

COMMUNICATION OF THE INSTITUTE ON THE UNIVERSAL POSTAL SERVICE COST CALCULATION METHOD

1. INTRODUCTION

Directive 97/67/EC of the European Parliament and of the Council of 15 December 1997 on common rules for the development of the internal market of Community postal services and the improvement of quality of service specifies in particular the supply conditions of the universal postal service.

This directive has been transposed into Belgian law through the Royal decree of 9 June 1999 amending the Act of 21 March 1991 on the reform of some economic public companies. Moreover the Belgian law imposes on BIPT to calculate the cost of the universal postal service provided by the designated provider every year, i.e. La Poste.

A methodology has been developed to that end. A model has been developed, which must be supplied every year with the necessary data mainly coming from the analytical accounting of La Poste. The methodological principles and the practical modalities of the process as well as the resulting obligations for La Poste must be set out in an additional Royal Decree in order to enable BIPT to make every year the final calculation of the universal service cost, using the model.

2. CONTEXT, DEFINITIONS AND METHODOLOGICAL CHOICES

BIPT has started calculating the cost of the universal service for the year 2000.

The rules in Directive 97/67/EC impose the transparency of accounts: "*The universal service providers shall keep separate accounts within their internal accounting systems at least for each of the services within the reserved sector on the one hand and for the non-reserved services on the other. The accounts for the non-reserved services should clearly distinguish between services which are part of the universal service and services which are not. Such internal accounting systems shall operate on the basis of consistently applied and objectively justifiable cost accounting principles.*"

The directive also states that : "*In order to ensure that the universal service is safeguarded, where a Member State determines that the universal service obligations, as provided for by this Directive, represent an unfair financial burden for the universal service provider, it may establish a compensation fund administered for this purpose by a body independent of the beneficiary or beneficiaries.*"

The Belgian law that existed at the time did transpose these provisions and also mentioned the possibility of an unfair burden to the universal service provider considering the services reserved for him and the possibility to have recourse to the "Universal service Compensation fund" (USCF) but did not further specify the calculation method to apply. It is important to understand that when we refer to the universal service cost, it is in fact the unfair burden that can be inferred by the universal service provision obligations that we want to mention: we will go into this below in this communication.

The first step to take was to choose the method to allocate and estimate the costs and so the additional cost related to the universal service obligation. The second step consisted in establishing the mode of possible financial compensation if this burden should be considered unfair. These choices require the concepts used to be previously accurately defined.

The figure inserted at the end of this communication shows the Fully distributed cost" (FDC) methodology " applied to the calculation of the universal service cost and unfair burden. It corresponds to a situation where there is actually an unfair burden to face.

In most cases the cost of the universal service is equal to the sum of the costs related to each service included in the universal service, i.e. that are either part of the category of the reserved universal services or of the category of the non-reserved universal services, and this, in a system of full cost allocation (FDC method).

The burden made up of the universal service obligations represents then the part of the universal service cost corresponding to the sum of the individual losses affecting the services in deficit of the universal service reserved or not. A service is in deficit when the revenues it generates are lower than the costs allocated to it: the loss is then equal to the negative difference between the revenues and the costs.

The profit of the reserved services corresponds to the sum of the individual profit generated by each of the beneficiary services of the reserved universal service. A service is beneficiary when the revenues it generates are higher than the costs allocated to it: the profit is then equal to the positive difference between the revenues and the costs.

The unfair burden to the universal service provider considering the services reserved to him, or in other words, the cost of the universal postal service that is still to be covered, can be calculated by adding on the one hand the burden (losses) made up of the universal service obligations and on the other hand of the profit of the reserved services.

If the result is positive, the burden is considered as totally offset by the reserved services.

If the result of this operation is negative, this constitutes then the unfair burden that can be the object of a recourse to the "Universal postal service Compensation fund". The recourse to the UPSCF is not automatic, it must be formally requested and justified by La Poste and then approved by BIPT.

3. APPLICATION OF THE METHOD

3.1. Categorisation of the products/services

Before applying the method, the products/services have to be classified in the categories laid down by the act transposing the directive.

The existing act distinguishes 3 categories of services: the reserved services (still in monopoly), the non-reserved services which are part of the universal service and the non-reserved services which are not part of the universal service (and so in full competition). It has proved necessary to add an additional category, the category of the public services and to give them a new specific definition given the particular context of the universal postal service.

Generally speaking the public services imposed to La Poste, the historical postal operator, are the postal and financial services defined in the "Management contract between the State and la Poste", renewable every five years.

Under the terms of the « Management contract », the universal postal service is considered as a part of the public service tasks. And yet, if under this contract, some services provided at a price below the cost price are regularly charged to the State, the deficits of a certain number of other services – largely falling under the universal postal service – cannot be covered by this billing. Pursuant to the act the deficit of the universal postal service can then be compensated by the intervention of the "Universal postal service Compensation fund". So there are two different systems of reimbursement.

It was therefore essential to separate and identify these two categories of tasks properly in the internal accounting of La Poste in order to comply with the law while avoiding any ambiguity with regard to the cost calculation and reimbursement conditions. The postal services of which the deficit can be charged to the

State are part of the public services' category while the other postal services – the majority – should be classified as reserved (postal) services or non-reserved universal (postal) services. So the definition of the public services' category is more restrictive than the general one of the management contract.

Some 1200 products/services of la Poste have been examined so that each of them can be classified in the right category. If need be, amendments have been made to the costing system, e.g. a narrower segmentation of some products compared with the weight and price steps criteria.

It should be noted that it is likely that the categorisation of the products/services will be amended, adapted according to the evolution of the applicable regulation, we think here more precisely about the gradual diminution of the reserved sector as the opening of the postal services market is becoming more marked.

3.2. Cost and revenues allocation

As abovementioned, La Poste implemented an analytical accounting and a system of costing based on the "Activity Based Costing" principles according to which the costs are allocated to the products/services through the activities.

The resources are first allocated to the activities by means of "resource drivers". Resources directly come from the general financial accounting. As far as their allocation is concerned, a distinction is made from the start between the cost centres of the "Service Units" type (support activities) and of the "Business Units" type (operational and commercial activities). The costs of the "Service Units" activities are then spread over the "Business Units" activities.

Finally the costs of these last activities are allocated to the objects of final costs i.e. the products through "activity drivers".

The costs allocated by the universal service provider are the operation costs. The financial and exceptional charges are therefore excluded.

The allocated revenues are the operation products, with the exception of the "billing to the State" for some public services in deficit – because this billing is in fact an output calculated by the costing system and not an input of it – as well as some other particular products/services (Interests on capital remained at the Postcheque, intermediate investments, Service Fee) that can actually be considered as financial products.

Each year La Poste must provide BIPT with a file mentioning the costs and revenues allocated in this way to each of the products of each of the 4 categories. La Poste also has to communicate the overhead costs (structure and general costs).

3.3. Calculation model of the universal service cost

The BIPT model operates the file provided by La Poste in order to calculate the possible charge to be compensated by the "Universal service Compensation fund" and to present different analysis reports.

This model makes the final allocations of some costs – that can neither be considered as direct cost nor indirect common costs – identified by La Poste but not allocated by this one, i.e. some internal services and the overhead.

After these steps costs were fully allocated to the final products/services (FDC method) and this in accordance with the European directive and the Belgian act laying down that

- a) costs which can be directly assigned to a particular service shall be so assigned;*
- b) common costs, that is costs which cannot be directly assigned to a particular service, shall be allocated as follows:*
- c) whenever possible, common costs shall be allocated on the basis of direct analysis of the origin of the costs themselves;*
- d) when direct analysis is not possible, common cost categories shall be allocated on the basis of an indirect linkage to another cost category or group of cost categories for which a direct assignment or allocation is possible; the indirect linkage shall be based on comparable cost structures;*

when neither direct nor indirect measures of cost allocation can be found, the cost category shall be allocated on the basis of a general allocator computed by using the ratio of all expenses directly or indirectly assigned or allocated, on the one hand, to each of the reserved services and, on the other hand, to the other services."

Moreover the model calculates the cost represented by the return on capital and this cost is added to the other costs (operation, internal services, overhead). The rate of return calculation is based on the "Weighted Average Cost of Capital" method (WACC). This rate is calculated according to the parameters introduced by BIPT and applied to the value of the capital to return ("Balance-sheet tangible assets"). The capital to return is itself "divided" between the products in proportion to the depreciation costs allocated to each product.

After that, the model calculates for each product/service of each of the 4 categories the difference between its total revenue and its total cost and so we obtain a profit or a loss.

The model also calculates the profit or loss of each of the 4 product/service categories – reserved universal services, non-reserved universal services, public services, other services - by adding up the profit or the loss of each of the products of the corresponding category.

In accordance with the above-mentioned methodology, the model calculates the universal service additional cost by only including the reserved and non-reserved products representing a loss and by adding up these individual losses. We name it "retained loss".

The model calculates the reserved universal service profit by only including the reserved products representing a profit and adding up this individual profit. We name it "retained profit".

Finally the model adds up the "retained universal service loss" (negative amount) and the "retained reserved universal service profit" (positive amount). If the result is positive, the additional cost resulting from the obligation to provide the universal service is considered as fully compensated for by the reserved sector. In this situation we consider then that La Poste does not have to bear an unfair burden

Non-reserved universal service (NRUS)

Reserved universal service (RUS)

