also requires Ofcom to have due regard to the need to advance equality of opportunity and foster good relations between persons who share a protected characteristic and those who do not.
- 2.40 Section 75 of the Northern Ireland Act 1998 (the "NIA 1998") also imposes a duty on Ofcom, when carrying out its functions relating to Northern Ireland, to have due regard to the need to promote equality of opportunity and regard to the desirability of promoting good relations across a range of categories outlined in the NIA 1998. Ofcom's [Revised Northern Ireland Equality Scheme](#) explains how we comply with our statutory duties under the 1998 Act.
- 2.41 To help us comply with our duties under the EA 2010 and the NIA 1998, we assess the impact of our proposals on persons sharing protected characteristics and, in particular,

whether they may discriminate against such persons or impact on equality of opportunity or good relations.

- 2.42 We do not consider that our proposals will discriminate in any way against persons with protected characteristics as they only affect Royal Mail and its internal systems and processes. We are therefore satisfied that we have complied with the public sector equality duty in the EA 2010, and the NIA 1998, in making the proposals set out in this consultation.

3. Annual Financial Forecasts

In Section 3 of the Statement we decided to require Royal Mail to submit annually to Ofcom a financial forecast, covering a period of five years, and to provide sensitivity and downside analysis on the forecast. Our full reasoning for this decision is set out in the Statement.

To give effect to this decision, 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.

We also propose more prescriptive sensitivity analyses requirements, and an explicit requirement for Royal Mail to provide downside scenario analyses.

- 3.1 In this section, we set out our proposals for how the current reporting requirements will need to change to ensure we implement the decisions confirmed in Section 3 of the Statement in an appropriate and proportionate manner.
- 3.2 Firstly, we explain the requirement for an Annual Financial Forecast (known as the AFF throughout the rest of this consultation) covering a period of five years instead of the current requirement for the Strategic Business Plan and Annual Budget. Secondly, we set out our proposals regarding the contents of the AFF, followed by the changes to the current requirement for sensitivity analyses, and finally the addition of a requirement for downside scenario analyses. We summarise our proposals at the end of this section in paragraph 3.65 and Table 1.

Requirement for Annual Financial Forecasts

Royal Mail must provide Annual Financial Forecasts covering five financial years

- 3.3 As explained in Section 3 of the Statement, we decided that Royal Mail must provide us with an AFF covering a period of five years. This would build on the three-year forecast typically provided by Royal Mail in its Strategic Business Plans. Our current requirement is

for Royal Mail to provide us annually with its Strategic Business Plan together with its Annual Budget (which covers the first year of the Strategic Business Plan).¹⁷

- 3.4 The Strategic Business Plan is a planning document that Royal Mail prepares for its own purposes. It is forward-looking in nature, and its form and content is generally for Royal Mail to decide. However, we also have requirements in the RAG with regard to the information that the Strategic Business Plan must include. This is to ensure we receive the 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.¹⁸ Royal Mail puts the new Strategic Business Plan forward for board approval every year.
- 3.5 As noted in the Statement, the longer-term horizon of five years will allow us to strengthen our understanding of the sustainability of the universal service in the longer-term, notably by allowing us to gain a better understanding of the likely trend and direction of travel for the returns of the Reported Business (measured by the Financeability EBIT margin).
- 3.6 We have considered how to implement this requirement for two further forecast years in a way that ensures we receive the information that we require, while making sure that the reporting burden on Royal Mail is proportionate.

We propose that the Annual Financial Forecast will replace the Strategic Business Plan and must be submitted by 31 May each year

- 3.7 Our effective monitoring of the financial sustainability and efficiency of the universal service depends on having the most up-to-date financial forecasts and information from Royal Mail provided in a timely manner, on an annual basis. Currently, we achieve this via our requirement for the Strategic Business Plan, as discussed above. We currently require the Strategic Business Plan to be submitted before the start of each financial year.
- 3.8 We propose that a requirement for an AFF, as a regulatory financial report covering a period of five years, will replace the existing requirement for Royal Mail to submit the Strategic Business Plan to us annually. We propose that this forecast must be provided by 31 May every year.¹⁹

It is important for the Annual Financial Forecast to be provided in a timely manner

- 3.9 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.

¹⁷ Throughout the rest of this consultation, we use the term 'Strategic Business Plan' to refer to the Strategic Business Plan and Annual Budget, as set out in the current USP Accounting Condition and RAG.

¹⁸ We discuss the information we use to monitor the efficiency of the universal service in paragraphs 4.6-4.34.

¹⁹ This is consistent with our view set out in the Statement (see paragraph 3.59).

- 3.10 However, in recent years Royal Mail has not always provided us with a Strategic Business Plan for the forthcoming period by the start of the financial year. Instead, to comply with the requirement to deliver to Ofcom a Strategic Business Plan before the beginning of the financial year to which it relates, it has provided the previous year's Strategic Business Plan and has then submitted another several weeks later, which relates to the most up to date period. This has affected our ability to fulfil our statutory duties in relation to the sustainability and efficiency of the universal service.
- 3.11 We recognise that providing the Strategic Business Plan by the start of the financial year has been challenging for Royal Mail in recent years, and that it may be more so for our proposed AFF, as the forecast must now cover a period of five years.
- 3.12 We also note Royal Mail's response to the December 2021 Review of Postal Regulation Consultation ("the December 2021 Consultation"),²⁰ in which it noted that, in the period between the end of the financial year and 31 May, as well as preparing its new business plan for board approval, it is also working on preparing its annual actual results for publication and announcement to the market.²¹
- 3.13 Taking the above into account, we propose to require Royal Mail to submit the AFF to us by 31 May each year. We consider that this is an appropriate balance between getting the information later than we ideally need, while giving us greater assurance that the information we need is reliable and complete.
- 3.14 A deadline of 31 May should also mean that the AFF will be consistent with Royal Mail's board-approved business plan (see paragraphs 3.20-3.23 below). This is because we understand from Royal Mail that typically, years two and three of the business plan are approved in late May.²²
- 3.15 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. It should also be sufficient to allow Royal Mail to complete and submit the AFF because, as set out in more detail below, the information we propose to require in the AFF is broadly similar to the existing information requirements for the Strategic Business Plan.
- 3.16 Where it does differ, it is mainly to ensure that Royal Mail provides longer-term forecasts than those already provided (which is necessary to implement our decision in the Statement), and to provide a different level of supporting detail for certain information, with some more detail in some cases but less in others. We explain our proposals for the contents of the AFF in paragraphs 3.27-3.50 below.

The Annual Financial Forecast must reflect Royal Mail's latest views and objectives

- 3.17 To enable us to fulfil our duties in relation to the sustainability and efficiency of the universal service, it is essential that Royal Mail's AFF reflects its latest performance

²⁰ Ofcom, 2021, [Review of Postal Regulation: Consultation](#).

²¹ Royal Mail, [response to December 2021 Consultation](#), paragraph 2.34.

²² Royal Mail, [response to December 2021 Consultation](#), paragraph 2.34.

objectives and ambitions as well as its latest expectations of the trends in the market and the wider economy.

3.18 There is an existing requirement in the USP Accounting Condition for Royal Mail to ensure that financial statements and information required by the USP Accounting Condition comply with the Guiding Principles,²³ specifically accuracy, objectivity, completeness, consistency and causality. This should help to ensure that Royal Mail's AFF reflects its latest objectives and expectations. To further ensure this, we propose to require 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;
- if Royal Mail has a Board-approved business plan by 31 May, the AFF must be consistent with it;
- 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;
 - 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.

Reflecting Royal Mail's latest view and taking account of the latest actual results

3.19 We propose to require that the AFF reflects Royal Mail's latest view of its objectives and expectations, and that, as far as possible, it takes account of its latest available actual results, specifically, the actual results from the financial year immediately preceding the forecast period of the AFF. The latter requirement will act as a further check to ensure that the AFF Royal Mail provides relates to the forthcoming five-year period, rather than the previous period.

If Royal Mail has a board approved business plan by 31 May

3.20 We expect Royal Mail will continue to produce a business plan for its own purposes, even after the regulatory requirement to provide the Strategic Business Plan has been removed. The business plan reflects Royal Mail's latest view of its objectives and expectations, and we expect Royal Mail will continue to put it forward to be approved by its board.

3.21 We therefore propose to require that, if Royal Mail has a business plan that has been approved by its Board in the 90 days prior to 31 May, the AFF provided to us must be consistent with it. As noted above, we understand that typically, years two and three of Royal Mail's business plan are approved in late May.

3.22 In particular, the AFF must be consistent with all the financial data in the business plan (for example, the volume, revenue, and costs information in the AFF and the main assumptions and key drivers must be as far as possible identical or otherwise consistent with the information in the business plan).

²³ Set out in existing USPAC 1.7.

- 3.23 This consistency requirement specifically means that certain information in the AFF related to the forecast years included in Royal Mail's business plan must be the same. It also means the forecasts for any further years that are not included in Royal Mail's business plan (e.g. for years four and five where Royal Mail's business plan is a three-year plan) must be built on the forecasts in the business plan, to ensure the AFF is as far as possible reflective of Royal Mail's expectations and objectives.

If Royal Mail does not have a board approved business plan by 31 May

- 3.24 While we consider that Royal Mail is very likely to have a board-approved business plan by 31 May each year, we recognise that there may occasionally be exceptional circumstances that mean that board approval of Royal Mail's business plan is delayed. Therefore, if Royal Mail's business plan is approved by its board later than 31 May, then it must still provide, by 31 May, an AFF which reflects its latest view and take into account the latest available actual results (as set out above).
- 3.25 In such a situation, we propose that, when the board has approved the business plan, Royal Mail must submit to us an updated AFF which is consistent with any changes in its expectations and objectives resulting from the approval process. The submission must be made within 10 working days of the business plan being approved.
- 3.26 However, as we explained above, we expect that the deadline of 31 May each year will in normal circumstances allow Royal Mail to finalise its business plan and have it approved by its board. We would therefore expect that the requirement for amendments will only be used in exceptional circumstances.

Content requirements for the Annual Financial Forecast

The information we propose to require in the Annual Financial Forecast is broadly similar to the current requirements, but covering a five-year period

- 3.27 We currently require the following financial forecast information to enable us to monitor the long-term financial sustainability and efficiency of the Reported Business (which provides the universal service) as well as the financial health of the Relevant Group as a whole (see Table 1 at the end of this section for further detail):
- Forecasts of the income statement, cash flow, balance sheet and financial health metrics of the Relevant Group;
 - Forecasts of volumes, revenues, costs and Financeability EBIT of the Reported Business, together with breakdowns, related metrics and underlying data; and
 - Explanations of main assumptions and key drivers underpinning those forecasts.
- 3.28 We consider that this information remains largely relevant for this purpose, and also has the benefit of being information that Royal Mail uses for its own purposes and has provided to us over a number of years. Therefore, we propose to retain similar content requirements for the AFF, although some of this information must now cover a five-year time period, in order to implement our decision in the Statement.

- 3.29 As noted above, in recent years, Royal Mail's Strategic Business Plans have included three forecast years. We recognise that extending the length of any forecast means that further judgements are needed for higher uncertainties in later years. We therefore propose that less detail and granularity will be required for the information relating to years four and five of the AFF.
- 3.30 We set out an overview of how our proposed contents requirements differ for forecast years four and five in Table 1 at the end of this section.

We propose some changes to the existing information requirements to ensure they enable us to monitor sustainability and efficiency effectively

- 3.31 We propose to update the current contents requirements to ensure they provide the information we need to monitor the financial sustainability and efficiency of the universal service effectively, while also remaining proportionate. This means that in some areas we propose to reduce or remove our requirements for detailed information, while in others we propose to have further detail. We set out our proposals below.

Reducing the level of detail in the revenues and volumes forecasts and updating the Cost Matrix forecast

- 3.32 We propose to reduce the level of detail required (compared to the existing requirement) for the revenues and volumes forecasts for years one to three of the AFF. We also propose some changes to the Cost Matrix forecast, specifically adding sub-totals and separating out cost lines where additional detail is required e.g., Collection, Delivery and Conveyance charges.
- 3.33 We consider that this will ensure we have the appropriate level of granularity to monitor the financial sustainability of the universal service, including where necessary by conducting our own modelling, while also ensuring that the reporting requirements Royal Mail would be subject to would remain proportionate overall. In line with our approach to require less detail for years four and five, we also propose that the revenues, volumes and costs information for those years are less detailed than years one to three.
- 3.34 The format of the information we propose to require is set out in the pro formas in Figures 1 and 2 of Appendix 1 to the RAG.

Requiring a forecast of Gross Hours and salary costs broken down by time category

- 3.35 We propose to require a forecast of total Gross Hours, broken down by time category, specifically normal/ordinary, casual/temporary, overtime, and any other. We also propose to require Royal Mail to provide the total frontline salary costs related to each of those categories.
- 3.36 In line with the other requirements in the AFF, we propose that the information required for years four and five of these forecasts is less detailed than for years one to three. The format of the information we propose to require is set out in the pro forma in Figure 3 of Appendix 1 to the RAG.

- 3.37 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, which are a significant proportion of operational costs, and a key consideration for our monitoring of the financial sustainability of the universal service.

Removal of the requirement to provide an annual forecast of PVEO, Productivity (WIPGH), Gross Hours Reduction and Workload

- 3.38 We propose to remove the requirement for Royal Mail to submit an annual forecast of PVEO,²⁴ Productivity (WIPGH), Gross Hours Reduction and Workload, which we use for our monitoring of the efficiency of the universal service.
- 3.39 Instead, we propose to require this information only once every five years, as part of the Five-Yearly Financial Forecasts, reflecting the changes to our monitoring regime set out in the Statement (specifically, to require Royal Mail to set its five-year efficiency expectation upfront and that the Five-Yearly Financial Forecast and the expectations are not amended in the intervening years). We explain these proposals further in Section 4.

Requiring more detailed and structured information on efficiency initiatives and updating the list of main assumptions and key drivers

- 3.40 We propose some changes to the current requirement for Royal Mail to explain all the main assumptions and key drivers it has used in its forecasts of volumes, revenues, and costs other financial data within the AFF²⁵ and explain these below.
- 3.41 These assumptions and drivers include Royal Mail's planned efficiency initiatives. These initiatives have in the past included automation of parcels operations at Mail Centres, delivery revisions, and introduction of scan-in scan-out technology.²⁶ This information is necessary for our modelling of financial sustainability because it informs our forecast of costs. It is also important for our monitoring of efficiency to understand Royal Mail's planned efficiency initiatives and the areas these relate to, because these are the specific actions by which Royal Mail plans to make efficiency savings.
- 3.42 While the current requirement has been useful for our monitoring of financial sustainability and efficiency, it is general, with no prescription of detail, and consequently the level of detail provided by Royal Mail in its Strategic Business Plans has not been consistent.
- 3.43 As a result, in recent years we have frequently had to rely on making statutory information requests to Royal Mail to be able to carry out our own modelling of costs for monitoring financial sustainability to help us fully understand Royal Mail's efficiency initiatives and its progress on those initiatives. [38].

²⁴ See paragraphs 4.26-4.31 for an explanation of the PVEO metric.

²⁵ See Table 2, clause j in the [existing RAG](#), that currently applies to the Strategic Business Plan.

²⁶ See Ofcom, 2021, [Annual Monitoring Update on Postal Services, Financial Year 2020-21](#), paragraphs 7.23-7.32, and Ofcom, 2020, [Annual Monitoring Update on Postal Services, Financial Year 2019-20](#), paragraphs 6.22-6.32.

- 3.44 We therefore propose to specify the structure and level of detail Royal Mail must provide about its planned efficiency initiatives as part of the AFF. [34]. Specifically, we propose that the efficiency initiatives information must include, for each forecast year, an overview of the costs savings which are forecast to be achieved by efficiency initiatives. We also propose that the information must include the impact of all factors such as changes in pay and Workload which could act as cost pressures reducing the impact of efficiency initiatives.
- 3.45 We propose that the efficiency initiative information for forecast years four and five is less detailed which is in line with our other less detailed requirements for those years, as discussed above.
- 3.46 We consider that this information will not represent a significant additional burden on Royal Mail because [34]. Building this into our reporting requirements will also enable the consistent provision of information that is necessary to fulfil our duties.
- 3.47 The format of the information we propose to require is set out in the pro forma in Figure 4 of Appendix 1 to the RAG, which covers the information on efficiency initiatives as well as information on the impact of all factors such as changes in pay and Workload, which could act as cost pressures reducing the impact of efficiency initiatives.
- 3.48 We also propose to update the list of the main assumptions and key drivers in the forecast to ensure all the key inputs continue to be included. The proposed additions are e-commerce and e-substitution which we consider to be among the main assumptions needed to forecast letter and parcel volumes. We also propose to add Productivity (both WIPGH and WIPWH) and Workload to the list, because we understand Royal Mail will be using these metrics as inputs to its forecasts of costs and we want to ensure that Royal Mail provides explanations about these as well.
- 3.49 Finally, we expect Royal Mail to provide information on any changes to frontline pay and the Shorter Working Week²⁷ and other pay arrangements as part of the 'pay and pension arrangements' assumptions included in the list of main assumptions and key drivers. This information is necessary for our understanding of people costs and will enable us to continue to do our own modelling of financial sustainability. We do not propose this as an addition to the RAG as it is not practicable to have complete lists of all such arrangements, and we consider the guidance here to be sufficient.
- 3.50 We summarise all of the above proposed content requirements in Table 1 at the end of this section.

Sensitivity analyses

- 3.51 Financial forecasts are inevitably based on assumptions and expectations of future events which are uncertain. Sensitivity analyses enable us to understand better the extent to

²⁷ The Shorter Working Week (SWW) is the reduction in the weekly contract of full-time staff from 39 hours to 35 hours, agreed as part of the Pensions, Pay and Pipeline agreement in February 2018. See CWU, 2018. [LTB 059/18 – Pay and Four Pillars Agreement](#).

which these uncertainties and risks could cause outcomes to be different from the forecast, by showing how sensitive the outputs of the forecasts are to changes in the inputs (in particular the main assumptions and the key drivers).

- 3.52 We therefore need sensitivity analysis for the key main assumptions and the key drivers which have a significant risk of deviating from the values assumed in the AFF. These analyses must include a restatement of the relevant calculations and outputs of the AFF in the relevant forecast years, such as revenues, costs, profitability, cash flows, and health metrics, assuming those risks materialise, while explaining and quantifying the impact of the main drivers of the changes, including but not limited to the changes in assumptions with regard to: economic growth (including GDP), inflation (including CPI), market developments, competition, pricing, sales and marketing initiatives, efficiency metrics, and pay and pension arrangements.
- 3.53 Royal Mail's knowledge and understanding of its business mean that it is well placed to identify the nature and the extent of these risks and uncertainties and how they may impact the forecast. Royal Mail is therefore best positioned to carry out sensitivity analyses on the AFF.

We propose to retain our requirement for sensitivity analyses but with greater prescription

- 3.54 We currently require Royal Mail to include sensitivity analyses as part of its Strategic Business Plan. Our requirement in the RAG includes the key points set out above. For the reasons set out above, we believe that sensitivity analyses are key to monitoring financial sustainability of the universal service. We therefore propose to retain this requirement as part of the AFF.
- 3.55 As we explain in Section 3 of the Statement, uncertainty in a forecast increases for forecast years further out in the future, so the sensitivity analyses must cover all five forecast years.

Our proposed changes ensure that the sensitivity analyses will meet our future needs for stronger monitoring of financial sustainability and efficiency

- 3.56 The sensitivity analyses which Royal Mail has provided in line with our current requirements have been helpful. However, we have needed to expand on certain aspects of those analyses and do further analysis of our own to ensure we fully understand the impact of the key risks and uncertainties.
- 3.57 Specifically, in recent years, Royal Mail has provided analysis of how forecast Financeability EBIT (amongst other metrics) may change with some of its key drivers, including analysis showing how [X].²⁸ However, these analyses have not been as detailed and comprehensive as we have needed them to be. In particular, we have needed to carry out our own further sensitivity analysis on the Financeability EBIT which is a key metric in

²⁸ This has been provided as part of the Strategic Business Plan.

monitoring long term financial sustainability. Our further work has involved analysis of more of the main assumptions and key drivers and it has been done [X].

3.58 Therefore, we propose more prescriptive requirements and some updates to how Royal Mail presents its sensitivity analysis to ensure this fully meets our needs. Specifically, we propose that:

- the sensitivity analysis must include an analysis that calculates the range of values within which the Financeability EBIT could fall, over each of the five forecast years, as a result of the main assumptions and the key drivers changing within the range of their reasonably likely values. This requirement will therefore provide us with more complete information and detailed insights from Royal Mail into the evolution of the financial sustainability of the USO and what would cause it to come under strain.
- Royal Mail must submit the calculations underlying the sensitivity analysis, including the model(s) by which the sensitivity analyses have been calculated. It is important for us to understand how these analyses are carried out, for example, what assumptions and drivers are flexed, in what ranges they are flexed and for what reason, and how the outputs are calculated as a result. This detailed knowledge is necessary for us to have a clearer understanding of the risks associated with the forecasts.
- the assumptions and the drivers in relation to which the sensitivity analyses are done must include the updated list of the key assumptions and key drivers referred to above in paragraph 3.48. This will ensure that all the main assumptions and the key drivers that could affect the forecasts significantly are included.

Downside scenarios

3.59 Sensitivity analysis provides insight into the effect of changing the main assumptions and key drivers. However, it is also important to understand how these main assumptions and key drivers are likely to vary as a result of real events and cause the financial outcomes to differ from the forecast. Downside scenario analyses help us understand how potentially damaging certain events could be to the financial sustainability of the universal service and to what extent any remedial action would mitigate the adverse consequences. They also enable us to consider these impacts in light of their likelihood and develop a more informed and considered view of financial sustainability.

We propose to include a requirement for Royal Mail to provide downside scenario analyses

3.60 We do not currently have explicit requirements for downside scenarios to be included in the Strategic Business Plan. However, Royal Mail has chosen to provide downside scenarios in its past Strategic Business Plans when providing its view of sensitivity analyses. Royal Mail also provides downside scenarios in relation to its quarterly cash flow projection (a necessary report for our consideration of short-term financial sustainability).

3.61 We propose to require downside scenario analyses for the AFF and the quarterly cash flow projections. We consider that requiring them formally will ensure greater clarity for Royal

Mail about our requirements, consistency for us in terms of what we will receive from Royal Mail, and will mitigate against a potential risk that Royal Mail might stop providing this information to us. The proposed requirement will also ensure that the information covers the full period of the AFF (i.e. five years). We consider this requirement is proportionate as it mostly formalises what Royal Mail has been providing to us already.

We consider that Royal Mail is best placed to decide what the downside scenarios should be

- 3.62 We propose not to specify the downside scenarios that must be provided and leave those to Royal Mail to decide. Downside scenarios are likely to change from one year to another depending on which key factors become more risky and more damaging in impact. Furthermore, Royal Mail is best placed every year to determine what downside scenarios may be relevant to any given year. The setting of a prescribed set of scenarios by Ofcom could therefore be restrictive and risk relevant information being overlooked, while Royal Mail is best positioned to identify all relevant scenarios in light of its knowledge of its own business.
- 3.63 However, we are providing examples of the downside scenarios which could be relevant to provide further but flexible instruction for Royal Mail, specifically:
- significant changes in volumes and revenues of letters and/or parcels;
 - significant delays in efficiency initiatives and network transformation; and
 - industrial action.
- 3.64 These examples have been chosen to provide a guide as to the types of events we have seen in the past which have had a significant impact (both positive and negative) on Royal Mail's financial performance.

Summary of proposals

- 3.65 To give effect to our decision in the Statement to strengthen our monitoring regime by requiring an AFF covering a period of five years, alongside sensitivity and downside scenario analyses, we propose that:
- Royal Mail must submit annually by 31 May a financial forecast covering a period of five forecast years (the AFF), replacing the existing requirement to provide a Strategic Business Plan and an Annual Budget.
 - The AFF must reflect Royal Mail's latest view and that, as far as possible, take account of its latest available actual results, specifically, the actual results from the financial year immediately preceding the forecast period of the AFF.
 - If Royal Mail's business plan has been approved by its board in the 90 days prior to 31 May, then the AFF provided to us must be consistent with it.
 - If Royal Mail does not have a board-approved business plan by 31 May, then it must provide an AFF by that date. Once the Board has approved its business plan, Royal Mail must provide an updated AFF which is consistent with any changes to

the expectations and objectives resulting from the approval process, within 10 working days of the business plan being approved.

- The AFF includes broadly the same level of detail for the areas currently required in the Strategic Business Plan and Annual Budget for years one to three, with less detailed information for years four and five for some areas.
- The changes to the content required in the AFF compared to the existing Strategic Business Plan requirements are:
 - a reduction in the level of detail required for the revenues and volumes forecasts, and an update to the Cost Matrix forecast;
 - a new requirement for a forecast of Gross Hours and salary costs, split by time category;
 - removal of the requirement for an annual forecast of PVEO, Productivity (WIPGH), Gross Hours Reduction and Workload; and
 - a requirement for more detailed and structured information on efficiency initiatives and updates to the list of main assumptions and key drivers.
- Royal Mail must conduct sensitivity analyses on all five years of the forecast, and will be subject to a specific requirement to provide:
 - an analysis that calculates the range of values within which the Financeability EBIT could fall, over each of the five forecast years, as a result of the main assumptions and the key drivers changing within the range of their reasonably likely values; and
 - the underlying model used to conduct the sensitivity analyses.
- Royal Mail must include downside scenario analysis in the AFF.

3.66 Our proposed changes to the requirements are set out in USPAC 1.1.2, 1.3.1(b), 1.3.3 and 1.3.6(b) and (d) (Annex 6, pages 3-6 and 8-9), Table 2 of the RAG (Annex 7, pages 13-15 and 19-20), and the associated pro formas are in Figures 1-4 of Appendix 1 to the RAG. Table 1 below also summarises all the information requirements for the AFF, how the information requirements differ from the existing requirements, and the areas for which we propose to require less detail for years four and five of the AFF.

Table 1: Overview of proposed content requirements for the AFF

Current requirement for all years covered by the Strategic Business Plan and Annual Budget	Changes proposed to current requirements for years one to three	How information for years four to five differs to years one to three
Income statement of the Relevant Group (including reconciliations between the Relevant Group, RMUK and the Reported Business)	No change	Same required
Balance sheet of the Relevant Group	No change	Not required
Cash flow statement of the Relevant Group	No change	Not required

Changes to Royal Mail's regulatory reporting requirements

Financial health metrics	No change	Not required
Reported Business Financeability EBIT calculations	No change	Same required
Breakdown of revenues and volumes of the Reported Business	Reduced detail - see Figure 1 of Appendix 1 to the RAG	Reduced detail – see Figure 1 of Appendix 1 to the RAG
Cost Matrix	Minor changes to pro forma – see Figure 2 of Appendix 1 to the RAG	Reduced detail - see Figure 2 of Appendix 1 to the RAG
PVEO	No longer required	n/a - not required
Workload	No longer required	n/a - not required
Gross Hours Reduction and Productivities	No longer required	n/a - not required
Headcount and FTEs	No change	Same required
Breakdown of Gross Hours and salary costs by normal/ordinary, casual/temporary, overtime, and any other time	New requirement – see Figure 3 of Appendix 1 to the RAG	Reduced detail - see Figure 3 of Appendix 1 to the RAG
Explanations of main assumptions and key drivers	Added items and new pro forma for efficiency initiatives and related cost information - see Figure 4 of Appendix 1 to the RAG	Same required, except reduced detail for efficiency initiatives and related cost information- see Figure 4 of Appendix 1 to the RAG
Forecast on forecast comparison	No change	Same required
Sensitivity analyses	The following additions and updates: Require 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	Same required
Downside scenarios	New requirement	Same required

Consultation question

Question 3.1: Do you agree with our proposals regarding the Annual Financial Forecasts? Please substantiate your response with reasons and evidence.

4. Five-Yearly Financial Forecasts

In Section 4 of the Statement we decided to require Royal Mail to provide to Ofcom, every five years, detailed confidential forecasts including key efficiency metrics covering a period of five years, and to publish two measures of its efficiency expectation from the Five-Yearly Financial Forecast (FYFF). These expectations will be set at the start of the five-year period. Our full reasoning for these decisions is set out in the Statement.

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.

- 4.1 In this section, we set out our proposals for how the current reporting requirements will need to change to ensure we implement the decisions confirmed in Section 4 of the Statement in an appropriate and proportionate manner.
- 4.2 We first explain the proposed additional requirements which are specific to the FYFF. These relate mainly to the information on efficiency expectations. We first explain the types of information we obtain through our current reporting requirements to monitor Royal Mail's efficiency ambitions and progress.
- 4.3 We then set out the information requirements for the FYFF, and finally, our proposals to require Royal Mail to publish two measures of its efficiency expectations from FYFF.
- 4.4 We summarise our proposals at the end of this section in paragraph 4.112 and Table 2.
- 4.5 In Section 5, we set out our proposals in relation to reporting on actual performance, including publication requirements.

Information we currently use to monitor Royal Mail's efficiency

Overview

- 4.6 As set out in the December 2021 Consultation, we currently use a combination of metrics and sources to obtain an understanding of Royal Mail's efficiency ambitions and

achievements.²⁹ Multiple data sources capture efficiency outcomes for the different pipeline activities and/or costs and so adopting a combination of sources provides a more reliable and overview. In Section 4 of the Statement, we provided further high-level details of the efficiency data we monitor, which we summarise again below.

4.7 Currently, our efficiency monitoring regime requires Royal Mail to submit to Ofcom, mainly through our reporting requirements (in the Strategic Business Plan), with some additional detail provided through ad hoc statutory information requests, forecasts over a period Royal Mail determines (as noted above, usually three years) and actual efficiency performance using a suite of metrics³⁰ including:

- **Productivity** which is a non-financial metric adopted by Royal Mail and calculates the rate of work by taking the ratio of Workload (weighted volumes) to Gross (paid) Hours (WIPGH). **Workload** is a measure of operational volume and is the other component of Royal Mail's productivity metric.
- **Gross Hours**, which is one component of Royal Mail's productivity metric, measures the number of hours paid to its frontline staff. It includes paid Worked Hours and non-working absences such as sickness and annual leave.
- **"PVEO"** provides an overall measure of efficiency by disaggregating annual cost movements by driver; "Price" (or inflation), "Volume", "Efficiency" and "Other" (related to non-recurring items). The calculation is done by cost type (e.g. frontline people costs by business area, fuel) and the total calculated for the Reported Business.

4.8 We gain insight into Royal Mail's efficiency expectations and performance primarily from monitoring these metrics. We also observe Royal Mail's planned and realised efficiency initiatives (largely relating to its transformation programme), investor briefings (which typically present a high-level view of a subset of initiatives), and occasionally further detailed confidential information obtained through our wider regulatory reporting requirements and Royal Mail's management accounts.

4.9 We periodically request additional information using our statutory powers to conduct more detailed reviews of Royal Mail's efficiency to help understand opportunities and plans for future efficiency gains, and have in the past carried out international benchmarking to form a comparison of these plans with Royal Mail's peers.³¹ Below, we provide further detail on the metrics and information we receive and how they relate to one another.

Workload

4.10 Royal Mail defines Workload to capture the labour and effort required to process and deliver different types of mail. It is used by Royal Mail as a management tool to plan

²⁹ Ofcom, 2021, [Review of Postal Regulation: Consultation](#), paragraph 4.53.

³⁰ We have defined some of these metrics, such as Workload, Productivity (WIPGH) and Gross Hours in the RAG, using Royal Mail's definition, to ensure consistency between our regulatory reporting and Royal Mail's internal reporting.

³¹ Ofcom, 2020, [Annual Monitoring Update on Postal Services, Financial Year 2019-20](#), paragraphs 6.33-6.39.

resources, estimate the short run change in hours due to volume movements, and estimate efficiency opportunities within its business planning processes.

- 4.11 Some items (e.g. parcels) require more work to process and deliver than others (e.g. letters). To take this into account, Royal Mail uses what it calls weighted items, with the items requiring more work having a larger weighting than those requiring less.
- 4.12 It is an important metric, as it is the "weighted items" component of Royal Mail's Productivity metric, "Weighted Items per Gross Hour" (WIPGH), which has historically been used to inform the market on efficiency performance. It is also a component within the "Weighted Items per Worked Hours" (WIPWH) metric recently adopted by Royal Mail within the Pathway to Change Agreement with the Communications Workers Union (CWU).³²
- 4.13 Workload therefore represents the amount of work required at a "standard" performance level to meet a given operational volume. Royal Mail assigns weights for each product and process which capture the relative work needed relative to the reference product, which is a sequenced letter, within Delivery and Processing. The weights are calculated by using industrial engineering studies, which provide task specific times or "planning values" and combining those with assumptions on the distances and quantities required for those tasks.
- 4.14 The weights are then applied to the volumes of mail items to provide Workload. Workload can also be converted to "Standard Hours", which provides a measure of the total time Royal Mail expects it would need to process a particular volume of mail items (at the standard performance).
- 4.15 Over time, as different Operational Business Processes are adopted by Royal Mail, planning values are updated, which in turn are reflected in Workload calculations. Royal Mail also extends Workload measures to include existing business processes as new data and methodologies come available. For example, Royal Mail has developed its Workload metric to cover Regional Distribution Centres, and Collections, extending its scope beyond that of its Delivery & Processing operations. In this and other instances, the Workload associated with new measurements or new processes is added as an "overlay" to the Workload calculation and appears as a specific increment e.g. 'Collections on Delivery.'
- 4.16 We currently require Royal Mail to provide a forecast of Workload in its Strategic Business Plan. This provides an estimate of the amount of work and the number of Standard Hours that it expects to be required, given its forecast of volumes. We require this to be provided on two bases; one using Royal Mail's latest estimates of planning values (reflecting the operational reality at the time of the forecast), and one using the planning values from the 2015 Business Plan, which was adopted as the benchmark for operations at the start of this regulatory review period. Actual reporting on Workload is also provided in this way.
- 4.17 We also require a reconciliation between the two estimates to obtain clear visibility of the changes affecting the Workload calculation so we can understand why the Workload has

³² CWU, 2020. [RMG & CWU, Key Principles Framework Agreement \(The Pathway To Change\)](#), page 9.

changed. For example, this may be because of changes in methodology, or operational practices.

Gross Hours

- 4.18 Gross Hours are the total number of frontline hours paid for by Royal Mail. Alongside Workload, it is the second component used in the productivity metric, “Weighted Items per Gross Hour” (WIPGH). Gross Hours Reduction is the reduction in Gross Hours, in a given period, compared with the prior period. Combined with salary costs, this provides an indication of whether Royal Mail is reducing or increasing the number of frontline hours it pays for, and therefore whether its people costs (which are a significant proportion of operational costs) are reducing or increasing.
- 4.19 Gross Hours include Worked Hours (including both Measured and Unmeasured Worked Hours),³³ as well as paid absences, such as annual leave and sickness absence. The Worked (Measured) Hours subset of Gross Hours is a component within the “Weighted Items per Worked Hour” (WIPWH) metric recently adopted by Royal Mail.
- 4.20 As part of the Strategic Business Plan, Royal Mail is currently required to provide a forecast of Gross Hours Reduction by Operational Business Process. In recent years, we have also made additional requests using our statutory information gathering powers for Royal Mail to provide Gross Hours broken down by hours type (including Worked Hours and paid absences).
- 4.21 A forecast of Gross Hours broken down by hours type has enabled us to understand the extent to which Royal Mail expects Gross Hours to differ from Measured Worked Hours, as a result of paid absences and Unmeasured Worked Hours. It also allows us to understand how Royal Mail expects Measured Worked Hours to differ from “Standard Hours” (see Workload above). The difference between Standard Hours and Measured Worked Hours (which we refer to as the “worked gap”) is one of the areas Royal Mail is addressing as part of its WIPWH metric. Looking at the difference between Gross, Worked and Standard Hours gives us a comprehensive view of the potential for efficiency savings in relation to hours.

Productivity (WIPGH and WIPWH)

- 4.22 Productivity relates the workload to the hours required. An improvement in productivity indicates that Royal Mail is taking less time to do the same amount of work.
- 4.23 Royal Mail has two Productivity measures (WIPGH and WIPWH). They calculate the rate of work by taking the ratio of workload (weighted volumes) to either Gross Hours (WIPGH) or

³³ Measured Hours are Worked Hours from business areas where Royal Mail are able to measure volume and/or where volume is the main driver of time. Unmeasured Hours include hours from some business areas where volume measurement is not yet possible (for example, indoor collection hubs), or where volume is not the main driver of time (for example, local distribution). However, Royal Mail assumes that Unmeasured Worked Hours have the same relative efficiency opportunity as Measured Hours, so seeing both Measured and Unmeasured Worked Hours gives us a more comprehensive view of the efficiency potential.

Worked Hours (WIPWH). They are non-financial metrics, with WIPWH recently adopted by Royal Mail as a second measure of productivity within the Pathway to Change Agreement.

- 4.24 We consider that WIPGH is a more comprehensive measure of efficiency than WIPWH, as it uses Gross Hours, which capture absence and unmeasured efficiencies, in addition to those efficiencies associated with Measured Worked Hours.
- 4.25 Royal Mail also provides disaggregated estimates of WIPGH by Operational Business Process and using 2015 weights, which allows us to look at productivity development on a consistent basis (in both scope and weighting) over time. We currently report on Royal Mail's estimated Productivity (WIPGH) in the AMU.

PVEO

- 4.26 Productivity excludes pay and non-people costs and is limited in scope to Royal Mail's frontline staff. It therefore does not provide a complete picture of Royal Mail's efficiency.
- 4.27 The "PVEO" metric provides an overall measure of efficiency by disaggregating annual cost movements into four drivers; "Price" (or inflation), "Volume", "Efficiency" and "Other" (related to non-recurring items). In contrast to Productivity, it is a comprehensive metric of efficiency as the calculation is done for all operational costs (e.g. frontline people costs by business area, fuel) and transformation costs. The total is calculated for the Reported Business both including and excluding transformation costs.
- 4.28 Currently, Royal Mail is required to forecast PVEO by cost type, where Efficiency (i.e. the 'E' within PVEO) is calculated as the residual, once the drivers Price, Volume and Other have been determined.
- 4.29 The calculation of PVEO is currently subject to the following rules:
- Price-related cost changes must be calculated using an appropriate inflation index;
 - Volume-related cost changes must be calculated as the sum of:
 - cost changes related to changes in Workload;
 - changes in costs related to Post Office (POL) commission and international terminal dues; and
 - any other cost changes relating to mail volume.
 - Other cost changes can only include non-recurring items in excess of £5m, in absolute terms.
- 4.30 Costs identified as "Other" are effectively removed from the end cost position and therefore excluded from the changes captured within Efficiency, the 'E' in PVEO. As a general rule, we do not expect to see many 'Other' cost changes in the PVEO as we expect these to be exceptional in nature.
- 4.31 We currently report (in the AMU) PVEO Efficiency excluding transformation costs because of the expected uneven distribution of transformation costs from one year to the next, which could distort the PVEO results.

Information on main assumptions and key drivers of costs and efficiency

- 4.32 As we explain in Section 3, we currently require Royal Mail to provide explanations of the main assumptions and the key drivers used by Royal Mail in its forecasts of Workload, costs, and Productivity. These include information on planned efficiency initiatives and information on pay and pension arrangements.
- 4.33 As noted above, these initiatives have in the past included automation of parcels operations at Mail Centres, delivery revisions, and introduction of scan-in scan-out technology.³⁴
- 4.34 This information not only informs our view of Royal Mail's ambitions on efficiency improvements, but also helps us with our modelling of the financial sustainability by providing us information we need to forecast costs of the Reported Business.

Content requirements for the Five-Yearly Financial Forecasts

- 4.35 The information we propose to require in the FYFF is broadly similar to the current requirements for efficiency information (discussed above in paragraphs 4.6-4.34), but covering a five-year period, and provided every five years rather than annually. We also propose some changes to the existing requirements, which are set out in detail in paragraphs 4.42-4.93 below.
- 4.36 In 2023/24, and every five financial years thereafter, we propose that Royal Mail will be required to provide a five-year forecast of:
- Workload;
 - Gross Hours Reduction;
 - Gross Hours (broken down by hours type);
 - Productivity (both WIPGH and WIPWH); and
 - PVEO.
- 4.37 We also propose that Royal Mail will be required, as part of the FYFF, to provide a reconciliation of its planned efficiency initiatives (provided as part of the main assumptions and key drivers - see paragraphs 3.40-3.47 above) to the forecast PVEO.
- 4.38 The FYFF will comprise this information, as well as the information required in the AFF which we set out in Section 3, with a small number of changes (in relation to the level of detail required for years four and five of the forecast), discussed below. This means 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.
- 4.39 Table 2 at the end of this Section also contains an overview of the proposed full contents of the FYFF. In a similar manner to the AFF, the FYFF 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 from the financial year immediately preceding the forecast period of the

³⁴ See Ofcom, 2021, [Annual Monitoring Update on Postal Services, Financial Year 2020-21](#), paragraphs 7.23-7.32, and Ofcom, 2020, [Annual Monitoring Update on Postal Services, Financial Year 2019-20](#), paragraphs 6.22-6.32.

FYFF. It must also be consistent with Royal Mail's own board-approved business plan (if one has been approved by the board in the 90 days prior to 31 May),³⁵ and be accompanied by sensitivity and downside scenario analyses.

4.40 We note that in the Statement we set out our intention to consult on the inclusion of "other" within the PVE/PVEO metric.

4.41 We propose to use PVEO rather than PVE, as we consider that the separation of "Other" cost changes would provide a more consistent and comparable, and therefore more reliable, measure of "Efficiency". The separation of "Other" cost changes would allow us to exclude one-off factors that are outside of Royal Mail's control and could differ from one year to the next. This also reflects our current approach to how we require Royal Mail to provide PVEO.

We propose to require the same level of detail for each of the five years of the Five-Yearly Financial Forecast

4.42 As the efficiency expectations will be in place for a five-year period and a subset of them will be published, it is essential that these expectations are reliable, and that we and stakeholders can have confidence in them. We consider that Royal Mail should put together its expectations with appropriate consideration of how each metric either links to or forms part of the overall efficiency expectations.

4.43 Therefore, we propose to require the same level of detail for each of the five financial years for all the efficiency metrics (i.e. Workload, Gross Hours Reduction, Gross Hours broken down by hours type, Productivity (WIPWH and WIPGH) and PVEO) and the efficiency initiative assumptions, in the FYFF.³⁶ This will help to ensure we have a detailed understanding of Royal Mail's ambitions in different areas, act as an incentive for Royal Mail to provide meaningful expectations, and provide us (and, indirectly, Royal Mail's stakeholders) with reassurance that Royal Mail has given due consideration to its expectations.

4.44 We appreciate that providing a five-year forecast for this information may entail additional work for Royal Mail compared to what is currently required in the Strategic Business Plan. We also appreciate that there may be greater challenges in producing five-year projections for some of the assumptions within the business plan. 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.

³⁵ If Royal Mail does not have a board-approved business plan by 31 May, then as for the AFF, we propose that the FYFF must represent its latest view. We discuss this further in paragraphs 4.102-4.103.

³⁶ This is in contrast to our approach for the AFF, for which (as noted in Chapter 3) we propose less detail for some metrics for years four and five.

We propose some changes to the existing information requirements to ensure we fully understand Royal Mail's efficiency plans

- 4.45 To ensure we gain a comprehensive insight into Royal Mail's view of scope for efficiencies, and that the forecast and expectations are reliable, it is important that:
- the expectations and forecasts take into account its operational reality (i.e. what happens 'on the ground'), and that this is done transparently;
 - we understand the areas which make up a significant proportion of Royal Mail's costs (and therefore provide the greatest scope for efficiency savings), and those in which Royal Mail has particular ambitions to make efficiency savings (for example, as set out in the recent Pathway to Change agreement with the CWU);
 - the expectations and forecasts are underpinned by transparent assumptions, as well as the Guiding Principles and their hierarchy; and
 - we understand the specific actions by which Royal Mail intends to make its forecasted efficiency savings, and how they relate to each other.
- 4.46 To achieve these objectives, we propose some changes to the existing efficiency information requirements in the Strategic Business Plan.
- 4.47 Currently, to further our understanding of Royal Mail's efficiency expectations and forecasts, we obtain information from Royal Mail on an ad hoc basis, using our statutory information gathering powers, in addition to the requirements in the USP Accounting Condition and the RAG.
- 4.48 Some of our proposals will build obligations into our reporting requirements for Royal Mail to provide information in the same (or similar) format that it has previously provided to us on an ad hoc basis. It will enable the consistent provision of information that is necessary to fulfil our duties, in a more efficient manner than ad hoc information requests. We consider this would be beneficial as it should give both us and Royal Mail clarity on what it will be required to provide, and by when. Adding these to our reporting requirements should not represent a significant burden to Royal Mail, as it should be familiar with the information in the proposed format.
- 4.49 In addition, Royal Mail is currently required to provide a forecast of Workload using both its latest estimates of weights, and the weights from the 2015 Business Plan, which was adopted as the benchmark for operations that were in place at the start of this regulatory review period (2017). We now propose to require a forecast of Workload to be provided only on the basis of the weights in place at the start of each FYFF (i.e., 2023/24 for the first forecast).
- 4.50 This will ensure that the Workload forecast, and all other metrics that rely upon Workload as an input (for example, Productivity (both WIPGH and WIPWH)), will reflect Royal Mail's most up to date view of its operations, and will reduce the amount of work required by Royal Mail to provide this.

Workload

- 4.51 Royal Mail set out in its response to our March 2021 Call for Inputs that the current view of Workload does not recognise that increased Workload will lead to increased costs in national distribution, and that this means that its efficiency, measured by PVEO, will be understated.³⁷
- 4.52 Although national distribution represents a small portion of Royal Mail's cost base, and we therefore do not expect its inclusion to have a significant impact on the PVEO calculation, to address Royal Mail's concern, we propose to extend the use of Workload to all Operational Business Processes for which Royal Mail can calculate a Workload figure, including Workload calculated as an overlay. This will also ensure that the forecast better reflects Royal Mail's operational reality, and provides greater transparency, as we will be better able to understand the different levels of efficiency within each Operational Business Process.
- 4.53 In addition, to ensure transparency and provide a clear reference point at the time of setting the forecast, we propose that Royal Mail must explain which activities are included within each Operational Business Process, including any overlays, to help us better understand the structure of its current operation and how this maps to Workload. In doing so, we propose that Royal Mail must separate activities within the new parcel hubs from other Operational Business Processes. This is because we want to understand the contribution of parcel hubs to Royal Mail's efficiency ambitions.
- 4.54 The format of the information we propose to require is set out in the pro forma in Figure 7 of Appendix 1 to the RAG.

Gross Hours and Gross Hours Reduction

- 4.55 We currently require Royal Mail to provide a forecast of Gross Hours Reduction by Operational Business Process. However, in practice, we use both Gross Hours as well as Gross Hours Reduction.
- 4.56 In particular, the breakdown of Gross Hours by hours type, which we typically request from Royal Mail using our statutory information gathering powers, provides us with important insight into the level and management of resources being used for a significant proportion of Royal Mail's operations. It also helps us to understand the size of the "worked gap", as targeted by Royal Mail in the Pathway to Change agreement, and the gap between Gross Hours and Standard Hours, both of which help us to understand any potential there may be for efficiency savings.
- 4.57 We therefore propose to require a forecast of Gross Hours by Operational Business Processes including Delivery & Collections, Processing and Regional Distribution Centres (RDCs), split out by type of hours, specifically Worked Hours (split into Measured and Unmeasured Worked Hours) and absence (split into sickness absence and other absence),

³⁷ Royal Mail, [response to March 2021 CFI](#), paragraph 4.14.

together with the corresponding Standard Hours (Workload). These breakdowns will help us better understand Royal Mail's plans in relation to Measured Hours and absence.

- 4.58 By using the pay information we will receive in the AFF (as proposed in paragraphs 3.35-3.37 above), we can monitor how changes to pay impact the savings opportunity over time.
- 4.59 The format of the information we propose to require is set out in the pro forma in Figure 8 of Appendix 1 to the RAG. While we are not proposing any changes to the calculation of Gross Hours Reduction, this will now be required for a five-year time period (in line with all other information in the FYFF), as outlined in Figure 7 of Appendix 1 to the RAG.

Productivity

- 4.60 As outlined above, we currently require Royal Mail to provide its measure of Productivity which relates Workload to Gross Hours (WIPGH). However, more recently Royal Mail has introduced a new frontline Productivity measure, WIPWH.
- 4.61 We intend to continue to use WIPGH to inform our view of efficiency, because WIPGH uses Gross Hours, the change in which captures absence and unmeasured efficiencies, in addition to those efficiencies associated with the change in Measured Worked Hours. We therefore consider that it is a more comprehensive measure of efficiency. We are not proposing any changes to the calculation of the Productivity (WIPGH) metric.
- 4.62 However, so that we can understand Royal Mail's ambitions with respect to its own Productivity measure (i.e. WIPWH), and ensure that we have a comprehensive view of Royal Mail's productivity ambitions, we propose to require Royal Mail to provide a forecast of WIPWH, in addition to WIPGH. We set out the information Royal Mail must provide in Figure 7 of Appendix 1 to the RAG.
- 4.63 In practice, this information should be able to be calculated from the breakdown of Gross Hours by hours type, and therefore the additional reporting burden on Royal Mail would be minimal. However, making this an explicit requirement will ensure that the information we receive is always prepared on a consistent basis, and ensure we understand the specific number Royal Mail expects to achieve.

PVEO

- 4.64 As outlined, the PVEO metric provides an overall measure of efficiency by disaggregating annual cost movements by driver; "Price" (or inflation), "Volume", "Efficiency" and "Other".
- 4.65 As proposed above, Royal Mail will be required to produce a PVEO analysis for each of the five-years of the FYFF, and, as now, it is important for the PVEO to have the same level of granularity as the Cost Matrix. As such, the Cost Matrix, which we discuss in Section 3, will need to contain the same level of detail for all five-years to support the PVEO for the FYFF.
- 4.66 As explained in paragraph 3.32, we are proposing some changes to the Cost Matrix forecast, specifically adding sub-totals and separating out cost lines where additional detail is required e.g., Collection, Delivery and Conveyance charges. These changes will also apply

to the PVEO forecast. The format of the information we propose to require is set out in the pro forma in Figure 5 (Cost Matrix) and Figure 6 (PVEO) of Appendix 1 to the RAG.

- 4.67 We consider that Royal Mail should continue to forecast the PVEO both excluding and including transformation costs. Over a longer timeframe the uneven distribution of these costs is likely to be smoothed out, and the calculation of PVEO both including and excluding transformation costs helps us to have a comprehensive view of Royal Mail's efficiency ambitions.
- 4.68 The current rules provide Royal Mail with a significant degree of freedom when choosing the assumptions about input price inflation, volume-related cost movements and other cost changes, which can result in differences in the reporting of efficiency progress. To ensure reliability and transparency in the calculation of PVEO, reflecting its importance as one of the published efficiency expectations, we propose to modify some of the rules regarding the calculation of PVEO. We explain our proposals and rationale for these in turn below.

Price

- 4.69 Royal Mail is currently required to estimate the cost changes due to inflation using an appropriate index.
- 4.70 Because efficiency is calculated by comparing actual costs with expected costs, if the estimated impact of inflation on costs is incorrect, the estimated impact of efficiency savings will also be incorrect. The choice of index is therefore significant.
- 4.71 The appropriate inflation index should reflect the inflationary pressures on Royal Mail which are outside its control. It needs to be available on both a forecast and actual basis to allow a consistent methodology to be applied to both actual and forecast PVEO metrics.
- 4.72 The inflationary pressure on Royal Mail will reflect its mix of inputs and the different macroeconomic pressures on those inputs. However, a Royal Mail specific index is not available, therefore, a proxy is required which balances cost reflectiveness with the need to have a publicly reliable source for forecasts and actual indices.
- 4.73 We currently require a single index for reasons of simplicity, but we do not mandate which index must be used. As a result, the calculation is typically performed on two bases, CPI for our reporting of PVEO within the AMU, while Royal Mail submits estimates to us using RPI. To avoid this duplication and potential confusion from different estimates of efficiency we propose to specify the index or indices to be used.
- 4.74 We previously adopted CPI as a single index which we felt to be reflective of the overall costs.
- 4.75 While we consider that CPI continues to provide a reasonable proxy for inflation on Royal Mail's non-people costs, we have taken the opportunity to see if there is an alternative index for better estimating the underlying cost pressures on wages, given that people costs represent a significant proportion of Royal Mail's costs. A wage index is likely to be more representative of pay pressures and movements over time, and so we consider that such an index could provide the appropriate basis for forecasting changes in Royal Mail's people

costs. We therefore propose to require Royal Mail to use two indices to forecast its costs: CPI for non-people costs and a different index that relates specifically to wages and better reflects changes in people costs.

- 4.76 Royal Mail has previously argued that RPI is reflective of the pressures that it faces on people costs, as RPI is generally the starting point for union pay negotiations (including the CWU's).³⁸ However, this does not mean that RPI is the appropriate measure of expected people cost increases and inflationary pressures in the wider market. Further, RPI no longer has the status of an official statistic following concerns around aspects of its calculation and we note that the UK Statistics Authority has also stated that adopting it for new uses should be avoided.³⁹
- 4.77 Therefore, we are minded to require the OBR Average Weekly Earnings (AWE) index, from the historical official forecast database, as the wage inflation index. The AWE index provides a monthly measure of average weekly earnings per employee. It is calculated using information based on the Monthly Wages and Salaries Survey (MWSS), which samples around 9,000 employers in Great Britain. We recognise that this index is calculated for the economy as a whole and not solely for Royal Mail's industry, but disaggregation at a sector-level is only available for actuals, not forecasts. We propose that Royal Mail must use this index to estimate the effects of inflation on its people costs.
- 4.78 We welcome stakeholders' comments on our proposal, including the criteria we have adopted, but also welcome alternative reasoned suggestions.

Volume

- 4.79 With regards to volume drivers, we will continue to adopt Royal Mail's methodology of using Workload movements to estimate the short run variability of costs.
- 4.80 Our proposal to extend the use of Workload to all Operational Business Processes for which Royal Mail calculates a Workload figure (see paragraph 4.52 above) means that Royal Mail can include in the PVEO cost movements due to volumes for all the Operational Business Processes for which it has a Workload measure. This should address Royal Mail's concern, set out in its response to our March 2021 Call for Inputs and noted above, that its efficiency, measured by PVEO, will be understated.

Other

- 4.81 The "Other" in the PVEO metric captures non-recurring items, typically outside of Royal Mail's control, that have the effect of reducing or increasing costs in the year. The categorisation of cost movements between Efficiency and Other can have a significant impact on the estimate of the efficiency element of the PVEO.
- 4.82 For example, Royal Mail, in its response to our March 2021 Call for Inputs on our Review of Postal Regulation ('March 2021 CFI'), said that our restatement of its 2018/19 PVEO did not capture the £800m in avoided costs that Royal Mail delivered through its 2018 Pay,

³⁸ Royal Mail, response to March CFI, paragraph 4.14.

³⁹ UK Statistics Authority, 4 September 2019, [Statement on the future of the RPI](#) [accessed 01/09/2022].

Pension and Pipeline agreement.⁴⁰ We disagreed, as the £800m was not a cost incurred in the year and it was within Royal Mail's management's control. The effect of this restatement was to reduce the estimate of efficiency achieved in the year from over 10% to -0.6%.

- 4.83 Therefore, to ensure that the PVEO is a clear and consistent and transparent measure of efficiency, as well as reflecting the importance that the PVEO metric will have as a benchmark for our ongoing assessment of Royal Mail's efficiency progress, we propose to further specify the changes that can be classified as "Other"
- 4.84 We propose that where 'Other' costs are expected to be incurred, Royal Mail can include them in the forecast PVEO only if each cost change satisfies both of the following requirements:
- outside management's control. This is a new requirement; and
 - non-recurring in nature (which does not necessarily mean it can only occur in one year). This is an existing requirement.
- 4.85 We also propose to remove the requirement that states that any cost change classified as Other must be at least £5m in absolute terms. We consider that the Guiding Principles (which include objectivity and materiality), that apply to all of the financial information that Royal Mail is required to provide to us, will ensure that the items classified as Other are material. Provided that each Other cost change meets the other two requirements noted in the paragraph above, removing this requirement gives Royal Mail flexibility to decide whether the size of the item means that it should be included.
- 4.86 The one-off increase in financial year 2022/23 to National Insurance of 1.25%⁴¹ is an example of a cost change that would likely meet the requirements to be classified as Other. Because of this, Royal Mail will have a one-off increase in its tax bill during that financial year. We would therefore expect to see this classified as "Other" within the forecast PVEO for the year ending March 2023, as it is outside Royal Mail's control, only occurs for one year and results in a significant increase in costs for the year (around £50m).⁴²
- 4.87 The requirements set out above aim to provide a framework to ensure that the PVEO reflects Royal Mail's underlying operational efficiency. However, we recognise that the requirements still involve an element of judgement, as it is difficult to predict all of the possible cost movements which would fit into this category. Therefore, we additionally propose that Royal Mail must explain how each of the 'Other' items meets the conditions set out above when it submits the PVEO forecast. This will act as an additional check to ensure that we are satisfied that the items adhere to the requirements, and provide transparency.

⁴⁰ Royal Mail, [response to March 2021 CFI](#), paragraph 4.15.

⁴¹ UK Government, [Rates and allowances: National Insurance Contributions](#).

⁴² Royal Mail plc., 2022. [Results for the full year ended 27 March 2022](#), page 7 [accessed 16/08/2022].

- 4.88 The proposed rules (relating to Price, Volume and Other) can be found in paragraph 8.83 of the RAG.

Information on efficiency initiatives and reconciliation to PVEO

- 4.89 As explained in Section 3, we propose to require more detailed and structured information on efficiency initiatives as part of the explanations required on the main assumptions and key drivers of the AFF. This information must also include the impact of all factors such as changes in pay and Workload which could act as cost pressures reducing the impact of efficiency initiatives.
- 4.90 We propose the same requirement for the FYFF, but with the same level of detail provided for all five financial years of the forecast (rather than less detailed information for years four and five). We specify the level of detail that Royal Mail must provide about its planned efficiency initiatives as part of the FYFF, in the pro forma in Figure 9 of Appendix 1 to the RAG. The pro forma also covers the information on the impact of all factors mentioned above which could act as cost pressures reducing the impact of efficiency initiatives.
- 4.91 It is important for our monitoring of efficiency to understand Royal Mail's planned efficiency initiatives and the areas these relate to, because these are the specific and 'real world' actions by which Royal Mail plans to make efficiency savings, and give further context to the forecasts, which are based on assumptions and judgment as well as facts. As noted above, this information is also necessary for our modelling of financial sustainability because it informs our forecast of costs.
- 4.92 We also propose to require that Royal Mail must reconcile the total efficiency savings as per its information on the efficiency initiatives for each forecast year to the total efficiency calculated in its forecast PVEO for that forecast year. The reconciliation must include a breakdown of the reconciling items between the key factors of PVEO, i.e. the Price, Volume and Other impacts.
- 4.93 This reconciliation will help us to better understand how Royal Mail's efficiency initiatives work against the cost pressures to deliver the efficiency calculated in the PVEO analysis. A detailed understanding of the PVEO analysis is necessary for us because PVEO is one of the two metrics on which Royal Mail will be required to set its efficiency expectations and report publicly. The format of the reconciliation we propose to require is set out in the pro forma in Figure 9 of Appendix 1 to the RAG.

Deadline and submission requirements for the Five-Yearly Financial Forecasts

We propose that the Five-Yearly Financial Forecast must be submitted by 31 May every five years

- 4.94 As for the AFF, we need the FYFF to be submitted as close as possible to the start of each forecast period, while also recognising that preparing the forecast will entail work for Royal Mail at a busy period (i.e. the end of the financial year).

- 4.95 We therefore propose that, as for the AFF, Royal Mail must submit the FYFF to Ofcom by 31 May, meaning that the first FYFF would be due by 31 May 2023. We consider that this is an appropriate balance between getting the information later than we ideally need, while giving us greater assurance that the information we need is reliable and complete.
- 4.96 We consider this additional time is sufficient, given that the information we are proposing to require in the FYFF is similar to the existing information requirements in the Strategic Business Plan, albeit covering a five-year time period, which is necessary to implement our decision in the Statement.
- 4.97 In addition, the new requirements we propose (for example, for Gross Hours broken down by hours type, or for more detail in relation to efficiency initiatives and an accompanying reconciliation to the PVEO) [§<]. In addition, Royal Mail will also no longer be required to forecast Workload on two bases.

We will use the forecast provided to us on 31 May every five years to track Royal Mail's efficiency performance over time

- 4.98 We set out our view in the Statement that using a consistent benchmark of efficiency expectations throughout the five-year period, set at the start of the period, provides the most straightforward and transparent basis for consideration of Royal Mail's efficiency ambitions, for both Royal Mail, us, and other stakeholders.
- 4.99 We appreciate that Royal Mail may wish to update the forecast in the intervening years, and it is of course free to do so for its own purposes. However, if we were to update to the FYFF we receive on 31 May, this would undermine our objective to have a consistent and stable benchmark by which to consider efficiency progress, and in turn undermine stakeholder confidence in the expectations.
- 4.100 As we explain in Section 5 below, Royal Mail, when it publishes its actual annual progress, will have an opportunity to explain any divergence from the published expectations, and, if necessary, may wish to explain the impact of any forecasting error when it comes to the measurement of actual performance against expectations.
- 4.101 We therefore propose that, in contrast to the AFF, there will be no requirement for Royal Mail to provide any updates to the FYFF (and therefore the published efficiency expectations) to us. Indeed, unless there are exceptional circumstances (see paragraphs 4.104 and 4.105 below), any such updates or revisions to that forecast will not be considered by us, as we will maintain our monitoring of efficiency progress against the consistent and stable benchmark provided by the FYFF.
- 4.102 As for the AFF, the FYFF must reflect Royal Mail's latest view of its objectives and expectations, and that, as far as possible, it takes account of its latest actual results, specifically, the actual results from the financial year immediately preceding the forecast period of the FYFF (meaning that, for the FYFF due by 31 May 2023, it must take account of results for 2022/23).
- 4.103 Further, if Royal Mail has a board-approved business plan in place by 31 May, the FYFF must be consistent with that (specifically, for the FYFF due by 31 May 2023, this means it

must be consistent with Royal Mail's business plan covering the financial years 2023/24 onwards). Given the importance and prominence of the FYFF and related efficiency expectations (the latter of which will be published), our expectation is that this will be the case.

- 4.104 We do however recognise that exceptional circumstances may occur (outside of Royal Mail's control, for example, the Covid-19 pandemic) that mean we may consider it is appropriate to update the FYFF. We expect these instances to be exceptional and unlikely to occur. If such a situation were to arise, we expect that Royal Mail would have to explain the impact of the exceptional circumstance on the previously submitted FYFF and submit to us revised forecasts. The FYFF (and related efficiency expectations) would then only be accepted as the new benchmark with our public written consent.
- 4.105 In deciding whether to adopt an updated FYFF under the above-mentioned exceptional circumstances, we would consider to what extent the exceptional circumstance impacts the previously submitted FYFF, in accordance with the Guiding Principles for regulatory financial reporting, which include the principles of accuracy, objectivity, completeness, consistency and causality.

Publication of efficiency expectations

- 4.106 As set out in Section 4 of the Statement, we decided that, from 2023, Royal Mail must publish two of its five-year expectations from the FYFF (specifically, PVEO and Productivity (WIPGH)). The period the first set of expectations would cover is 2023/24 to 2027/28. We expect publication of these expectations to increase stakeholders' understanding of Royal Mail's progress on efficiency and provide a public reference point for future considerations of Royal Mail's efficiency. We also decided in the Statement to require Royal Mail to annually publish its performance against these expectations, and we set out our proposals to implement that decision in Section 5.
- 4.107 In deciding the level of detail and format of the publication requirement, we have had regard to potential concerns relating to commercial sensitivity. As such, we consider that the level of information we have proposed will be published, is either already disclosed by Royal Mail as part of the forward look in annual results briefings (Productivity) or is of high enough level that any details of projects or programmes are obscured (PVEO), ensuring that commercially sensitive information will not be disclosed.
- 4.108 We propose that the PVEO expectation should be published in both percentage and absolute terms, while the expected change in Productivity (WIPGH) should be published in percentage terms. The PVEO set out in absolute terms would provide stakeholders with the extent of Royal Mail's efficiency ambitions in monetary terms, which they could compare with the monetary value of other changes in costs, revenues and other cash flows.
- 4.109 We noted above that we currently require Royal Mail to forecast PVEO both including and excluding transformation costs, and that we intend to continue to require this in FYFF that Royal Mail must provide to us confidentially. However, for the purposes of the published

PVEO forecast, we propose that Royal Mail must publish its PVEO forecast including transformation costs. Transformation costs are planned for a longer timeframe and their potential uneven distribution over the years is likely to be smoothed out over a longer-term forecast. Therefore, the calculation of PVEO including transformation costs would provide not only a comprehensive view of costs and efficiency but will also reflect the requirement for the forecast to be prepared for a longer time period (i.e. five years). The format in which Royal Mail should publish the expectations is set out in a proposed pro forma in Figure 10 of Appendix 1 to the RAG.

- 4.110 We propose 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. The expectations must be published on Royal Mail's website, and we expect that they will be published in Royal Mail's regulatory financial statements (RFS). This deadline therefore aligns with the deadline for the other information that Royal Mail is already required to publish annually, which it meets via the publication of the RFS.
- 4.111 We consider that the RFS is an appropriate report for the published expectations because it is an existing document that contains information that Royal Mail is already required to publish annually, including key information about the performance of the Reported Business such as the revenues, a high level of breakdown of costs and the Financeability EBIT.

Summary of proposals

- 4.112 To give effect to our decision in the Statement to require Royal Mail to provide to Ofcom, every five years, detailed confidential forecasts including key efficiency metrics covering a period of five years, and to publish two measures of its efficiency expectation from the FYFF, we propose:
- a) that every five years Royal Mail must submit a FYFF to Ofcom by 31 May, starting in 2023, which comprises:
 - i) The following information, with changes compared to the existing requirements in brackets:
 - Workload (alongside an explanation of activities are included within each Operational Business Process, including any overlays, including separation of activities within the new parcel hubs from other Operational Business Processes, and to provide the forecast for all Operational Business Processes for which Royal Mail has a Workload calculation)
 - PVEO (using CPI as the inflation measure for non-people costs and the AWE index for people costs), change to the requirements for cost changes classified as Volume and Other, and a requirement to explain how each of the Other cost changes adhere to those requirements)
 - Productivity (WIPGH and WIPWH);

- Gross Hours Reduction;
 - Gross Hours broken down by Operational Business Process and hours type; and
 - a reconciliation of Royal Mail's planned efficiency initiatives and related cost information to the forecast PVEO.
- ii) Together with all of the information required in the AFF (See Table 1), with the following changes:
- for the cost forecasts set out in the Cost Matrix, the same level of detail for each of the five years; and
 - for the efficiency initiatives and related cost information, the same level of detail for each of the five years.
- b) that the FYFF must reflect Royal Mail's latest view of its objectives and expectations, take into account Royal Mail's latest available actual information, and be consistent with Royal Mail's business plan if one has been approved by the board in the 90 days prior to 31 May, but there is no requirement to provide an updated forecast if board approval is later than 31 May; and
- c) that Royal Mail must, every five years (starting in 2023), publish its five-year PVEO and Productivity (WIPGH) expectations 90 days after the start of the first financial year to which they relate.
- 4.113 Our proposed changes to the requirements are set out in USPAC 1.1.2, 1.3.1(c), 1.3.3, 1.3.5 and 1.3.6(c) (Annex 6, pages 3-6 and 8-9) and Table 2 and paragraph 8.83 of the RAG (Annex 7, pages 15-18 and 47-48). The associated pro formas are in Figures 5-10 of Appendix 1 to the RAG. Table 2 below also summarises all of the information requirements for the FYFF, how the information requirements differ from the existing requirements, and the areas for which we propose to require less detail for years 4 and 5 of the AFF.

Table 2: Overview of proposed content requirements for the FYFF

Current requirement for all years covered by the Strategic Business Plan and Annual Budget	Changes proposed to current requirements for years one to three	How information for years four and five differs to years one to three
Income statement of the Relevant Group (including reconciliations between the Relevant Group, RMUK and the Reported Business)	No change	Same required
Balance sheet of the Relevant Group	No change	Not required
Cash flow statement of the Relevant Group	No change	Not required
Financial health metrics	No change	Not required
Reported Business Financeability EBIT calculations	No change	Same required

Changes to Royal Mail's regulatory reporting requirements

Breakdown of revenues and volumes of the Reported Business	Reduced detail - see Figure 1 of Appendix 1 to the RAG	Reduced detail – see Figure 1 of Appendix 1 to the RAG
Cost Matrix	Minor changes to pro forma - see Figure 5 of Appendix 1 to the RAG	Same required - see Figure 5 of Appendix 1 to the RAG
PVEO	Changes to P, V and O calculation rules and minor changes to cost lines to match Cost Matrix – see paragraph 8.83 and Figure 6 of Appendix 1 to the RAG; and new publication requirement	Same required - see Figure 6 of Appendix 1 to the RAG; and new publication requirement
Workload – in cost metrics forecast	<p>Requirement amended for the Workload reported to cover all Operational Business Processes for which Royal Mail calculates Workload</p> <p>New requirement for a breakdown of all the Activities included within all relevant Operational Business Processes</p> <p>Removal of requirement for re-basing to BP 2015 and the accompanying reconciliations</p> <p>See Figure 7 of Appendix 1 to the RAG</p>	Same required - see Figure 7 of Appendix 1 to the RAG
Gross Hours Reduction and Productivities – in cost metrics forecast	New requirement to provide Productivity (WIPGH) and Productivity (WIPWH) - see Figure 7 of Appendix 1 to the RAG; and new publication requirement for WIPGH	Same required - see Figure 7 of Appendix 1 to the RAG; and new publication requirement for WIPGH
Headcount and FTEs	No change	Same required
Breakdown of Gross Hours and salary costs by normal/ordinary, casual/temporary, overtime, and any other time	New requirement – see Figure 3 of Appendix 1 to the RAG	Reduced detail - see Figure 3 of Appendix 1 to the RAG
Breakdown of Gross Hours by Operational Business Process, each further broken down by Measured and Unmeasured Worked Hours, sickness absence and other absence and all other Gross Hours, together with the corresponding Standard Hours	New requirement – see Figure 8 of Appendix 1 to the RAG	Same required - see Figure 8 of Appendix 1 to the RAG
Explanations of main assumptions and key drivers	Some added items and a new pro forma for efficiency initiatives and	Same required - see Figure 9 of Appendix 1 to the RAG

Changes to Royal Mail's regulatory reporting requirements

	related cost information including a reconciliation to PVEO - see Figure 9 of Appendix 1 to the RAG	
Forecast on forecast comparison	No change	Same required
Sensitivity analyses	<p>The following additions and updates:</p> <p>Require 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</p> <p>Require underlying calculations including models</p> <p>Update the list of main assumptions and key drivers</p>	Same required
Downside scenarios	New requirement	Same required

Consultation question

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

5. Reporting on actual performance

In Section 4 of the Statement, we decided to continue to require Royal Mail to provide information on actual performance and confirmed a new requirement on Royal Mail to publish annually its actual performance against its published efficiency expectations.

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.

- 5.1 In this Section, we first set out the changes we propose to make to the actual performance information we require to be reported to Ofcom. We then set out our proposals in relation to the expectations (PVEO and Productivity (WIPGH)) that Royal Mail will be required to publish, including commentary. Finally, we set out our proposals regarding additional confidential commentary to Ofcom on Royal Mail's PVEO and Productivity (WIPGH) performance.
- 5.2 We summarise our proposals at the end of this Section in paragraph 5.45 and Tables 3, 4 and 5 at the end of Section 6.

Changes to actual performance information

- 5.3 As explained below, actual performance information is necessary for our monitoring of the financial sustainability and efficiency of the provision of the universal service.
- 5.4 When compared with forecasts, actual performance information can provide insight into Royal Mail's progress against its business plans and the likelihood of those plans being achieved, including Royal Mail's efficiency forecasts. Together with the reasons for the deviations from business plans and forecasts, this information allows us to ground our monitoring in financial and operational reality.
- 5.5 Actual information requirements therefore typically follow the same format as those of the forecast information to allow easy and transparent comparability. However, in some instances additional granularity, which is not practicable to forecast, is needed to fully understand the actual performance, particularly in relation to financial sustainability.
- 5.6 In addition, actual performance information is necessary for our monitoring of competition and consumer interests which often require us to consider product volumes, revenues and costs at a granular level. For example, volume and revenue information which we currently require at individual product level allows us to understand better the detailed movements

and trends in key products and product groups, e.g. it helps us better understand the development of volumes, revenues and costs of USO vs non USO products, letters vs parcels products, parcels products of different sizes and weights, or access products.

5.7 The actual performance information that Royal Mail currently provides, as set out in Table 4 of the RAG, enables us to carry out the above tasks. We set out below an overview of the information we currently require (all the information below is confidentially provided unless specifically referred to as published):

- Annually:
 - published and confidential income statement, capital employed and cash flow statements for the Reported Business containing Financeability EBIT, high level information on volumes, revenues and costs, profitability information on USO vs non-USO products and access, together with reconciliations to the Relevant Group results;
 - Cost Matrix which provides a breakdown of costs;
 - PVEO; and
 - granular volume and cost data by product (at SPHCC level) and activity to enable us to build our Cost Allocation Model (CAM).
- Quarterly:
 - income statement for the Reported Business containing Financeability EBIT, and high level information on volumes, revenues and costs, and profitability information on USO vs non-USO products and access;
 - volume and revenue summaries by product group;
 - Cost Matrix which provides a breakdown of costs;
 - Cost Metrics including Workload, Gross Hours Reduction and Productivity information (together with supporting calculations and reconciliations);
 - granular revenue, cost, and volume information at product (short SPHCC) level (data extract file);
 - various reconciliations between the above reports; and
 - change control reports and costing and accounting methodology manuals
- Monthly:
 - Volume and revenue information which is currently provided by Royal Mail submitting its monthly management accounts

5.8 We therefore intend to continue to broadly require the same actual performance information that Royal Mail currently provides to us, as summarised above. However, we propose some changes to the actual reporting requirements in relation to efficiency to ensure consistency and comparability between the financial forecasts and Royal Mail's actual performance, which will help track Royal Mail's progress more effectively over time.

5.9 We are also proposing some changes to the actual reporting requirements to ensure that they continue to provide us with information we need to monitor financial sustainability and perform our own modelling for that purpose. This specifically relates to the

information we propose to require on Gross Hours and salary costs which would enable us to continue to model the evolution of Royal Mail's people costs.

- 5.10 Finally, we propose some changes to better ensure the completeness and internal consistency (including further reconciliations) of the information provided to us.⁴³ In Section 6, we also set out proposed changes to the reporting requirements which are not related to changes decided on in the Statement. Some of these changes relate to actual performance information (such as change control requirements, and our proposals to remove the requirement for actual capital employed and cash flow statements for the Reported Business).
- 5.11 We set out these proposals in turn below.

Revenues, volumes and Cost Matrix

- 5.12 We propose that in relation to actual revenues and volumes and Cost Matrix information, Royal Mail must report using the same product groupings and breakdowns as the first forecast year in the corresponding forecasts (see our proposals on the AFF in paragraphs 3.32-3.34). The format of the information we propose to require is set out in the pro formas in Figures 15 and 16 of Appendix 1 to the RAG.

Workload

- 5.13 We propose that in relation to actual Workload information, consistent with our proposals for the FYFF (see paragraphs 4.51-4.54), Royal Mail must:
- explain which activities are included within each Operational Business Process, including any overlays, and in doing so, separate the activities within parcel hubs from other Operational Business Processes;
 - where new Operational Business Processes are introduced into its operations, include any related overlays within the Workload calculation for each Operational Business Process. This should be accompanied by a breakdown of those overlays and how each one has been calculated, and a description of the new Operational Business Process it relates to. The Workload reported in the prior year comparative should be consistent with the current year's method of calculation, including new overlays.
- 5.14 We will continue to require Royal Mail to report on two bases: the Workload assumptions from the latest FYFF, and Royal Mail's latest Workload assumptions, which will be updated every year.
- 5.15 We will also continue to require Royal Mail to provide the reconciliation between the two bases of Workload to help us understand the relative impact of the changes to Workload

⁴³ In Chapter 6, we also set out proposed changes to the reporting requirements which are not related to changes decided on in the Statement. Some of these changes relate to actual performance information (such as change control requirements and our proposals to remove the requirement for actual capital employed and cash flow statements for the Reported Business).

as a result of changes to efficiency initiatives and operational reality, as opposed to changes in methodology.

Gross Hours and pay

- 5.16 We propose that in relation to actual Gross Hours and pay information,⁴⁴ consistent with our proposals for the AFF (see paragraphs 3.35-3.37) and the FYFF (see paragraphs 4.55-4.59), Royal Mail must:
- provide, on an annual basis:
 - total Gross Hours broken down by hours type and Operational Business Process (Delivery & Collections, Processing and RDCs); and
 - provide, on a quarterly basis:
 - total Gross Hours broken down by time category (normal/ordinary, casual/temporary, overtime and any other); and
 - total frontline pay, broken down by time (normal/ordinary, casual/temporary, overtime and any other) and by pay component (specifically salary, employer National Insurance and pension contributions).
- 5.17 The quarterly frequency of some of the actual information would enable us to understand better the impact of the seasonality of Royal Mail's business in our ongoing monitoring of financial sustainability and efficiency. Royal Mail's business experiences seasonal peaks and troughs in terms of volumes, and as a result it considers it necessary to resource different types of workers at different times, for example temporary workers at Christmas. [3<].
- 5.18 Including National Insurance and pension contributions within the actual pay information will allow us to understand and quantify differences between actuals and expectations and if changes in people costs are a result of changes to salaries, National Insurance or pensions.
- 5.19 We currently request (using our statutory information gathering powers) actual Gross Hours, broken down by time category, on a quarterly basis from Royal Mail. As for forecasts, building this into our reporting requirements will also enable the consistent provision of information that is necessary to fulfil our duties, in a more efficient manner than ad hoc information requests. We also consider that adding these to our reporting requirements should not represent a significant burden to Royal Mail, as it will be familiar with, and has previously produced, information in the same or similar format.
- 5.20 The format of the information we propose to require is set out in the pro formas in Figure 19 (quarterly reporting) and Figure 20 (annual reporting) of Appendix 1 to the RAG.

Average voluntary redundancy cash costs

- 5.21 We propose a new requirement for Royal Mail to report average YTD cash voluntary redundancy costs quarterly, split between Frontline, Management and Other. [3<]. We use

⁴⁴ For the avoidance of doubt, we will continue to require Gross Hours Reduction actual information on a quarterly basis.

this information in our modelling to understand the cash impact of voluntary redundancy activity within the year and how many heads this relates to.

- 5.22 [X], we propose to add a requirement within the quarterly Cost Matrix report (see the proposed pro forma in Figure 15 of Appendix 1 to the RAG).

Productivity (WIPGH and WIPWH)

- 5.23 We propose a new requirement for Royal Mail to report on actual Productivity (WIPWH) performance quarterly (see our proposals for the FYFF in paragraphs 4.60-4.63). We do not propose any changes to the requirement to report quarterly on Productivity (WIPGH). However, we propose a new requirement to report publicly annually on Productivity (WIPGH), in line with our decision in Section 4 of the Statement (see the proposed pro forma in Figure 17 of Appendix 1 to the RAG).

PVEO

- 5.24 We propose that in relation to actual PVEO information, consistent with our proposals for the FYFF (see paragraphs 4.64-4.88), Royal Mail must:

- Price: Use CPI as the inflation measure for non-people costs and the AWE index for people costs
- Volume: Continue to adopt Workload movements as the volume drivers, with the following changes, reflecting the proposed changes to the actual Workload reporting requirement above:
 - adopt the Workload for all Operational Business Processes for which Royal Mail calculates a Workload figure; and
 - use the assumptions from the latest FYFF.
- Other:
 - ensure that these cost changes are outside management's control and non-recurring in nature (the latter is an existing requirement);
 - no longer ensure that these cost changes are in excess of £5m in absolute terms; and
 - explain how each of the Other cost changes adheres to the requirements.

- 5.25 Royal Mail may experience events or be subject to costs outside its control and which it was unable to foresee. However, these should be exceptional in nature and so we do not expect to see many 'Other' cost changes every year in the actual PVEO. Should we have any queries relating to how it has adhered to the requirements, we can discuss this with Royal Mail and may decide to comment in the AMU.

Information on efficiency initiatives

- 5.26 As explained in Sections 3 and 4, we propose to require more detailed and structured information on efficiency initiatives as part of the explanations required on the main assumptions and key drivers of both the AFF and FYFF. This information must also include

the impact of all factors such as changes in pay and Workload which could act as cost pressures reducing the impact of cost initiatives.

- 5.27 It is important for our monitoring of efficiency to understand Royal Mail's planned efficiency initiatives and the areas these relate to, because these are the specific actions by which Royal Mail plans to make efficiency savings. This information is also necessary for our modelling of financial sustainability because it informs our forecast of costs. In addition, we need to be able to track Royal Mail's progress in implementing these planned efficiency initiatives and understand the level of cost savings each one actually achieves.
- 5.28 We therefore propose to introduce a new requirement for Royal Mail to report actual performance on the efficiency initiatives including related cost information, as set out in the FYFF, using the same structure and level of detail as those forecasts. The format of the information we propose to require is set out in the pro forma in Figure 21 of Appendix 1 to the RAG, which is similar to the pro forma related to the FYFF requirement. This will replace the 'Cost Savings from initiatives' section within the existing quarterly Cost Metrics report (see the pro forma in Figure 17 of Appendix 1 to the RAG).
- 5.29 Further, to ensure that we have a complete picture of Royal Mail's progress on efficiency initiatives, we propose that the information about the actual progress on efficiency initiatives must include not only the initiatives included in the FYFF, but also any new initiatives that Royal Mail has introduced since then. We expect these new initiatives to have been captured in Royal Mail's information to be submitted under the requirement for efficiency initiatives in each subsequent AFF.
- 5.30 We also propose to require that Royal Mail must reconcile the total efficiency savings as per its information on the efficiency initiatives for the financial year to the total efficiency calculated in its actual PVEO for that financial year. The reconciliation must include a breakdown of the reconciling items between the key factors of PVEO, i.e. the Price, Volume and Other impacts.
- 5.31 This reconciliation will enable us to fully understand how Royal Mail's efficiency initiatives work against the cost pressures to deliver the efficiency calculated in the PVEO analysis. Such deep understanding of the PVEO analysis is necessary for us because PVEO is one of the two metrics in terms of which we require Royal Mail to set its efficiency expectations and report on publicly. The format of the reconciliation we propose to require is set out in the pro forma in Figure 21 of Appendix 1 to the RAG.

Published reporting and commentary

- 5.32 As set out in Section 4 of the Statement, we decided that, in addition to publishing its PVEO and Productivity (WIPGH) expectations, Royal Mail must also publish its actual annual performance on PVEO and Productivity (WIPGH). This will ensure Royal Mail gives sufficient transparency to stakeholders about its progress towards meeting those expectations. The published actual annual performance should be, where relevant, the same or consistent with the wider confidential submissions on actual performance made to Ofcom.

- 5.33 As for the expectations, we expect that Royal Mail's annual PVEO and Productivity (WIPGH) actual performance would be published in the regulatory financial statements (RFS). This will mean that stakeholders can consider Royal Mail's efficiency expectations and its progress towards those expectations alongside other key information about the actual performance of the Reported Business (such as the revenues, a high level of breakdown of costs and the Financeability EBIT).
- 5.34 As noted above, we propose to require Royal Mail to publish a PVEO expectation including transformation costs. To ensure comparability and enable stakeholders to track Royal Mail's performance over time using a consistent metric, we propose that the actual PVEO performance that Royal Mail must publish should also include transformation costs. We will continue to receive confidentially, as now, Royal Mail's annual PVEO performance both including and excluding transformation costs which would allow us to understand better the impact of any fluctuations in transformation costs over the forecast years.
- 5.35 Similarly, we propose that, as for the PVEO expectation, Royal Mail must report on PVEO in both absolute and percentage terms, to enable stakeholders to track Royal Mail's performance over time using both expressions of the metric.
- 5.36 To support our aim of increasing stakeholders' understanding of Royal Mail's efficiency performance, we consider that Royal Mail must also provide commentary on its actual progress, specifically, the reasons that explain its performance, including the factors, that it considers have affected it (whether favourably or adversely).
- 5.37 This gives Royal Mail the opportunity to explain its progress, providing relevant context to its shareholders and wider stakeholders to ensure that they understand the data published on the efficiency progress. As noted in the Statement, we also anticipate that Royal Mail may wish to explain the impact of any forecasting error when setting out its actual performance.
- 5.38 Therefore, we propose that Royal Mail must, from the 2024/25 financial year onwards, publish annually:
- the cumulative progress for PVEO and Productivity, including its final progress at the end of the five-year period (i.e. 2027/28). This will provide a clear and consistent way for stakeholders to understand how Royal Mail is performing against its own efficiency expectations; and
 - commentary on its performance against both metrics in each financial year, including the factors which Royal Mail considers have affected its performance, either favourably or adversely. This assessment must be based on, and consistent with, the information Royal Mail submits to us confidentially (see below).
- 5.39 The format in which we propose to require the information to be published, and the accompanying commentary, can be found in Figure 22 of Appendix 1 to the RAG.

Commentary provided confidentially to Ofcom

- 5.40 As noted above, Royal Mail is already required to report its actual PVEO and Productivity (WIPGH) performance to us on an annual basis together with all the supporting information. We propose to retain this requirement, with some changes as proposed above. This reflects the important status of PVEO and Productivity (WIPGH) as the published efficiency expectations, and will help us to better understand Royal Mail's progress on efficiency.
- 5.41 As some commentary on Royal Mail's performance could be commercially sensitive, but would be necessary to help us fulfil our duties, specifically, to better interpret and assess Royal Mail's efficiency performance, we propose that further commentary is provided confidentially to us. Specifically, we propose to require that Royal Mail must provide confidentially to Ofcom annually, alongside its PVEO and Productivity (WIPGH) performance, its view on how its cumulative performance on both of these metrics to date compares to its overall five-year expectations and whether it considers it will meet both of the expectations by the end of the five-year period. As for the published commentary, this must include the factors which Royal Mail considers have affected its cumulative performance, either favourably or adversely.
- 5.42 Further, if Royal Mail considers that it is not on track to meet either or both of its expectations, we propose that it must set out any additional steps it intends to take to ensure it meets them, including any specific efficiency initiatives that it intends to implement in order to do so. This commentary should be by reference to the information about efficiency initiatives we propose to require that Royal Mail provides in the AFF (see paragraphs 3.40-3.47), to ensure we have a consistent and comprehensive view of Royal Mail's intentions and the specific actions by which it is planning to make efficiency savings.
- 5.43 Taken together, these requirements will enable us to gain greater insight into Royal Mail's cumulative PVEO and Productivity (WIPGH) performance, and understand the likelihood of the expectations being achieved, both of which should help to inform any future regulatory decisions, and provide advice to Government on the universal service, if requested.
- 5.44 The format of the accompanying confidential commentary can be found in the pro forma in Figure 22 of Appendix 1 to the RAG.

Summary of proposals

- 5.45 In order to implement our decision in the Statement to require Royal Mail to publish its actual performance against its PVEO and Productivity (WIPGH) expectations accompanied by commentary, and to ensure that the actual performance information we receive continues to meet our needs, we propose to:
- a) Continue to require Royal Mail to confidentially provide actual performance information on all of the metrics it currently provides, with some changes, specifically:
 - i) Revenues, volumes and Cost Matrix: report using updated product groupings and breakdowns;

ii) Workload:

- provide calculations for all Operational Business Processes for which Royal Mail has a Workload calculation;
- explain which activities are included in each Operational Business Process, including any overlays, and in doing so, separate the activities within parcel hubs from other Operational Business Processes; and
- where new Operational Business Processes are introduced into its operations, include any related overlays within the Workload calculation for each Operational Business Process, provide a breakdown of those overlays and how each one has been calculated, and a description of the new Operational Business Process it relates to.

iii) Gross Hours and salary costs:

- report, on an annual basis, total actual Gross Hours broken down by hours type and Operational Business Process (Delivery & Collections, Processing and RDCs); and
- report, on a quarterly basis, total actual Gross Hours broken down by time category (normal/ordinary, casual/temporary, overtime and any other) and total frontline pay, broken down by time category (normal/ordinary, casual/temporary, overtime and any other) and by pay component (specifically salary, employer National Insurance and pension contributions).

b) Introduce new requirements to report:

- i) on a quarterly basis, average YTD cash voluntary redundancy costs, split between Frontline, Management and Other;
 - ii) on a quarterly basis, actual Productivity (WIPWH) performance;
 - iii) on an annual basis, actual efficiency initiative performance, and a reconciliation of the total efficiency savings from the efficiency initiatives to the total efficiency calculated in its actual PVEO for that financial year.
- c) Require Royal Mail, from the 2024/25 financial year onwards, to publish annually its cumulative progress for PVEO and Productivity (WIPGH), and to provide commentary on its performance in that financial year.
- d) Require Royal Mail to provide some further confidential commentary to Ofcom alongside its annual PVEO and Productivity (WIPGH) performance, including its view on how its cumulative performance on both of these metrics to date compares to its overall five-year expectations and whether it considers it will meet both of the expectations by the end of the five-year period.

5.46 Our proposed changes to the requirements are set out in USPAC 1.4 (Annex 6, pages 10-12) and Table 4 of the RAG (Annex 7, pages 20-25), and the associated pro formas are in Figures 15-17 and 19-22 of Appendix 1 to the RAG. Tables 3, 4 and 5 in Section 6 also summarise all of the annual, quarterly and monthly information requirements on actual performance and how the information requirements differ from the existing requirements.

Consultation question

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.

6. Other changes to reporting requirements

We propose to make a number of changes to the reporting requirements which are not related to our decisions in the Statement. These changes aim to ensure that we continue to receive the information we need from Royal Mail, in an appropriate format, to fulfil our duties in relation to sustainability and efficiency, while also ensuring that the reporting burden on Royal Mail is proportionate.

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 to remove the ad hoc requirement to report multi-premise delivery suspensions to Ofcom, and the requirement to provide copies of published information to any person at their written request.

- 6.1 This Section sets out our proposed changes to the reporting requirements which are not related to changes set out in our Statement. In developing our proposals for these changes, we have endeavoured to ensure the relevant requirements continue to remain up to date and proportionate. We have also considered Royal Mail's response to the March CFI and December Consultation and its further input regarding some points of detail.
- 6.2 We summarise our proposals at the end of this Section in paragraph 6.50 and Tables 3, 4 and 5 (which also include the proposed changes to the actual reporting requirements set out in Section 5).

Change control

The current requirements

- 6.3 The change control process allows us to understand how:
- in addition to the changes brought about by purchase price and volume changes, costs may change from one period to another purely as a result of the changes Royal Mail makes to the regulatory costing methodology, and;
 - other items of financial reporting, i.e. revenues, assets, liabilities, and cash flows, may similarly change from one period to another, purely as a result of a change in the regulatory accounting methodology.
- 6.4 The change control requirements relating to costing provide us with further transparency on how and why Royal Mail's treatment and allocation of its costs to activities and products changes over time, and the impact of those changes. This information allows us to develop a better understanding of the costs of Royal Mail's activities and products. It remains essential for informing our work on monitoring Royal Mail's efficiency progress and the impact of Royal Mail's commercial pricing freedom on competition and consumers.
- 6.5 The change control requirements are set out in existing USPAC 1.6.3 and Section 6 of the RAG.

Proposed change and our rationale

- 6.6 We have considered the information provided by Royal Mail under this provision over the last four years and how this contributes to our work to fulfil our duties and objectives. As a result, we propose to modify this requirement to ensure it remains fit for purpose and proportionate. We set out our proposed changes and rationales below.

We consider an annual rather than quarterly submission would meet our needs

- 6.7 In the last four years Royal Mail has only made changes to its costing methodology or accounting methodology outside the final quarter once. The changes reported under the change control, regardless of the quarter in which they are proposed or identified by Royal Mail are only implemented, and therefore their effects observed, in the full year reports including the published regulatory accounts.
- 6.8 Therefore, we consider that an annual requirement will provide adequate oversight of methodology changes we require going forward.

We propose to set a deadline of 30 days before the year end for Royal Mail to submit any changes

- 6.9 The requirement for Royal Mail to submit the change control seven days prior to the change being made was intended to provide an opportunity for us to review any changes and indicate to Royal Mail if a change may be cause for concern. If we considered the change to be inconsistent with the USP Accounting Condition and the RAG or our regulatory objectives, then we would have the option to consult to amend or potentially block Royal Mail's change.
- 6.10 In practice, we have found that seven days is not sufficient time to carefully consider all changes and their implications. It does not allow us sufficient time to raise queries and for Royal Mail to respond appropriately given the short timeframe. We note that whenever Royal Mail has planned to make significant changes in the past, it has informed us in advance of the official notification deadline, in order to explain the rationale, provide evidence to support the change and allow us to properly engage with the process.
- 6.11 As such, we propose to change the seven day requirement to require Royal Mail to submit the annual change control 30 days prior to the financial year end. This will allow us sufficient time to review the changes before the new financial year, and avoid coinciding with Royal Mail's resources being engaged in preparing various financial reports around the year end date.

We propose to reduce the level of detail required

- 6.12 The current change control requirement requires information to be provided at the lowest level of detail for products and SPHCCs (Sales Product Handling Characteristic

Combinations)⁴⁵, as well as the individual activities depending on the nature of the change, when any change is made.

- 6.13 A material change to the costing methodology may result in a small change in the unit cost of a single product, but this level of detail is often not particularly useful for determining how a change could impact a particular group of consumers. In conducting reviews of the impacts internally, we often review the changes at a higher level, and only occasionally drill down to the impacts on the detailed product level when we need a clear understanding of the impacts.
- 6.14 As such, we propose to require Royal Mail to report the impact of the changes on: the total USO products versus non-USO products, and total upstream versus downstream activities, and Access. These two splits are the key high level impacts we review in the first instance for our monitoring purposes. We also propose that Royal Mail must retain the ability to provide the impact information at the level of SPHCC and activity detail if required. We will therefore retain the option to request further detail about the impact of changes if and when necessary.

We propose that only material changes are reported individually

- 6.15 The change control submission must set out the methodology changes Royal Mail has made during the financial year, including the estimated impact of these changes based on prior year figures.
- 6.16 We propose that only material changes are reported individually, with each of the changes resulting in an immaterial impact being combined and included in a single line in the submission. This is because the impact of multiple immaterial changes could be the same as the impact of a single material change.
- 6.17 We also propose that Royal Mail must use the latest actual financial data available for estimating these impacts. The latest data could be data from the prior financial year. The full current financial year data will not be available at the time of the new proposed annual submission. We consider that this addresses Royal Mail's request, in its response to the March 2021 CFI, where it asked us to remove the obligation to provide the full-year results with and without methodology changes, as Royal Mail does not have to wait until the end of the current financial year before it can make changes to its costing system.⁴⁶
- 6.18 We propose new pro formas for Royal Mail's change control submissions to reflect the above requirements - these can be found in Table A of Appendix 3 to the RAG. In using these pro formas, Royal Mail must include the following information:
- the description of the changes in a manner that can be easily understood by a reader who does not have a detailed technical knowledge of Royal Mail's operations and systems (e.g. avoiding acronyms and technical jargon as far as possible);

⁴⁵ Sales Product Handling Characteristic Combinations are products and/or services sub-divided based on the relevant measured characteristics as prescribed by the Regulatory Accounting Guidelines

⁴⁶ Royal Mail, [response to March 2021 CFI](#), paragraph 3.11.

- the reasons for the change, including a brief explanation of the available options for change and Royal Mail's assessment of those options; and
 - in stating the compliance with the USP Accounting Condition and the RAG, a reference to the relevant principles and rules and an explanation of how Royal Mail considers that the change complies with these principles and rules.
- 6.19 We will continue to require the submission of the most up to date Costing Manual and Annual Methodology Manual, which must include a list of changes since the previous change control submission.
- 6.20 We consider that our proposals on the change control requirement will reduce the reporting requirements on Royal Mail reflecting its current internal practices, while continuing to provide us with the information we need to understand the costing and accounting methodologies and the changes and trends in the regulatory financial reports.

Reported Business statements of capital employed and cash flow

The current requirements

- 6.21 We currently require Royal Mail to prepare and publish a capital employed statement and a cash flow statement for the Reported Business as part of the annual regulatory financial statements. These statements reflect the actual financial results and position of the Reported Business in each financial year.
- 6.22 We have used the statements in the past to consider our financial sustainability assessments. For example, we considered the statement of capital employed for the purposes of exploring other metrics for rate of return such as return on assets.
- 6.23 The requirement to prepare and publish these statements are set out in existing USPAC 1.4.1(e) and Section 8 of the RAG.

Proposed change

- 6.24 We have not recently used these statements, and we do not expect that we will need these statements on a regular basis in the future. If we do require the information from these statements for ad hoc analysis, we can use our statutory information gathering powers to request this information from Royal Mail.
- 6.25 The income statement of the Reported Business, its supporting details and the balance sheet and cash flow statements of the Relevant Group, are sufficient for our monitoring purposes. We use this information on a regular basis for our analyses.
- 6.26 We therefore propose to remove the requirement for the Reported Business statements of capital employed and cash flow to be provided in the annual regulatory financial statements. We also propose to remove the requirements for the accompanying reconciliations of these statements to the capital employed and cash flow statements of the Relevant Group.

53-week and equivalent 52-week financial year restatements

Current requirements

- 6.27 Royal Mail is currently required to prepare the regulatory financial statements required under the USP Accounting Condition by applying the accounting standards and methodologies used in the statutory consolidated accounts of Royal Mail plc as well as the accounting and costing rules set out in the USP Accounting Conditions and the RAG. These requirements are set out in existing USPAC 1.3.2.
- 6.28 The terms Financial Year, Financial Quarter and Financial Month are defined in the USP Accounting Condition. Royal Mail is required to provide the regulatory reports and submissions based on these periods using pro formas outlined in the RAG. Royal Mail operates a week-based financial year ending on the closest Sunday before or including 31 March. In most years this equates to 52 weeks, but occasionally a financial year under this approach will be a 53-week year.
- 6.29 Although not required by the USP Accounting Conditions or the RAG, where the current year or the prior year are 53-week years, Royal Mail has provided some submissions pertaining to the 53-week year both on a 53-week basis and an equivalent 52-week basis.
- 6.30 For example, in 2018/19 (the most recent 53-week year), the preceding year-end date was 25 March 2018, which meant 52 weeks onwards ended on 24 March 2019. Royal Mail's RFS included both the results for the 53-week period to 31 March 2019, and the equivalent 52-week basis.⁴⁷ In its 2018/19 Annual Report, Royal Mail stated that "in order to provide a meaningful comparison of revenue and costs with the prior year, we are also presenting the Group and UKPIL income statements to operating profit on an adjusted 52-week basis. The adjusted 52-week 2018/19 results are derived by removing an estimate of the 53rd week's revenue."⁴⁸
- 6.31 Additionally, one of the forecast years in some of the Strategic Business Plans submitted in the past years comprised 53 weeks. It is more likely that the AFF and the FYFF will include a forecast year which comprises 53 weeks, because these forecasts cover a five-year period.

Proposed changes

- 6.32 We propose that the definitions of financial year, quarter and month are amended so that each includes a reference to the number of weeks it should contain:
- Financial year: 52, or where relevant 53, consecutive weeks in a financial year to align with the annual statutory financial statements of RM plc.
 - Financial quarter: 13 consecutive weeks in a financial year. In financial years comprising of 53-weeks the final quarter will consist of 14 consecutive weeks.

⁴⁷ Royal Mail plc, [Regulatory Financial Statements 2018-19](#) [accessed 17/08/2022].

⁴⁸ Royal Mail plc., 2019. [Annual Report and Financial Statements 2018-19](#), page 7, footnote 2 [accessed 17/08/22].

- Financial month: A period of four or five consecutive weeks in a financial year. In financial years comprising of 53-weeks financial years the final month will consist of five consecutive weeks.
- 6.33 The above proposal formalises the current practice. It also has the benefit of ensuring that the time periods are transparent for all users and support the implementation of the 53-week and equivalent 52-week bases requirement (discussed below).
- 6.34 We use comparisons and trends over a number of financial years in our monitoring of financial sustainability and efficiency performance. We also use the historic trends in reviewing the forecasts submitted by Royal Mail, and in modelling our own forecasts. It is therefore important that the year-on-year comparisons and the trends in data are comparable. The financial data for a 53-week year basis will need to be adjusted to an equivalent 52-week basis so that it can be used meaningfully in our comparisons and trends analyses.
- 6.35 Therefore, in order to increase the accuracy and completeness of the financial reporting and enable meaningful comparisons, we also propose to:
- 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.
- 6.36 The occurrence of a 53-week year is relatively rare and happens approximately every six years. For example, prior to 2018/19, the last time Royal Mail had a 53-week financial year was in 2012/13.⁴⁹ Therefore, we do not consider that this requirement places significant additional burden on Royal Mail. In addition, Royal Mail will know in advance if a financial year will be 53 rather than 52 weeks so will have sufficient time to plan accordingly. We expect that the next 53-week year will fall in the financial year 2023/24.

⁴⁹ Royal Mail Group Limited, [Annual Report and Financial Statements 2012-13](#) [accessed 16/08/2022].

USO delivery suspensions notification

Current requirements

- 6.37 Royal Mail, as the designated Universal Service Provider, is required to deliver letters every Monday to Saturday and postal packets every Monday to Friday to every home and premise in the UK. However, Section 33(2)(b) of the PSA 2011 states that the obligation to make daily deliveries does not need to be met in such geographical conditions or other circumstances as Ofcom consider to be exceptional. We can specify the circumstances we consider to be exceptional by making a direction under DUSP 1.3.2 and 1.3.2A.
- 6.38 In 2013 we published such a direction (the Delivery Exceptions Direction).⁵⁰ It sets out the circumstances we consider to be exceptional, the procedural steps Royal Mail must follow to apply such an exception and its obligations to make alternative arrangements where a premise is exempted. In addition, it set out how Royal Mail is required to inform consumers and us when exceptional circumstances arise.
- 6.39 This direction requires Royal Mail to provide us with an annual report on all such instances of delivery exemption, which includes the address of the delivery point, the postcode area and the anticipated date upon which deliveries will resume, if known to Royal Mail.
- 6.40 In addition, Royal Mail must notify us within one week where more than one delivery point has been affected for more than one day. Specifically, it has to inform us of the address of each affected delivery point, the reasons why it considers exceptional circumstances exist, the steps taken, if any, to resolve the issue, and the date by which it expects to resume delivery to the point.⁵¹ There is no such requirement where Royal Mail applies a delivery exception to a single premises.

Proposed change

- 6.41 We propose to remove the requirement for Royal Mail to notify us within one week of any new multi-premises delivery suspension. All other procedural requirements and reporting obligations will remain in place. We consider that this will remove a disproportionate regulatory requirement on Royal Mail, without negatively affecting consumers' access to post.
- 6.42 In 2013, we decided to implement this requirement to help us to respond quickly to any sudden or significant increase in the volume of delivery suspensions. This requirement has now been in place for nine years and we have not identified any such increases in practice during this time.
- 6.43 We will continue to have visibility of all suspensions Royal Mail has made and which persist for 12 months or more in the end of year report we require Royal Mail to submit to us and to publish.

⁵⁰ Ofcom, 2013. [Delivery Exceptions Direction](#).

⁵¹ Ofcom, 2013. [Delivery Exceptions Direction](#), paragraph 23.

- 6.44 Consumers' rights to be immediately informed about a delivery suspension to their address and to request a review of this decision will continue.⁵² Consumers will also continue to be able to request a second review from Royal Mail.⁵³
- 6.45 If the outcome of the second stage review is that the exceptional circumstance continues to exist, the consumer has the right to appeal to Ofcom the decision, and the decision by Ofcom as to whether exceptional circumstances exist is binding.⁵⁴
- 6.46 We no longer consider this reporting requirement is proportionate and think that there is a less onerous way of achieving our objectives, which is to remove the ad hoc reporting requirement for multi-premise delivery suspensions, while retaining all other requirements.
- 6.47 While we acknowledge that our visibility of "live" delivery suspensions will be reduced, we consider that the annual report, in conjunction with consumers ability to appeal to Royal Mail and/or Ofcom provides appropriate protections for consumers. These requirements will continue to meet our objectives while removing a reporting burden on Royal Mail.

Provision of copies of published information on request

Current requirement and proposed change

- 6.48 In addition to being required to publish certain information on its website, Royal Mail is required to provide a copy of the information to any person at their written request. These requirements are set out in existing USPAC 1.4.8, 1.5.9, and 1.6.7.
- 6.49 We consider that the requirements to provide a copy of published information at any person's written request is no longer necessary. This is because we consider that the audience for such information is likely to be businesses, who should be able to easily access the information on Royal Mail's website. Therefore, we propose to remove these requirements.

Summary of proposals

- 6.50 We propose to:
- For the change control:
 - require an annual rather than quarterly submission of changes;
 - require submission of the changes 30 days prior to the year-end;
 - require Royal Mail to report the impact of the changes on total USO products versus non-USO products, the total upstream versus total downstream activities, and access products, instead of the impact of the changes on individual products; and

⁵² Ofcom, 2013. [Delivery Exceptions Direction](#), paragraphs 16-22 and 24.

⁵³ Ofcom, 2013. [Delivery Exceptions Direction](#), paragraph 26.

⁵⁴ Ofcom, 2013. [Delivery Exceptions Direction](#), paragraphs 27-28.

- require Royal Mail to report the impact of each material change, the combined impact of non-material changes and combined impact of all changes, using the latest annual financial information.
- Remove the requirements to:
 - provide Reported Business statements of capital employed and cash flow in the annual regulatory financial statements, and the accompanying reconciliations of these statements to the capital employed and cash flow statements of the Relevant Group;
 - notify Ofcom within one week of a USO delivery suspension that affects more than one premise; and
 - provide copies of published information to any person at their written request.
- amend the definition of financial month, quarter and year so that each includes a reference to the number of weeks it should contain, and, for 53-week financial years, require Royal Mail to restate some forecast and actual information on both a 52- and 53-week basis.

6.51 Our proposed changes to the requirements are set out in:

- USPAC 1.6 and Sections 6-7 and Appendix 3 of the RAG (change control);
- USPAC 1.1 and Tables 2-4 of the RAG (reporting on a 52/53 week basis);
- USPAC 1.4.1 and Table 4 and Section 8 of the RAG (statements of capital employed and cash flow);
- USPAC 1.4, 1.5 and 1.6 (provision of copy on request); and
- page 7 of the Delivery Exceptions Direction.

6.52 Tables 3, 4 and 5 below summarise the proposed changes as well as the proposed changes to all of the annual, quarterly and monthly information requirements on actual performance which we set out in Section 5 and how the information requirements differ from the existing requirements.

Table 3: Overview of annual actual reporting requirements and proposed changes

Current annual requirements	Changes proposed to current annual requirements
Income statement of the Reported Business including Financeability EBIT calculations reconciled to the Relevant Group	No change
Balance sheet of the Reported Business reconciled to the Relevant Group	No longer required – see Section 6
Cash flow statement of the Reported Business reconciled to the Relevant Group	No longer required – see Section 6
Cost Matrix	Minor changes to pro forma - see Section 5 and Figure 15 of Appendix 1 to the RAG
PVEO	Changes to P, V and O calculation rules - see Section 5, and paragraph 8.83 and Figure 6 of Appendix 1 to the

	RAG; and new publication requirement – see Figure 22 of Appendix 1 to the RAG
Productivities (WIPGH)	New requirement to provide and new publication requirement – see Section 5 and Figure 22 of Appendix 1 to the RAG
Breakdown of Gross Hours by Operational Business Process, each further broken down by Measured and Unmeasured Worked Hours, sickness absence and other absence and all other Gross Hours, together with the corresponding Standard Hours	New requirement - see Section 5 and Figure 20 of Appendix 1 to the RAG
Actual performance on efficiency initiatives and related cost information including a reconciliation to PVEO	New requirement - see Section 5 and Figure 21 of Appendix 1 to the RAG
Product profitability statements (access and PAF)	No change

Table 4: Overview of quarterly actual reporting requirements and proposed changes

Current quarterly requirements	Changes proposed to current quarterly requirements
Income statement of the Reported Business inc. Financeability EBIT calculations reconciled to the Relevant Group and to quarterly income statements	No change
Cost Matrix	Minor changes to pro forma - see Section 5 and Figure 15 of Appendix 1 to the RAG
Breakdown of actual and budgeted revenues and volumes of the Reported Business	Minor changes to pro forma - see Section 5 and Figure 16 of Appendix 1 to the RAG
Workload – in actual and budgeted cost metrics	Rebasing to change from BP 2015 to the latest FYFF – see Section 5
Gross Hours Reduction and Productivities - in actual and budgeted cost metrics	New requirement to provide Productivity (WIPWH) in addition to Productivity (WIPGH) - see Section 5 and Figure 17 of Appendix 1 to the RAG
Breakdown of Gross Hours and pay by normal/ordinary, casual/temporary, overtime and any other, and pay by pay component (specifically salary, employer's National Insurance and pension contributions)	New requirement - See Section 5 and Figure 19 of Appendix 1 to the RAG
Data extract inc. actual revenue, cost, and volume information for Short SPHCCs	No change
Reconciliations of revenues and costs	No change
Accounting Methodology Manual	No change
Costing Manual (to be published) plus confidential technical appendices inc. CAM data	Frequency reduced from quarterly to annual

Change control	Frequency reduced from quarterly to annual, new deadline and reduced detail – see Table A of Appendix 3 to the RAG
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Table 5: Overview of monthly actual reporting requirements

Current monthly requirements	Changes proposed to current monthly requirements
Monthly revenue and volume information statement	No change – met by Royal Mail's submission of its monthly management accounts

Consultation questions

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.

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

7. Timetable and legal tests

This section sets out our proposal for the changes to the reporting requirements to come into effect on 27 March 2023, the start of the 2023/24 financial year.

We also set out how we consider that our proposals to modify the USP Accounting Condition and the RAG meet the relevant tests set out in the 2011 Act.

Implementation timetable

- 7.1 We propose that the requirements proposed in this consultation must come into effect on 27 March 2023, i.e., the start of the 2023/24 financial year, to support our proposal that the first FYFF must be submitted to us by 31 May 2023, alongside the other relevant requirements. Specifically, it will ensure that Royal Mail will be required to:
- submit its first FYFF, including efficiency expectations, by 31 May 2023; and
 - publish its efficiency expectations 90 days after the first financial year to which they relate (by late June).
- 7.2 For the avoidance of doubt, the requirements coming into force on 27 March 2023 would mean that all submissions (either forecasts or actuals) related to the financial year 2022/23 must be provided as per the requirements in the existing USP Accounting Condition and RAG.
- 7.3 We also propose that the other changes (i.e. those set out in Section 6, which are not related to our decisions in the Statement) to the USP Accounting Condition, RAG and Delivery Exceptions Direction, must also come into force on 27 March 2023.
- 7.4 Aligning these dates with the changes resulting from our Statement decision should mean that Royal Mail can make all changes to its internal processes necessary to implement all of our proposals at the same time. In addition, this date should align with any other changes Royal Mail would itself be making in its internal processes for the new financial year.
- 7.5 Additionally, the other changes we propose to our requirements (as set out in Section 6) are relatively minor (and in some cases, deregulatory) and as such are unlikely to represent a significant burden on Royal Mail.

Consultation question

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.

Legal tests

General test for imposing regulatory conditions

7.6 Schedule 6 to the Act provides that we may modify a regulatory condition (and a direction affecting the operation of a regulatory condition) only if we are satisfied that the modification:

- is objectively justifiable;
- does not discriminate unduly against particular persons or a particular description of persons;
- is proportionate to what it is intended to achieve; and
- is transparent in relation to what it is intended to achieve.

7.7 Pending consideration of any further evidence we may receive in response to this consultation, we consider that our proposal to modify the USP Accounting Condition (and updated Regulatory Accounting Guidelines), as described above, meets the relevant tests set out in paragraph 1 of Schedule 6 to the 2011 Act:

- **Objectively justifiable** – we believe that our proposed modifications to the USP Accounting Condition and Regulatory Accounting Guidelines are objectively justifiable as they aim to ensure that we have the information we need 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. This information supports our duty to secure the provision of a universal postal service, and in doing so to have regard to the need for the universal postal service to be financially sustainable and efficient before the end of a reasonable period (and for its provision to continue to be efficient at all subsequent times).
- **Not unduly discriminatory** – we believe that our proposed modifications to the USP Accounting Condition and Regulatory Accounting Guidelines are not unduly discriminatory as, while Royal Mail is subject to more stringent reporting requirements than other postal operators, this reflects the fact that Royal Mail is the Universal Service Provider for post.
- **Proportionate** – we believe that our proposed modifications to the USP Accounting Condition and Regulatory Accounting Guidelines are proportionate as:
 - while we are proposing to request further detail in some areas (for example, in relation to Gross Hours and efficiency initiatives, this information is important to our monitoring regime given the importance of people costs to Royal Mail's operations and efficiency ambitions, and therefore to the financial sustainability and efficiency of the universal service. In addition, in some cases our proposals build into the reporting requirements information that Royal Mail already provides to us through statutory information requests. This means that Royal Mail will already be familiar with the format of some of the information we are requesting.
 - we are proposing to require that Royal Mail provides less detailed information for later years of the AFF (i.e. years four and five). We consider that this balances the fact that Royal Mail currently provides us with three years' worth of detailed

forecasts in the Strategic Business Plan, and the fact that we appreciate that there may be greater uncertainty for the later years of the forecast, while supporting our objective to get longer-term forecasts. As noted in Section 3 of the Statement, longer term forecasts will enable us to have a more robust view of the longer-term returns that might be expected to be made by the universal service, and therefore of any risks to its financial sustainability. This is particularly important given growing uncertainty around the sustainability of the universal service over the longer term;

- we are proposing to remove the requirement for Royal Mail to provide PVEO, Productivity (WIPGH) Gross Hours Reduction and Workload forecasts every year, instead moving to this being provided only every five years (in line with our Statement decision). We are also proposing to reduce the reporting burden on Royal Mail where possible (for example, by simplifying the change control requirement, removing the requirement to provide the statements of capital employed and cash flow, and to report on multi-premise USO delivery suspensions).
- **Transparent** – we believe that our proposed modifications to the USP Accounting Condition and the Regulatory Accounting Guidelines are transparent as they clearly set out what is expected from Royal Mail. We also provide pro formas so that Royal Mail can understand exactly what it is required to provide. In addition, the reasons for proposing to introduce the modifications to the condition and guidelines are set out in detail above.

A1. Responding to this consultation

How to respond

- A1.1 Ofcom would like to receive views and comments on the issues raised in this document by 5pm on Tuesday 1 November 2022.
- A1.2 You can download a response form from <https://www.ofcom.org.uk/consultations-and-statements/category-2/royal-mail-regulatory-reporting-requirements>. You can return this by email or post to the address provided in the response form.
- A1.3 If your response is a large file, or has supporting charts, tables or other data, please email it to RegulatoryReporting@ofcom.org.uk as an attachment in Microsoft Word format, together with the cover sheet.
- A1.4 Responses may alternatively be posted to the address below, marked with the title of the consultation:
- Royal Mail Regulatory Reporting team
Ofcom
Riverside House
2A Southwark Bridge Road
London SE1 9HA
- A1.5 We welcome responses in formats other than print, for example an audio recording or a British Sign Language video. To respond in BSL:
- Send us a recording of you signing your response. This should be no longer than 5 minutes. Suitable file formats are DVDs, wmv or QuickTime files. Or
 - Upload a video of you signing your response directly to YouTube (or another hosting site) and send us the link.
- A1.6 We will publish a transcript of any audio or video responses we receive (unless your response is confidential).
- A1.7 We do not need a paper copy of your response as well as an electronic version. We will acknowledge receipt if your response is submitted via the online web form, but not otherwise.
- A1.8 You do not have to answer all the questions in the consultation if you do not have a view; a short response on just one point is fine. We also welcome joint responses.
- A1.9 It would be helpful if your response could include direct answers to the questions asked in the consultation document. The questions are listed at Annex 4. It would also help if you could explain why you hold your views, and what you think the effect of Ofcom's proposals would be.
- A1.10 If you want to discuss the issues and questions raised in this consultation, please contact the team at RegulatoryReporting@ofcom.org.uk.

Confidentiality

- A1.11 Consultations are more effective if we publish the responses before the consultation period closes. In particular, this can help people and organisations with limited resources or familiarity with the issues to respond in a more informed way. So, in the interests of transparency and good regulatory practice, and because we believe it is important that everyone who is interested in an issue can see other respondents' views, we usually publish all responses on [the Ofcom website](#) as soon as we receive them.
- A1.12 If you think your response should be kept confidential, please specify which part(s) this applies to, and explain why. Please send any confidential sections as a separate annex. If you want your name, address, other contact details or job title to remain confidential, please provide them only in the cover sheet, so that we don't have to edit your response.
- A1.13 If someone asks us to keep part or all of a response confidential, we will treat this request seriously and try to respect it. But sometimes we will need to publish all responses, including those that are marked as confidential, in order to meet legal obligations.
- A1.14 Please also note that copyright and all other intellectual property in responses will be assumed to be licensed to Ofcom to use. Ofcom's intellectual property rights are explained further in our [Terms of Use](#).

Next steps

- A1.15 Following this consultation period, Ofcom plans to publish a statement in Q4 2022/23.
- A1.16 If you wish, you can [register to receive mail updates](#) alerting you to new Ofcom publications.

Ofcom's consultation processes

- A1.17 Ofcom aims to make responding to a consultation as easy as possible. For more information, please see our consultation principles in Annex 2.
- A1.18 If you have any comments or suggestions on how we manage our consultations, please email us at consult@ofcom.org.uk. We particularly welcome ideas on how Ofcom could more effectively seek the views of groups or individuals, such as small businesses and residential consumers, who are less likely to give their opinions through a formal consultation.
- A1.19 If you would like to discuss these issues, or Ofcom's consultation processes more generally, please contact the corporation secretary:

Corporation Secretary
Ofcom
Riverside House
2a Southwark Bridge Road
London SE1 9HA
Email: corporationsecretary@ofcom.org.uk

A2. Ofcom's consultation principles

Ofcom has seven principles that it follows for every public written consultation:

Before the consultation

- A2.1 Wherever possible, we will hold informal talks with people and organisations before announcing a big consultation, to find out whether we are thinking along the right lines. If we do not have enough time to do this, we will hold an open meeting to explain our proposals, shortly after announcing the consultation.

During the consultation

- A2.2 We will be clear about whom we are consulting, why, on what questions and for how long.
- A2.3 We will make the consultation document as short and simple as possible, with a summary of no more than two pages. We will try to make it as easy as possible for people to give us a written response. If the consultation is complicated, we may provide a short Plain English / Cymraeg Clir guide, to help smaller organisations or individuals who would not otherwise be able to spare the time to share their views.
- A2.4 We will consult for up to ten weeks, depending on the potential impact of our proposals.
- A2.5 A person within Ofcom will be in charge of making sure we follow our own guidelines and aim to reach the largest possible number of people and organisations who may be interested in the outcome of our decisions. Ofcom's Consultation Champion is the main person to contact if you have views on the way we run our consultations.
- A2.6 If we are not able to follow any of these seven principles, we will explain why.

After the consultation

- A2.7 We think it is important that everyone who is interested in an issue can see other people's views, so we usually publish all the responses on our website as soon as we receive them. After the consultation we will make our decisions and publish a statement explaining what we are going to do, and why, showing how respondents' views helped to shape these decisions.

A3. Consultation coversheet

BASIC DETAILS

Consultation title:

To (Ofcom contact):

Name of respondent:

Representing (self or organisation/s):

Address (if not received by email):

CONFIDENTIALITY

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

Nothing ☐

Name/contact details/job title ☐

Whole response ☐

Organisation ☐

Part of the response ☐

If there is no separate annex, which parts? _____

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

DECLARATION

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

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

Name

Signed (if hard copy)

A4. Consultation questions

Section 3: Annual Financial Forecasts

Question 3.1: Do you agree with our proposals regarding the Annual Financial Forecasts? Please substantiate your response with reasons and evidence.

Section 4: Five-Yearly Financial Forecasts

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

Section 5: Reporting on actual performance

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.

Section 6: Other changes to reporting requirements

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.

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

Section 7: Timetable and legal tests

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.

A5. Glossary

- A5.1 The key terms used in this consultation are defined in:
- Annex 6: Statutory Notification: proposed modification of the USP Accounting Condition (USPAC); and
 - Annex 7: Statutory Notification: proposed modification of the Regulatory Accounting Guidelines (RAG).
- A5.2 To avoid duplication and due to the technical nature of this consultation, we are not replicating these here.

A6. Proposed modifications to the USP Accounting Condition (USPAC)

A6.1 We have published Annex 6 as a [separate document](#).

A7. Proposed modifications to the Regulatory Accounting Guidelines (RAG)

A7.1 We have published Annex 7 as a [separate document](#).

A8. Proposed modification of the direction under Designated USP Condition 1.3.2 and 1.3.2A regarding deliveries

A8.1 We have published Annex 8 as a [separate document](#).