

Consultation Appendix 4 Annex 6: the Annex to Condition Acc 1

Costing Methodology Guiding Principles

If there is conflict between the requirements of any of the Guiding Principles, the Principles are to be applied in the order in which they appear below.

1. Compliance with the European Postal Services Directive

The Costing Methodology must comply with the European Postal Services Directive.

2. Completeness

The Costing Methodology must take into account all the relevant RML costs captured in Royal Mail's financial records including all the relevant costs recorded in Royal Mail Letters' General Ledger.

The Costing Methodology must cost all Sales Products.

3. Causality

The Costing Methodology must assign General Ledger costs to Activities that cause those costs to be incurred.

The Costing Methodology must assign Activity Costs to those Sales Products that are provided as a result of, or are supported by, those Activities.

4. Objectivity

Each element of the Costing Methodology must, as far as possible, be based on, or take account of all the available financial and operational data that is relevant to that element.

Where an element of the Costing Methodology is based on assumptions, those assumptions must be justified and supported, as far as possible, by all available relevant empirical data. The assumptions must not be formulated in a manner which unfairly benefits Royal Mail Letters or any other operator, or creates undue bias towards any Sales Product or Activity.

5. Accuracy

The Costing Methodology must maintain an adequate degree of accuracy throughout the costing process in both extracting and processing data.

An adequate degree of accuracy means the costing process is free from material errors, including any double-counting (see Principle 9 for the definition of materiality).

6. Compliance with the International Financial Reporting Standards (IFRS)

The Costing Methodology must comply with IFRS, to the extent that Royal Mail's statutory accounts comply with IFRS, with the exception of any departure from IFRS in the preparation of those statutory accounts which is expressly disclosed in the statutory accounts.

7. Consistency

The Methodological Principles must be consistent with the Guiding Principles.

The Costing Methodology (as documented in the Costing Manual) must be consistent with the Methodological Principles.

As far as possible, the Costing Methodology must be applied to all elements of costing consistently. All differences in application must be justified by reference to the Methodological Principles or Guiding Principles.

As far as possible, the Costing Methodology must be applied consistently over time. All changes from one period to another must be justified in accordance with the change control procedures, and by reference to the Methodological Principles or changes in them, or by reference to the Guiding Principles.

8. Transparency

The Methodological Principles must be published by Royal Mail. The detailed Costing Methodology must be clearly documented in Royal Mail's Costing Manual. The Costing Manual must contain the level of detail necessary to allow a user of the Costing Manual, with a reasonable degree of professional skill, to gain a clear understanding of a given calculation carried out through the application of the Costing Methodology without the need for further instruction or interpretation.

9. Materiality

The Guiding Principles 1 to 8 must be applied to all material costs, or material changes in costs.

A material cost, or a material change in a cost, is one which is reasonably expected to affect the views of a competent user of Royal Mail Letters' regulatory reports and costing results.