



Updating the Regulatory
Reporting Framework-
Notice of proposed
modifications to the USP
accounting condition
Postal Regulation

Consultation

Publication date: 23 October 2013

Closing Date for Responses: 25 November 2013

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Section 1

Introduction and Notice

- 1.1 On 27 March 2012 we published our Statement '*Securing the Universal Postal Service: Decision on the new regulatory framework*' ('the March 2012 Statement').¹ This set out our decision on the new regulatory framework for the postal sector, which gave Royal Mail Limited ('Royal Mail') more commercial and operational flexibility (particularly in relation to setting the majority of its prices). Regulatory safeguards were implemented to protect consumers and, where appropriate, promote effective competition.
- 1.2 One of the safeguards was the comprehensive monitoring regime. A summary of the regulatory financial information that Royal Mail would be required to provide to support our monitoring regime were outlined in Section 11 and Annex 3 of the March 2012 Statement.
- 1.3 It has been a year and a half since the introduction and implementation of our monitoring regime, and now we consider that some changes should be made, so that the regulatory financial information provided by Royal Mail remains fit for purpose. Our proposed changes are set out within this document.
- 1.4 We invite responses to our proposed changes by 25 November 2013.

Background

- 1.5 On 23 March 2001, the Postal Services Commission granted to Royal Mail Group Limited (company number 4138203) a licence under section 11 of the Postal Services Act 2000. The Licence included conditions imposing obligations on Royal Mail obligations relating to financial reporting. On 29 September 2011, following a Consultation, Ofcom published a Statement entitled '*Postal regulation: Transition to the new regulatory framework*'² ('the September Statement') setting out various decisions, including the provisional designation of Royal Mail as universal service provider with effect from 1 October 2011 under paragraph 3(1) of Schedule 9 to the Postal Services Act 2011 ('the Act').
- 1.6 Our primary duty under the Act is to carry out our functions in relation to post in a way, which we consider will secure the provision of the universal postal service.
- 1.7 On 20 October 2011, Ofcom published a Consultation document entitled '*Securing the Universal Postal Service – Proposals for the future framework for economic regulation*'.³ Following that Consultation Ofcom consulted on a proposed USP Accounting Condition ('USPAC') under section 39 of the Act, and on 27th March 2012 Ofcom imposed on Royal Mail the USPAC together with the Regulatory Accounting Guidelines ('RAG') referred to in that condition.

¹ <http://stakeholders.ofcom.org.uk/binaries/Consultations/review-of-regulatory-conditions/Statement/Statement.pdf>

² <http://stakeholders.ofcom.org.uk/binaries/Consultations/postal-regulation/Statement/Statement.pdf>

³ <http://stakeholders.ofcoservice/summary/condoc.p m.org.uk/binaries/Consultations/securing-the-postal-df>

- 1.8 As explained above, in the March 2012 Statement, we set out our decision on the new regulatory framework for the postal sector. This gave Royal Mail more commercial and operational flexibility (particularly in relation to setting the majority of its prices) while implementing regulatory safeguards to protect consumers and, where appropriate, promote effective competition.
- 1.9 One such safeguard was an effective and comprehensive monitoring regime⁴. This allows us to assess how well the regulatory framework is working to meet our regulatory objectives. In particular, it aims to secure the provision of the universal service, incentivise efficiency improvements, maintain quality of service standards and ensure universal services remain affordable. Royal Mail and other operators are required to provide certain specified information to help us consider the impact of the change in the regulatory framework and assess whether there is a need to intervene to protect the universal service, customers and competition.

Regulatory financial reporting

- 1.10 In Section 11 of our March 2012 Statement, we summarised the regulatory financial information that Royal Mail would be required to provide to support our monitoring regime. This included data on Royal Mail's volumes, revenues, costs, profits and profit margins, and cash flows.
- 1.11 We also noted our objectives in seeking this financial information, to:
- monitor the financial sustainability of universal service provision;
 - monitor the efficiency of universal service provision;
 - understand how costs and revenues are apportioned to different products and activities; and
 - monitor the relative profitability of different product groups sharing activities and costs.

Amending the information requirements

- 1.12 It was likely that defining the information requirements to support our postal monitoring regime may involve a degree of iteration based on our experiences of using the information. Furthermore, we envisaged that Royal Mail may develop new metrics for measuring its financial results (e.g. productivity), which would be helpful for our monitoring purposes.
- 1.13 We have now been receiving the information provided by Royal Mail for eighteen months, analysing and reporting it internally. In addition, we present some of this information in our annual public update on postal monitoring.⁵

⁴ In our March 2012 Statement, we noted that with an on-going and robust monitoring regime in place, it was appropriate to grant Royal Mail pricing flexibility for seven years to give a sufficient period of regulatory stability for the management of Royal Mail fully to address the challenges facing the business.

⁵ This report also contains other data as well as market, financial and operational analysis and sets out how the regulatory framework - and hence, Ofcom - is fulfilling its objective of securing the provision of the universal service.

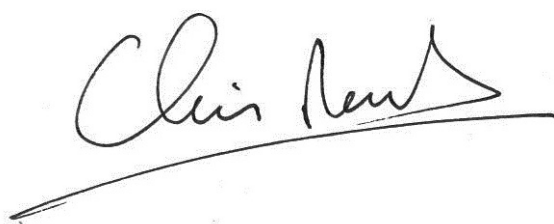
- 1.14 We consider that a number of changes should now be made, specifically to some of the requirements for financial regulatory reporting, so that they remain fit for purpose.
- 1.15 To that end, we now propose, in accordance with section 53 of, and paragraph 3 of Schedule 6 to the Act and pursuant to powers in section 39 of the Act, to modify the USPAC.
- 1.16 Our proposed changes comprise the following:
- requiring new information which we now consider as relevant and important for our monitoring regime;
 - reducing or removing certain information which is not essential or necessary for our regular monitoring needs; and
 - changing the deadline or frequency of some of the information provided to us, so that the information is available in a more timely and expedient manner for our monitoring purposes.
- 1.17 The proposed revised USPAC and RAG (with tracked changes showing the proposed amendments) are set out in Annex 4 and Annex 5 respectively.
- 1.18 A discussion of the general effects of the amendments and the reasons for proposing them is set out in Section 2 below.

Our main proposals

- 1.19 Our main proposals are to:
- incorporate certain additional cost and efficiency metrics into the monthly reports submitted;
 - modify the requirements for the submission of business plans, including requiring:
 - new business plans to be submitted once they have been approved by Royal Mail (in addition to the current requirement for annual submissions) to allow updates to our forecasting within a financial year;
 - the business plans to include projections of the key metrics for the Reported Business; and
 - a monthly breakdown of the annual budget and reforecast metrics (down to the Reported Business).
 - remove the requirement for full costing data (cost allocation model or “CAM” data) to be provided on a quarterly basis, but instead only require costing output on a quarterly basis, and the full costing data annually;
 - reduce the number of product profitability statements that Royal Mail is required to provide and modify some additional statements to reflect the changes in the postal market (see Annex 5, Appendix 1);

- add exceptional costs to the quarterly regulatory accounts together with a note explaining the nature of this expenditure;
 - remove the requirement to approve the auditors used by Royal Mail each year, and replace it with a notification to Ofcom, of the choice of the auditors and their proposed terms of engagement, 60 days prior to the appointment of the auditors; and
 - change the deadline for quarterly regulatory accounts (and accompanying manual updates) to be provided to Ofcom, from 90 days to 60 days after the end of the quarter⁶. This will allow us to identify any risks to the universal service quickly and provide more up to date internal reporting.
- 1.20 The proposed changes outlined within this document, if implemented after consideration of every representation, will be effective from the date we publish our decisions and the revised USPAC, and the revised RAG, apart from the requirements for which specific dates are set out in the RAG (see Table 2 in the RAG).
- 1.21 Representations may be made to Ofcom about these modification proposals no later than **25 November 2013**.
- 1.22 Ofcom is satisfied that this proposal satisfies the general test in paragraph 1 of Schedule 6 to the Act.
- 1.23 Copies of this Notice and the accompanying Consultation document have been sent to the Secretary of State in accordance with paragraph 5(1)(a) of Schedule 6 to the Act.

Signed by **Chris Rowsell**

A handwritten signature in black ink, appearing to read 'Chris Rowsell', with a long horizontal line extending from the end of the signature.

Competition Policy Director

A person duly authorised by Ofcom under paragraph 18 of the Schedule to the Office of Communications Act 2002

23 October 2013

⁶ For the avoidance of doubt, we do not propose to change the current deadline of 120 days from the quarter end which applies to the annual regulatory financial statements.

Section 2

Regulatory financial reporting

Introduction

- 2.1 In this section, we set out our proposals to update Royal Mail's regulatory reporting framework.
- 2.2 The updated USPAC and RAG – highlighting all the changes we propose to make – are included in Annexes 4 and 5 respectively.
- 2.3 The documents as they currently stand (and as originally published by Ofcom) are available at Annex 10 '*Statutory Notification: USP accounting condition*'⁷, and Annex 11 '*Direction: Regulatory Accounting Guideline (RAG)*'⁸ of the March 2012 Statement⁹. Ofcom's March 2012 statement is at Annex 3 '*Regulatory Financial Reporting*'.¹⁰

Frequency

Submission of the Strategic Business Plan and Annual Budget

- 2.4 Royal Mail is currently required to submit its Strategic Business Plan and Annual Budget prior to the commencement of the Financial Year to which the budget relates.¹¹
- 2.5 However, this timetable does not necessarily coincide with Royal Mail's business planning and budgeting timetable, and it does not allow for changes during the year which may be necessary due to market developments. We therefore propose that if a revision to the Strategic Business Plan or the Annual Budget is made part way through the year, Royal Mail will be required to submit a copy to Ofcom, when Royal Mail has approved it.
- 2.6 This will enable us to understand Royal Mail's up to date expectation for its future performance reflecting its current operational and financial performance and the current market conditions more accurately.
- 2.7 For proposed amendments, see Annex 4, which shows these proposed changes to USPAC 1.3.9.

⁷ <http://stakeholders.ofcom.org.uk/binaries/Consultations/review-of-regulatory-conditions/Statement/annex10.pdf>

⁸ <http://stakeholders.ofcom.org.uk/binaries/Consultations/review-of-regulatory-conditions/Statement/annex11.pdf>

⁹ <http://stakeholders.ofcom.org.uk/Consultations/review-of-regulatory-conditions/Statement/>

¹⁰ <http://stakeholders.ofcom.org.uk/binaries/Consultations/review-of-regulatory-conditions/Statement/annex3.pdf>

¹¹ USPAC 1.3.1(e), 1.3.1(g), 1.3.9(b) & 1.3.9(c)

Reported Business in the Strategic Business Plan and Annual Budget

- 2.8 Royal Mail currently provides a Strategic Business Plan and Annual Budget for the Relevant Group.¹² As defined in USPAC 1.1.2, the Relevant Group comprises Royal Mail Group Limited and all of its subsidiary undertakings. It excludes Royal Mail Holdings plc and Post Office Limited.
- 2.9 However, we use the concept of the “Reported Business” to assess the financial sustainability of the universal service. The Reported Business is defined as the part of the Relevant Group that undertakes the activities for the purpose of, or in connection with, the provision of the universal service (USPAC 1.1.2). Therefore it does not include certain other entities, mainly ParcelForce Worldwide or General Logistics Systems B.V.¹³
- 2.10 Therefore, we need separate projected figures for the Reported Business in order to more accurately monitor the financial performance of the universal service. We are proposing to require Royal Mail to separate the projections for the Reported Business from the Relevant Group projections in its Strategic Business Plan and Annual Budget.
- 2.11 For proposed amendments, see Annex 5, which shows these proposed changes to RAG Table 2, USPAC 1.3.1(e).

Monthly Reported Business Annual Budget

- 2.12 The Annual Budget provided to Ofcom does not currently set out how Royal Mail expects its volumes, revenues and other KPIs will be spread over the coming year. This makes it difficult to accurately assess how the Reported Business is performing against its budget within a financial year.
- 2.13 This is of particular importance given the seasonal nature of Royal Mail’s operations and financial results. We propose the monthly breakdown of the Annual Budget for the Reported Business is provided. This will also enable us to monitor the performance of the Reported Business against both the original and any modified budgets (ie reforecast) which may happen part way through the financial year).
- 2.14 For proposed amendments, see Annex 5, which shows these proposed changes to RAG Table 2, USPAC 1.3.1(f).

Frequency of the provision of costing data

- 2.15 Royal Mail is required to prepare, maintain and keep up-to-date the Costing Manual for the Reported Business on a quarterly basis.¹⁴ As part of the confidential information provided to Ofcom, Royal Mail is also required to provide additional Technical Appendices to the Costing Manual.¹⁵ These contain both the relevant input and output costing data that allow us to build our Cost Allocation Model (‘CAM’). We

¹² USPAC 1.3.1(e) and 1.3.1(g)

¹³ Para 1.31 – 1.32, Annex 6 of the October 2011 Consultation
<http://stakeholders.ofcom.org.uk/binaries/consultations/securing-the-postal-service/annexes/Annex6.pdf>

¹⁴ USPAC 1.6.1 and 1.6.2(a)

¹⁵ March 2012 Statement, para 11.57 and Regulatory Accounting Guideline (RAG), Appendix 4
‘Information to be included in the pro-forma’s for the technical appendices of the Costing Manual

use the CAM to gain a detailed understanding of the costs of individual activities and products within the Reported Business and how they are calculated by Royal Mail.

- 2.16 Royal Mail noted the cost involved in preparing the detailed data required within the Technical Appendices in its response to the October 2011 consultation on the new regulatory framework.¹⁶ Given this and the fact that we are now 18 months into the new regulatory framework, we have reviewed whether it remains necessary and proportionate to continue to have the detailed input data on a quarterly basis.
- 2.17 While we consider that, it was important to have both the input and output data for the first year of the regulatory framework, going forward it likely to be less important to update the costing information in the CAM on a quarterly basis. However, it will be important to have the output costing data provided quarterly to inform our monitoring programme, and the full input costing data on an annual basis.
- 2.18 In addition, if we are concerned about some of the outputs and/or need more up-to-date detailed costing information for other purposes, we will always be able to require Royal Mail to provide the necessary data on an ad hoc basis (through Section 55 of the PSA).
- 2.19 We therefore propose to reduce the requirement for the full costing data from a quarterly to an annual basis. The provision of output costing data on a quarterly basis will remain to allow us to better monitor Royal Mail's product costs.
- 2.20 For proposed amendments, see Annex 5, which shows these proposed changes to RAG Appendix 4.

Timing of submission of the quarterly information¹⁷

Submission of the quarterly regulatory accounts

- 2.21 Royal Mail is required to provide the regulatory accounts for the Reported Business as a whole and for each the four financial reporting entities (the 'Four FRES') within the Reported Business, as well as Product Profitability Statements for various product groups within the Reported Business.¹⁸ This information is currently required to be provided to Ofcom within 90 days after the end of the financial quarter for which the Statement and information have been prepared.¹⁹
- 2.22 This means the information provided for the monitoring regime is more than three months old by the time it has been analysed and presented within Ofcom. Given the nature of the postal market, this could delay the identification of issues that may threaten the universal service and therefore Ofcom's response to it.
- 2.23 We propose to shorten the deadline for submission from 90 days to 60 days after the end of the financial quarter. We also intend to change the deadline for submission for other important information within the quarterly monitoring report (such as other

¹⁶ Para 11.43, March 2012 statement

¹⁷ For the avoidance of doubt, we do not propose to change the current deadline of 120 days from the quarter end which applies to the annual regulatory financial statements.

¹⁸ USPAC 1.4.1(b), 1.4.1(j), 1.5.2(b) and 1.5.2(e)

¹⁹ USPAC 1.4.9(a) and 1.5.10(b)

operators volumes and revenues²⁰), thus allowing our quarterly monitoring reports to be prepared up to a month earlier than is currently the case. This will facilitate a more timely assessment of Royal Mail's financial performance and improve the effectiveness of the regulatory framework.

- 2.24 We recognise the proposed shortening of the deadline presents Royal Mail with the challenge of speeding up its reporting and internal approval processes. However, our proposed removal and reduction of certain other requirements, should free up time to be dedicated to the preparation of the quarterly regulatory accounts. In particular, we expect that the removal of the requirement for quarterly preparation and submission of full costing data will release significant amount of time (see paragraphs 2.15 to 2.20).
- 2.25 For proposed amendments, see Annex 4, which shows these proposed changes to USPAC 1.4.9 & 1.5.10.

Submission of Technical Appendices

- 2.26 We also propose that both the Costing Manual and Accounting Methodology Manuals are submitted 60 days after the end of the financial quarter, not 90 days. This will ensure the quarterly regulatory accounts are accompanied by the supporting manuals which set out the methodologies applied in the accounts.
- 2.27 For proposed amendments, see Annex 4, which shows these proposed changes to USPAC 1.6.6. & 1.6.8.

Assurance

Auditor approval

- 2.28 The USPAC²¹ requires Royal Mail to appoint a Qualified Independent Auditor on an annual basis and for Ofcom to approve the appointment including the terms of engagement. The requirement for approval by Ofcom means we need to conduct a public consultation each year setting out our proposal to approve (or not) the choice of auditors and/or their terms of engagement. This process was illustrated by Ofcom's consultation in February 2013 and the resulting statement (published in March).
- 2.29 In February 2013, we consulted on Royal Mail's choice of Ernst & Young as the auditors for the financial year ended 31 March 2013. In our Statement '*Royal Mail's regulatory reporting audit for the year ending 31 March 2013*' ('the March 2013 Statement')²², we approved the appointment of Ernst & Young as Royal Mail's auditor for the financial year ending 31 March 2013, including their terms of engagement.

²⁰ We obtain information on the volumes and revenues of other operators through Section 55 information requests. We also note that we are now planning to obtain quarterly information from other postal operators on their specific volumes and revenues for B2X and C2X packets and parcels – and again, we would do this via information requests.

²¹ USPAC 1.3.5, 1.4.5 and 1.6.5

²² <http://stakeholders.ofcom.org.uk/binaries/Consultations/rm-reporting/Statement/Statement.pdf>

- 2.30 In its response to this consultation, Royal Mail requested auditor approval to be given for more than one year, unless the auditor is changed, or there is a significant change in the terms of their engagement.
- 2.31 We remain of the view that it is important for us to have an option to intervene with respect to the choice of the auditors and their terms of engagement, if we consider it necessary. However, this can be achieved through a requirement, which allows us to grant approval for the auditors and their terms of engagement for more than one year, but also allows us to step in and consult on proposed changes to the choice of auditors or their terms of engagement if we consider this is necessary.
- 2.32 We therefore propose that the requirement for Ofcom to approve the choice of auditors every year is removed, and Royal Mail is required to notify us of its choice of auditors and their terms of engagement 60 days prior to the appointment of the auditors. We consider this would allow us sufficient time to intervene if necessary, for example by initiating a public consultation on the choice of the auditors and/or their terms of engagement.
- 2.33 For proposed amendments, see Annex 4, which shows these proposed changes to USPAC 1.3.5, 1.4.5 & 1.5.6.

Audit opinion

- 2.34 The annual regulatory financial statements should be prepared in accordance with the RAG²³ and the Guiding Principles set out in the USPAC.²⁴ Currently, the audit opinion within the financial statements makes reference to compliance with the RAG only.²⁵
- 2.35 We propose to require the audit opinion to include a reference to the Guiding Principles, in addition to the RAG (see Annex 5, page 10, definition of 'PIA'). This will ensure that the assurance given by the audit is explicit that the accounts have been prepared in accordance with the Guiding Principles.
- 2.36 In the March 2012 Statement, we decided the audit opinion on the annual regulatory financial statements should state whether they have been 'properly prepared' in accordance with the requirements prescribed by the RAG.²⁶ However, we had also noted in the October 2011 Consultation that previous restatements of Royal Mail's accounts and the qualification of the audit opinion on the previous regulatory financial statements underlined the importance of improved assurance. As such, we recognised the potential need to move to a 'fairly presents' audit opinion.²⁷
- 2.37 In the March 2012 Statement, we explained that an early move to the higher audit standard of 'fairly presents' would be challenging for Royal Mail, and we therefore noted we would keep the preparedness of Royal Mail for such a move under review.

²³ Section 10

²⁴ USPAC section 1.7

²⁵ http://www.royalmailgroup.com/sites/default/files/Regulatory_financial_Statements_2012-13_v2.pdf, see pages 20-22

²⁶ March 2012 Statement, Annex 3, paragraph A3.308

²⁷ March 2012 Statement, Annex 3, paragraph A3.299

- 2.38 We consider that more time is needed for us in order to use the audited 2012-13 regulatory financial statement information further and be able to assess whether the level of assurance provided by the current audit opinion is adequate for our regulatory work. We therefore propose to seek at a later date to consider whether, and if so how, to move to a 'fairly presents' opinion.
- 2.39 The future review of the audit opinion will need to consider whether the 'properly prepared' opinion provides sufficient assurance. A decision to move to a 'fairly presents' audit opinion, while it may enhance the level of assurance provided by the audit, it will need to be reconciled with Ofcom's setting of the regulatory accounting principles and rules in the RAG. A 'fairly presents' opinion would require the auditors to assess whether the rules within the RAG have been followed in the preparation of the regulatory financial statements. But it may also require the auditors to audit and opine on the rules in the RAG with which the accounting methodology underlying the regulatory financial statements must comply. This extension of audit scope will need to be proportionate in light of the enhanced assurance.
- 2.40 For proposed amendments, see Annex 5, page 10, which shows these proposed changes to the definition of 'PPIA'.

Content of reports

Quarterly exceptional cost information EBIT margin

- 2.41 In the March 2012 Statement²⁸, we set out our view that the financial sustainability of the universal service should take into account the need for the universal service provider to be able to earn a reasonable commercial rate of return in connection with the provision of the universal service. It was decided an Earnings Before Interest and Tax ('EBIT') margin range of 5% to 10% is indicative of returns consistent with the financial sustainability of the universal service.
- 2.42 In the March 2012 Statement²⁹, we expressed our intention for the referenced EBIT margin to be a pre-exceptional measure of profitability. We also stated that we would not expect restructuring or redundancy costs, which are likely to recur year on year, to be included in exceptional items. We concluded that our decision to determine the exceptional nature of items would be made on a case by case basis.
- 2.43 A significant proportion of the transformation exceptional costs in the past financial years have been recurring redundancy and restructuring costs which we would not consider as exceptional.
- 2.44 Royal Mail is currently required to report EBIT before and after all exceptional costs in the annual regulatory income statement. A note to the accounts sets out a breakdown of the exceptional items. However, only EBIT before all exceptional items is required to be disclosed within the quarterly regulatory income statement.
- 2.45 We therefore propose Royal Mail is also required to provide EBIT both before and after all exceptional costs within the quarterly regulatory income statements. In addition, we are also proposing that the annual and quarterly income statements contain a breakdown of the items of revenue or cost which Royal Mail categorises as

²⁸ Section 5

²⁹ Footnote 69, section 5

exceptional, together with explanations as to the nature of each item and the reasons why it arose.

- 2.46 This will enable us to analyse the exceptional items on a case-by-case basis to determine their nature and recurring frequency, thus facilitating a more effective quarterly analysis and monitoring of Royal Mail's financial sustainability as the universal service provider.
- 2.47 For proposed amendments, see Annex 5, which shows these proposed changes to RAG Table 4: USPAC 1.4.1(a & b) and RAG Table 7: USPAC 1.5.2(a) & 1.5.2(b).

Monthly Reported Business budgeted revenue and volume information

- 2.48 For all the products and services of the Reported Business, Royal Mail is required to provide revenue, volume and cost information for each financial month.³⁰ At present, only the current year and the comparative prior year's results are required.³¹
- 2.49 We proposed above (paragraphs 2.12 and 2.14) that budgeted revenue and volume figures should also be reported for each financial month for the whole of the Reported Business. We further propose that the budgeted revenue and volume should also be reported separately for the products and services of the Reported Business. Given the seasonal nature of the business, this would enable more detailed variance analysis to be performed.
- 2.50 Additionally, we propose that Royal Mail provide revenue and volume split by format on a monthly basis. The trends in volumes of letters and large letters are significantly different from the trends in parcels; while the former is generally declining, the latter is growing. Therefore, format data will facilitate further analysis of the factors affecting the overall financial performance of the Reported Business.
- 2.51 For proposed amendments, see Annex 5, which shows these proposed changes to RAG Appendix 1, Figure 15(a).

Monthly Reported Business budgeted cost and efficiency information

- 2.52 We propose to no longer require the provision of monthly cost data for all the products and services of the Reported Business. We have found that various other metrics in relation to the costs and operations of the Reported Business are considerably more useful for our monitoring of its costs and efficiency.
- 2.53 The main examples of these metrics are productivity metrics (gross hours, workload, and productivity data which have been developed by Royal Mail since April 2012), staff headcount, Full Time Equivalent data, and transformation spend and data. We therefore propose to require these metrics (actual and budgeted) on a monthly basis for the Reported Business.
- 2.54 For proposed amendments, see Annex 5, which shows these proposed changes to RAG Appendix 1, Figure 15(b).

³⁰ USPAC 1.4.1(k)

³¹ Annex 11 '*Direction: Regulatory Accounting Guidelines (RAG)*', figure 15, page 62

Streamline of Product Profitability Statements

- 2.55 Royal Mail is currently required to provide quarterly and annual Product Profitability Statements ('PPS') for 32 product groups. These Statements are provided to Ofcom on a confidential basis, as part of the quarterly and annual regulatory accounts.
- 2.56 The product groups, on which the PPS are based, were defined as part of Postcomm's market study in 2010, which is now out of date. We therefore propose to modify and streamline the product groups to provide more targeted and relevant information. We are also proposing to merge certain groups where granularity is not essential for our monitoring regime. This results in a reduction in the number of PPSs from 32 to 25 product groups.
- 2.57 The main changes to the product groups are as follows:
- rearranging PPS relating to universal service products to provide PPSs for the products subject to our safeguard cap requirements³²; and
 - rearranging PPS relating to bulk mail products to provide a PPS for the products, which are subject to the margin squeeze under the USP Access Condition.³³
- 2.58 For proposed amendments, see Annex 5, which shows these proposed changes to RAG Table 5.

Cash flow scenarios

- 2.59 Royal Mail is required to provide us with quarterly consolidated cash flow projection Statements as per USPAC 1.3.1(d). In the RAG, we specify in detail what these Statements should include (RAG paragraph 3.2, Table 2). The RAG requires quarterly consolidated cash flow projection Statements to include three scenarios: (1) the 'best case' scenario; (2) the 'most likely' scenario; and (3) the 'worst case' scenario.
- 2.60 We propose to remove the requirement for the above-mentioned three scenarios to allow Royal Mail to provide us with the sensitivity analyses which are provided to Royal Mail's Board. These do not necessarily include the three scenarios in the current RAG prescribed, but are expected to provide a range of likely outcomes to inform the Board.
- 2.61 For proposed amendments, see Annex 5, which shows these proposed changes to RAG Table 2, USPAC 1.3.1(d).

³² March 2012 Statements, Section 8 (paragraphs 8.151 and 8.152); and our 20 July 2012 Statement entitled: Securing the Universal Postal Service: Safeguard cap for Large Letters and packets, Section 3: <http://stakeholders.ofcom.org.uk/binaries/Consultations/postal-service-letters-packets/Statement/Statement.pdf>

³³ Annex 9 to the March 2012 Statement, Statutory Notification: USP access condition, Section 6 (USPA 6): <http://stakeholders.ofcom.org.uk/binaries/Consultations/review-of-regulatory-conditions/Statement/annex9.pdf>

Annex 1

Responding to this Consultation

How to respond

- A1.1 Ofcom invites written views and comments on the issues raised in this document, to be made **by 5pm on 25 November 2013**.
- A1.2 Ofcom strongly prefers to receive responses using the online web form at <http://stakeholders.ofcom.org.uk/consultations/regulatory-reporting-framework>, as this helps us to process the responses quickly and efficiently. We would also be grateful if you could assist us by completing a response cover sheet (see Annex 3), to indicate whether or not there are confidentiality issues. This response coversheet is incorporated into the online web form questionnaire.
- A1.3 For larger Consultation responses - particularly those with supporting charts, tables or other data - please email kavita.daggar@ofcom.org.uk attaching your response in Microsoft Word format, together with a Consultation response coversheet.
- A1.4 Responses may alternatively be posted or faxed to the address below, marked with the title of the Consultation.
- Kavita Daggar
Floor 4
Competition Finance
Riverside House
2A Southwark Bridge Road
London SE1 9HA
- Fax: 020 7783 4704
- A1.5 Note that we do not need a hard copy in addition to an electronic version. Ofcom will acknowledge receipt of responses if they are submitted using the online web form but not otherwise.

Further information

- A1.6 If you want to discuss the issues and questions raised in this Consultation, or need advice on the appropriate form of response, please contact Kavita Daggar on 020 7783 4704.

Confidentiality

- A1.7 We believe it is important for everyone interested in an issue to see the views expressed by Consultation respondents. We will therefore usually publish all responses on our website, www.ofcom.org.uk, ideally on receipt. If you think your response should be kept confidential, can you please specify what part or whether all of your response should be kept confidential, and specify why. Please also place such parts in a separate annex.
- A1.8 If someone asks us to keep part or all of a response confidential, we will treat this request seriously and will try to respect this. But sometimes we will need to publish

all responses, including those that are marked as confidential, in order to meet legal obligations.

- A1.9 Please also note that copyright and all other intellectual property in responses will be assumed to be licensed to Ofcom to use. Ofcom's approach on intellectual property rights is explained further on its website at <http://www.ofcom.org.uk/about/accoun/disclaimer/>

Next steps

- A1.10 Following the end of the Consultation period, Ofcom intends to publish a Statement in January 2014.
- A1.11 Please note that you can register to receive free mail Updates alerting you to the publications of relevant Ofcom documents. For more details please see: http://www.ofcom.org.uk/static/subscribe/select_list.htm

Ofcom's Consultation processes

- A1.12 Ofcom seeks to ensure that responding to a Consultation is easy as possible. For more information please see our Consultation principles in Annex 2.
- A1.13 If you have any comments or suggestions on how Ofcom conducts its Consultations, please call our Consultation helpdesk on 020 7981 3003 or e-mail us at consult@ofcom.org.uk . We would particularly welcome thoughts on how Ofcom could more effectively seek the views of those groups or individuals, such as small businesses or particular types of residential consumers, who are less likely to give their opinions through a formal Consultation.
- A1.14 If you would like to discuss these issues or Ofcom's Consultation processes more generally you can alternatively contact Graham Howell, Secretary to the Corporation, who is Ofcom's Consultation champion:

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

Tel: 020 7981 3601

Email Graham.Howell@ofcom.org.uk

Annex 2

Ofcom's Consultation principles

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

Before the Consultation

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

During the Consultation

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

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

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

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

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

After the Consultation

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

Annex 3

Consultation response cover sheet

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

Cover sheet for response to an Ofcom Consultation

BASIC DETAILS

Consultation title:

To (Ofcom contact):

Name of respondent:

Representing (self or organisation/s):

Address (if not received by email):

CONFIDENTIALITY

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

Nothing

☐

Name/contact details/job title

☐

Whole response

☐

Organisation

☐

Part of the response

☐

If there is no separate annex, which parts?

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

DECLARATION

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

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

☐

Name

Signed (if hard copy)