

postwatch



Representing consumer interests
in postal services

Who we are

Postwatch, the Consumer Council for Postal Services, is the fully independent consumer watchdog for the postal services industry in the United Kingdom, established by the Postal Services Act 2000.

Postwatch's principal statutory objective is to protect, promote and develop the interests of all customers of postal services in the United Kingdom. We have a special statutory duty to represent the needs of elderly, disabled and chronically sick people, as well as those on low incomes and residents in rural and remote areas. Postwatch is also responsible for representing customer interests to the Postal Services Regulator, Postcomm.

Postwatch and Postcomm have a memorandum of understanding which sets out the respective roles of each organisation. This can be viewed on our website, or contact us and we will send one.

Postwatch is a non-departmental public body (NDPB). Licence fees paid by postal operators to the Exchequer offset our costs.

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Postwatch

Annual Report 2006-2007

Report of the Consumer Council for Postal Services for the year to 31 March 2007, to the Secretary of State for Trade and Industry.

This document comprises a report made under section 55(1) of the Postal Services Act 2000.

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Statement from the Chair



Millie Banerjee CBE
Chair

In many ways this has been a landmark year for the postal industry.

August 2006 saw the introduction of Pricing in Proportion (PiP), Royal Mail's new pricing structure. Postwatch played its part in working to ensure customers understood the implications of PiP. The benefits of our regional structure were illustrated in the workshops and seminars we ran throughout the UK, which enabled customers to air concerns and uncertainties. It's a testament to both Royal Mail's hard work and our own that PiP's introduction has been relatively smooth.

Full liberalisation of the postal market is now over one year old, and there are signs that organisations are increasingly taking action to ensure they get the most out of their post. Twice as many businesses in 2006 switched to one of Royal Mail's top three competitors compared to the previous year. At the same time there are early trends that the mail market may no longer be growing. If this continues we would need to be mindful that a viable and efficient Royal Mail is essential for the sustainability of the universal postal service.

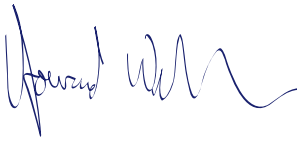
Our regional work is crucial, and we continue working to improve our service. During the year we rationalised our regional structure, including moving some of our staff to home working, thereby reducing costs whilst ensuring we continue working locally with customers and stakeholders. Likewise, joint working arrangements, such as sharing IT

support with Energywatch, have helped provide better value for money.

In December 2006, the government began consulting on the future of the Post Office network. Its headline-grabbing proposal of 2,500 compensated closures hid some positive news, such as extending investment, and committing to a replacement to the Post Office card account.

Nonetheless, Postwatch had numerous concerns. Closures may be a necessary evil to stem financial losses, but a closure programme must take account of customer concerns and needs. To that end, we challenged the government's proposal for restructuring to take only 18 months, and for local consultations to last six weeks. Likewise, we argued that we needed a fuller role, to ensure customers had someone to fight their corner.

This programme will usher in a period of intense activity. Whilst at some point Postwatch will merge with other consumer organisations, we are working to ensure that this indispensable work is well planned and executed, so that a watchdog with regional presence, sectoral expertise, and campaigning experience is arguing the customer case.



Howard Webber
Chief Executive



Chief Executive's summary

I arrived at Postwatch halfway through 2006-2007. I found an organisation busily and effectively championing the cause of customers of postal services – which means almost every woman, man, child, business, charity and public sector organisation in the United Kingdom.

Postwatch is a blend of national and regional. Neither dominates the other; rather, each works to make the other more effective. This is seen in every aspect of our work, described in the following pages. But it is worth highlighting two examples.

The first is how we deal with, and use, complaints from users of postal services. We have centralised complaints handling in our Belfast office, where staff ensure a consistent approach to complaints from all parts of the UK. But these complaints can, and often do, reveal either common themes around particular mail products, or concerns about mail or post office services in particular areas. In the first case, this is fed through to Postwatch's policy staff for further analysis and action. In the second case, our regional staff take up the issue with local mail or post office management.

The second example is our role in monitoring the programme to close up to 2,500 post offices. This is a major project for Post Office Limited – an overall strategy to be implemented through around 50 area plans to a very tight timetable. Our monitoring role is no small operation either. We are setting up

central coordinating and support systems – data collection, geographical intelligence and so on – together with a newly appointed team of regionally based advisers and a strengthening of our existing regional team of permanent staff, Council members and regional committees. The arrangements have yet to be put to the test, but I am confident that they are robust and will serve us, and customers, well.

The expertise, focus and professionalism of my colleagues at Postwatch are all the more remarkable given the uncertainty of the future. Under the Consumers, Estate Agents and Redress Bill, Postwatch is due to merge with Energywatch and the National Consumer Council. The potential benefits are clear, but meanwhile there are many questions unanswered and much uncertainty for Postwatch staff. It is a tribute to them that none of this is apparent from the quality or impact of their work. I am proud to have them as my colleagues, and look forward to working with our Council and regional committee members in the coming year – which will be no less challenging than the year just past.



Postwatch – an introduction

Postwatch works to ensure customers receive the best possible postal service. Our duties include:

- Campaign and lobby for postal service improvements.
- Investigate and address local and national postal problems and issues.
- Resolve individual complaints against licensed operators, pursuing also generic issues raised.
- Negotiate and monitor Royal Mail's performance against service targets.
- Advise Postcomm (the economic regulator for postal services) on appropriate action should Royal Mail Group fail to meet performance targets, or breach other licence conditions.
- Inform customers about postal issues and market developments.

A regional organisation

A regional structure is essential to ensuring customers receive a satisfactory postal service, and when they do not, that it can be addressed effectively. Postwatch operates through nine regional committees across the UK. Each regional Chair is supported by staff and committee members. Each region monitors and investigates postal service provision throughout their area.

Our regional presence also enables us to undertake one of our key areas of activity: informing Postcomm of local or regional failures by Royal Mail to meet its quality of service standards or to comply with licence conditions, and to recommend suitable action.

Complaints

Postwatch assists customers with complaints on the postal service: individuals, small and medium businesses, and bulk mailers. We only investigate cases where the relevant postal operator (usually Royal Mail) has had the opportunity to resolve the issue, and where the complaint relates to a service or product licensed by Postcomm or which is part of the universal postal service. See the complaints section for further information (page 27).

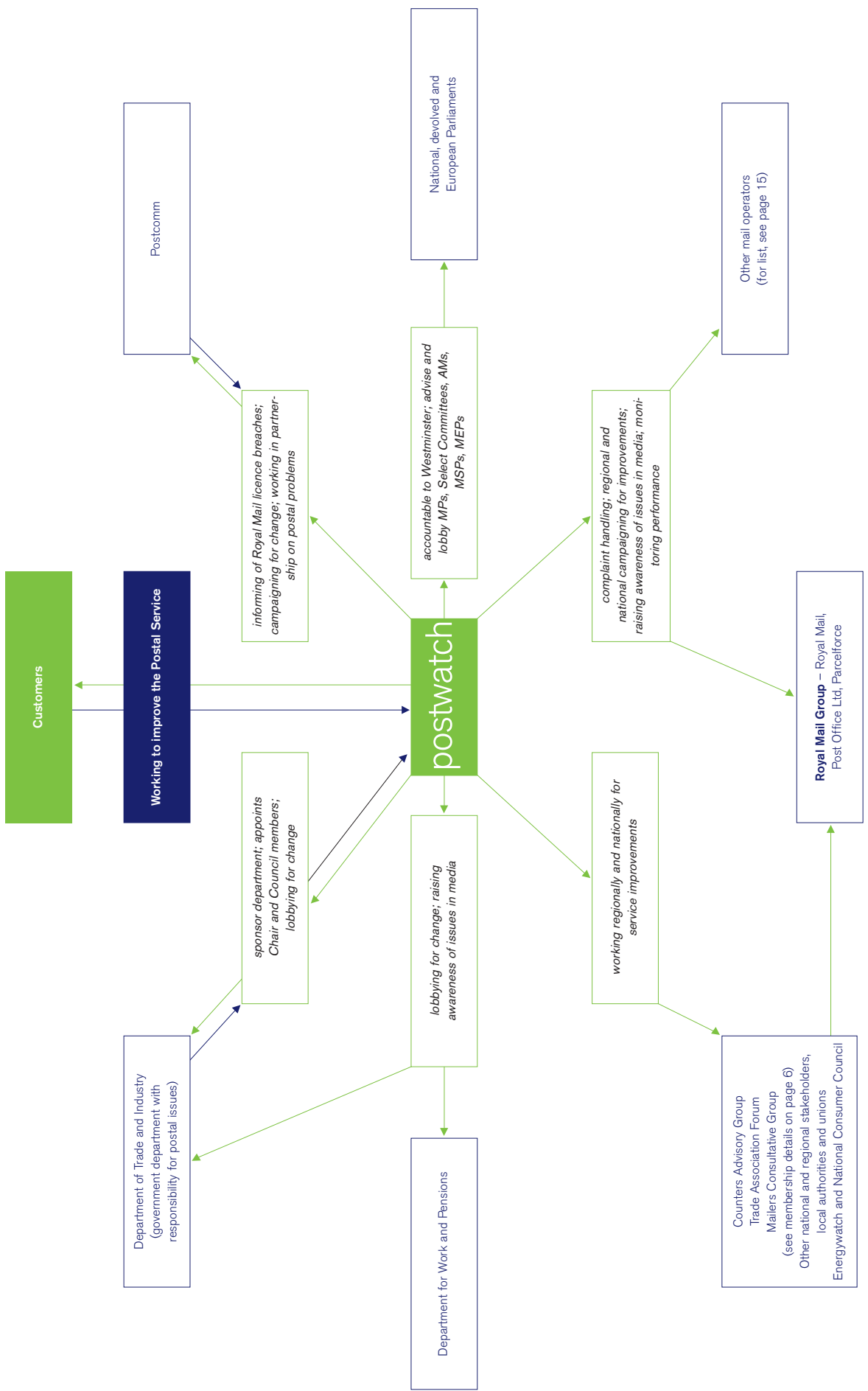
Website and blog

Our website www.postwatch.co.uk is an important tool in communicating with stakeholders and customers. During the year, we received an average of 17,850 hits a month – up 82 per cent on the previous year. The website provides information on our activities and publications, customer advice, and has an online complaint facility.

During the year we created a weblog (www.postwatchuk.blogspot.com), which enables a dialogue with customers about the issues of the day. It received on average 280 visitors a week.

Working together

The diagram below gives an overview of how we work, and the organisations we work with, to secure improvements for postal customers.



Our working groups

Our working groups play an important role in our campaigning and policy-making activities. Our work with other organisations ensures we canvass a wide range of views on postal issues.

Counters Advisory Group

This group acts on customer concerns about issues affecting the post office network, such as rural post office funding, the future of urban deprived branches, and products and service developments.

Members:

Age Concern England; Citizens Advice; Commission for Rural Communities; Federation of Small Businesses (FSB); Help the Aged; Local Government Association; National Association of Local Councils; National Consumer Council; National Federation of Women's Institutes; Postcomm; Royal National Institute for the Blind (RNIB); Townswomen's Guild; Village Retail Services Association.

National Federation of Subpostmasters – advisory capacity.

Trade Association Forum

The Forum helps Postwatch to understand the needs and views of large mailers to enable us to work effectively on their behalf.

Members:

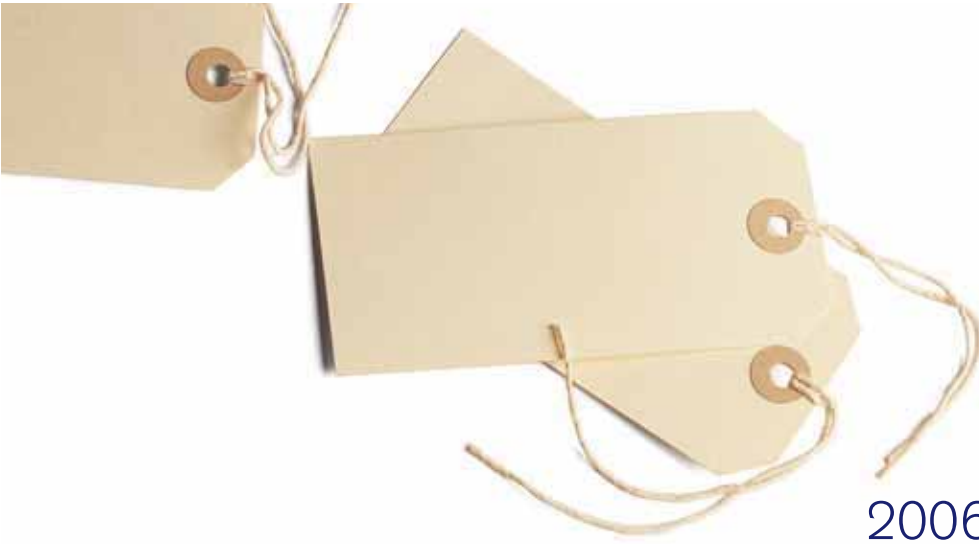
British Office Supplies and Services Federation; British Printing Industries Federation; Direct Marketing Association; Envelope Makers' & Manufacturing Stationers' Association; Greeting Cards Association; Intellect; Incorporated Society of British Advertisers; Institute for Practitioners in Advertising; Institute of Sales Promotion; Mail Order Photofinishers Association; Mail Order Traders' Association; Mail Users Association; Periodical Publishers Association.

Mailers Consultative Group

This group ensures we are aware of and act on the postal needs and concerns of small businesses and domestic customers, particularly vulnerable postal users.

Members:

Age Concern; British Chambers of Commerce; Federation of Small Businesses; Forum of Private Business; Institute of Fundraising; National Consumer Federation; The Royal MENCAP Society; Royal National Institute for the Blind (RNIB); Talking News Federation.



2006-2007: key events

The following pages give an overview of work Postwatch has undertaken on a range of issues throughout the year.

The Consumers, Estate Agents and Redress Bill

The 2006 Queen's Speech brought forward proposals to consolidate several consumer bodies, including Postwatch, into a single, consumer advocacy organisation, and also create new ombudsman schemes to resolve complaints where service providers have been unable to do so.

We have worked closely with both government and other consumer organisations on this issue. Our priority has been working to ensure that the advocacy arrangements put in place best meet the needs of postal customers.

The Bill started its parliamentary progress in the House of Lords. Commons Second Reading took place shortly before the end of the year. Both MPs and Peers raised various concerns which Postwatch shares, including:

- **Complaints handling:** the proposed system for complaints needs to be clearer, particularly how complainants are expected to move from one organisation to another, how vulnerable customers are helped and how information on wider problems, which complaint data can reveal, will be captured and shared.
- **Timing:** the government has proposed that Postwatch plays an integral part in ensuring a major post office restructuring programme is undertaken in a way that takes into account customer concerns and needs. Yet this Bill proposes to merge Postwatch with organisations during this exercise, potentially resulting in customer confusion and detriment.
- **Territorial representation:** the Bill provides for the establishment of regional committees in Scotland, Northern Ireland, and Wales, but not in England. This needs rectifying: customers in all parts of the UK should have adequate regional representation.

Bulk mail compensation

In December 2005, Postwatch judicially reviewed Postcomm for not properly enforcing implementation of Royal Mail's compensation scheme properly. We asked for a judgment on the correct interpretation of the compensation scheme, and for the judge to instruct Postcomm to enforce payment of outstanding monies immediately.

We estimated that Royal Mail's failure to meet quality of service targets in 2002-2004 should have resulted in the company paying over £50 million more to bulk mailers. The judge agreed with our interpretation. He did not order Postcomm to enforce the payments, but told the regulator to comply with its statutory duty to enforce and that enforcement in such instances is mandatory.

Royal Mail, not Postcomm, appealed against this decision. In March 2007, the Court of Appeal found in Royal Mail's favour on one count and in Postwatch's on another. The outcome is that customers not eligible for compensation are those who were in arrears at the due date for paying compensation and had been in arrears with more than 20 per cent of their invoices over the relevant year with no reasonable excuse for their poor payment record.

At the end of the year, it was too early to establish whether the interpretation of the Court will result in significant levels of withheld compensation being paid.

Strategy review

Responding to Postcomm's Strategy Review was one of our major areas of policy work during the year.

The aim of the exercise was to contribute to Postcomm's long-term regulatory strategy. Our priority was to ensure that the UK regulatory framework is driven by customers' needs and interests.

Postcomm's document set out a number of questions on the key issues facing the postal industry: how will the competitive market develop? How and when should current barriers to market entry be tackled? How will customers' needs and the universal postal service change?

Our response was based on the fundamental belief that the various aspects of the industry – for example, competition, Royal Mail structure, the role of government – are simply the means to an end of having a postal market that is dynamic and innovative in meeting customer needs, and where value for money, improving service, and greater choice in products are a reality.

Central to achieving this are several factors. Firstly, a protection of the universal service obligation. Whilst the extent and nature of this may change with time, the obligation must nonetheless remain, and be adequately funded. Secondly, Postcomm must tackle remaining barriers to market entry for postal companies. Thirdly, the role – and potential – of post offices, particularly for social customers, needs to be taken into account when considering the long-term future of the postal industry.



Royal Mail: performance and prices

2006-2007 saw Royal Mail continue to improve its performance for the third successive year. This year, Royal Mail passed 11 of its 12 licence targets – an impressive turnaround since 2003-2004, when the company failed every one.

Key targets met

This table below shows the improvement in Royal Mail's performance over the past three years across various key targets.

	2004-2005 % of all mail (and minimum target)	2005-2006 % of all mail (and minimum target)	2006-2007 % of all mail (and minimum target)
First Class next working day delivery	91.4 (92.5)	94.1 (93.0)	94.0 (93.0)
Second Class delivery within three working days	98.5 (98.5)	98.8 (98.5)	98.9 (98.5)
Special Delivery next working day delivery	98.0 (99.0)	98.8 (99.0)	99.0 (99.0)
Standard parcel delivery within three working days	89.7 (90.0)	92.0 (90.0)	94.5 (90.0)

Changing targets

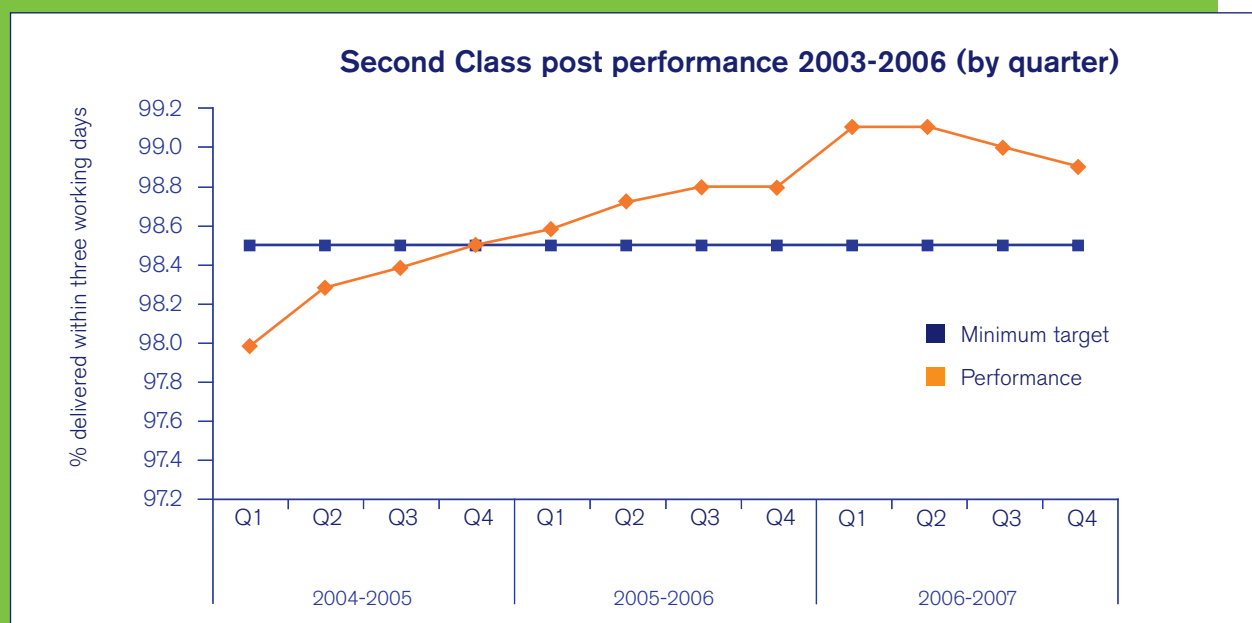
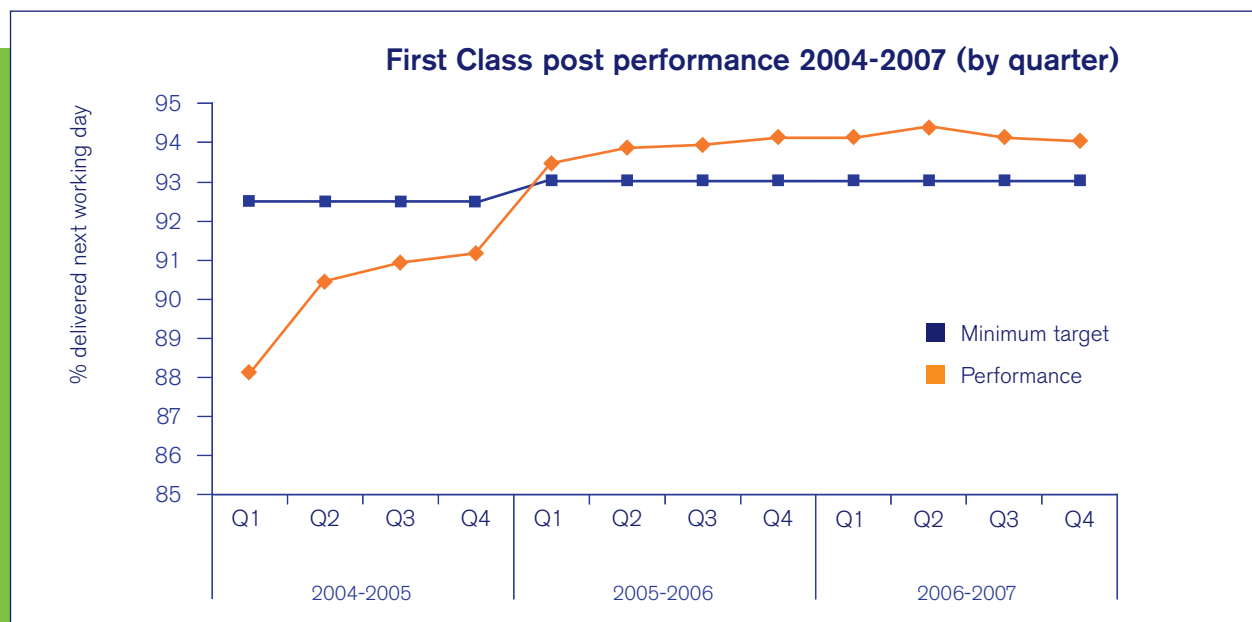
This year saw significant changes to Royal Mail's targets. Previously, there were 16 targets. There are now 12, with various products grouped together according to class of delivery, as well as two targets – 'tail of mail' and Intra Post Code Area – removed.

Postwatch expressed concern about some of these changes. For example, although all bulk mail services grouped together met their minimum targets, individual products within these groups, such as First and Second Class Response Services, were below target. We would prefer a licence regime that more readily provided clarity on individual product performance.

More positively however, Royal Mail's 12 targets also contain four new measures: European international delivery, percentage of collection points (for example, post boxes) served each day, percentage of delivery routes completed each day, and the percentage of items delivered to the correct address. Having pressed for their inclusion, we welcomed the introduction of these new targets. By targeting some key concerns of domestic customers, such as misdelivery, they help ensure Royal Mail is motivated to meet the needs of all customers, from occasional letter senders to large bulk mailers.

First and Second Class improvement

The graphs below show Royal Mail's First and Second Class post performance against its minimum target over the past three years.





The universal service

Under its licence, Royal Mail must provide one delivery every working day of the week to all addresses in the UK. A daily collection must also be made from each access point unless the address has been exempted with Postcomm's express permission.

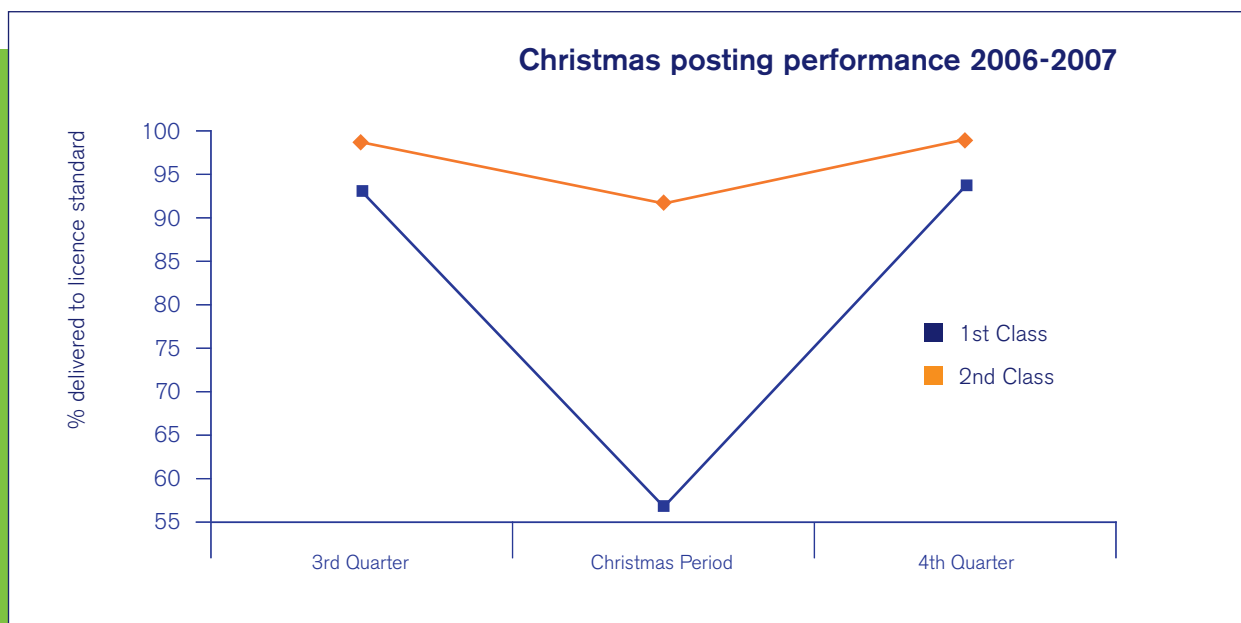
When a delivery failure occurs, we investigate the reasons and work with Royal Mail to ensure that the company takes steps to improve service to affected customers. When Royal Mail proposes to make a particular address a delivery exception, for example because of difficulty of access, it is important that customers can have confidence that there is a robust system in place which allows them to appeal. Postwatch investigates all such cases, and makes recommendations to Postcomm.

Postwatch considers the appeals system takes too long for customers, and we are pressing Postcomm to review current arrangements. We want a streamlined system that is easier to understand and gives clarity to customers sooner.

Not a First Class Christmas

The increased amount of post that Royal Mail handles over Christmas leads to an understandable deterioration in performance for both First and Second Class delivery. However, the dip in Second Class post performance is far less than for First Class.

Furthermore, as the graph overleaf shows, despite Royal Mail's improving quality of service throughout the rest of the year, and significant investment in new machinery, First Class performance over the festive period is actually worsening. This fact, coupled with the 9 pence differential between the two services, has led to Postwatch recommending that customers use Second Class stamps at Christmas. Additionally, we hope Royal Mail will be upfront and honest with its customers and alert them to the fact that a First Class stamp in December doesn't entail a first class service.



Junk mail: a public relations disaster

In August 2006 a postman in Barry, Vale of Glamorgan, made national headlines after being suspended by Royal Mail for telling customers how to reduce the amount of unsolicited mail they receive. His homemade leaflet read as follows:

“You may be interested in reducing your unwanted advertising mail, and reduce paper usage in order to help save the environment. If you complete the slip below and send it to the Royal Mail delivery office, you should not get any of the above mentioned unwanted advertising.”

Royal Mail’s clumsy and harsh handling of a minor incident attracted substantial media interest and meant that many thousands of customers decided to find out how to opt out of receiving unaddressed mail from Royal Mail and how to reduce addressed mail by contacting the Mail Preference Service funded by the Direct Marketing Association.

This issue presents Postwatch with a dilemma. On the one hand advertisers’ use of mail brings in much needed revenues to Royal Mail. If advertisers stopped using the post, stamp prices could potentially increase significantly, which would disadvantage customers. On the other hand, however, Postwatch supports customers being able to choose not to receive unwanted mail for environmental and other reasons.

Postwatch has therefore adopted a deliberately neutral line. We alert customers to the potential implications of stopping advertising mail from being delivered whilst making available the contact details of the two opt-out schemes.



Competition

Customers' needs are best served by a healthy universal service provider operating in a competitive market in which barriers to access are minimised.

Some progress...

The first year of full competition since the UK postal market was liberalised has seen steady development.

Many larger mailers have seized the opportunities competition affords and shopped around for the best deal. Some mailers have transferred business to other products as well as to other operators. Royal Mail's share of the postal market has decreased from 99 per cent in 2004 to 97 per cent in 2006. Postcomm's annual business customer survey revealed that 20 per cent of respondents stated their mail costs had reduced significantly.

Competition has developed fastest in 'upstream' activities – collecting and sorting mail. Companies then feed this mail into Royal Mail's delivery network, paying an access price to do so. During the year, TNT announced it would trial 'end-to-end' (collection to delivery) services in several UK cities, with several deliveries a week.

...More needed

Despite such evidence of progress, barriers remain to competition developing effectively. Several key concerns, which need addressing as a priority, include:

- **VAT inequality.** As the universal service postal provider, Royal Mail is exempt from charging VAT on postal services. Other private operators are liable for the standard rate of 17.5 per cent. There was welcome progress on this problem during the year, with the announcement that competitors to Royal Mail would no longer have to charge VAT on the whole cost of their access schemes, but only on 'upstream' services. Nonetheless, VAT inequality remains, and must be addressed.
- **Transparency.** In the past year, Royal Mail has introduced both new products and a major new pricing structure. Furthermore, as the year ended Royal Mail applied to move to zonal pricing (see page 22). Customer confidence could be increased if such changes were explained by a clearer economic rationale.

- **Security.** Fundamental to a postal market that benefits customers as it develops and key to encouraging consumer confidence, is taking all possible steps to ensure mail security. Postwatch supports regulation that protects customers by placing security duties on all postal companies newly operating in the UK market.
- **Customer awareness and inertia.** For competition to develop, customers need to know they have choices on who handles their post, what those choices are and be motivated to make a change. This requires postal companies to invest in infrastructure, products, and marketing, which may be problematic for some smaller operators.

Postal operators

The awarding of all new licences is subject to consultation by Postcomm. Postwatch contributes to these consultations. At April 2007, there were 17 licensed companies. Opposite are the operators' contact details, and an outline of their services. For further details see the companies' websites.



Postal company	Licensed services	Contact details
ANC Express	Various express delivery and collection services	Tel: 0800 262 123 www.anc.co.uk
Challenger Security Services (Admin) Ltd	Business to business dispatch company	Tel: 020 7538 0141 www.challengersec.co.uk
Citipost AMP Limited	Business to business; catalogue; directory; publications and postal fulfilment and delivery UK wide	Tel: 01753 722 000 www.citipost.com
City Link Post	Mail services and collections	Tel: 024 7630 8359 http://target.city-link.co.uk
CMS	Business to business delivery; sortation	Tel: 020 7732 2000 www.cmsnetwork.com
DHL Global Mail (UK) Limited	Bulk mail sorting and delivery throughout the UK; business to business collection and delivery services	Tel: 0845 600 7678 www.dhlglobalmail.co.uk
DX Network Services Limited	Document exchange service; business mail sorting and delivery	Tel: 08457 585 325 www.thedx.co.uk
Intercity Communications Limited	Collection and delivery of mail for financial institutions and professional partners; overnight courier service	Tel: 020 8981 2828 www.icityc.co.uk
Lynx Express (a UPS company)	Express delivery and collection services	Tel: 024 7637 3737 www.lynx.co.uk
Racer Consultancy Management Services	Bulk mail sorting and distribution; next day services	Tel: 020 8893 8833 www.racer.co.uk
Royal Mail	Provides a universal postal service across the UK	Tel: 08457 740 740 www.royalmail.com
Secure Mail Services	Sorting and delivery services throughout the UK	Tel: 0870 264 2806 www.securemail.co.uk
Secured Mail Limited	A UK wide bulk mail operator	Tel: 0870 41 41 600 www.securedmail.co.uk
The Mailing House Group	Direct mail fulfilment	Tel: 08700 10 2000 www.themailinghouse.co.uk
TNT Post UK Limited	Consolidation and delivery of bulk mail services	Tel: 01628 771 232 www.tntpost.co.uk
UK Mail	2-3 day services for mail sorting, collection and delivery	Tel: 0845 230 5050 www.ukmail.biz
Zip Mail Limited	Nationwide business to business mail service	Tel: 020 7405 7547 www.zip-mail.co.uk

Although these details were correct at April 2007, the UK postal market is developing and these companies will continue to innovate and develop their services. For the most up-to-date information, contact the relevant companies.



Post offices

A pivotal year for the post office network, with welcome government action, but continuing uncertainty on many services' long-term future.

Consultation

Postwatch has been pressing the government for several years to address the financial difficulties the rural post office network is experiencing. With 90 per cent of rural post offices failing to make a profit, and closures still occurring despite government investment, it is clear action needs to be taken.

Much better that rationalisation is planned than the alternative of a constant 'drip' of ad-hoc unplanned closures.

We therefore welcomed the government's consultation on post offices, published in December. Its key proposals were:

- A maximum of 2,500 compensated closures, in both rural and urban areas.
- Putting in place minimum criteria for customer access to the network.
- 28 months compensation for subpostmasters leaving the business.
- The creation of up to 500 new 'outreach' services (for example mobile offices).
- A continuation of the £150 million annual funding until 2011.

Reaction

Our response to the government's consultation raised a number of concerns about the proposals, including:

- The government acknowledged post offices fulfil a 'social role' but failed to articulate the nature and extent of this role.
- The proposed access criteria were ambiguous, and held the potential for individual communities suffering a disproportionate number of closures whilst nationally the criteria were met.
- The 18-month timescale for the restructuring programme was too short. 'Urban Reinvention', Post Office Ltd's previous closure exercise, illustrated the need for a considered, unhurried programme with meaningful local consultation.
- The role earmarked for Postwatch was unsatisfactory. We argued we should have greater local involvement in assessing the impact of post office closure proposals.

Next steps

As the year ended, we were awaiting the government's decision document. How closures are decided, and how communities have a say in these proposals, is important, and we worked with Post Office Ltd in devising the outline of a programme which we feel will adopt a more inclusive and customer-focused approach than the previous closure exercise.

Closures are expected to start towards the end of 2007, before which we anticipate Post Office Ltd will publish a timetable of when proposals will be brought forward in areas throughout the UK. Postwatch will work to raise awareness of the closure programme, help Post Office Ltd in developing proposals, evaluate these proposals, and canvass opinions among affected communities to ensure customer needs are taken into account when changes occur at a local level.



Longer term

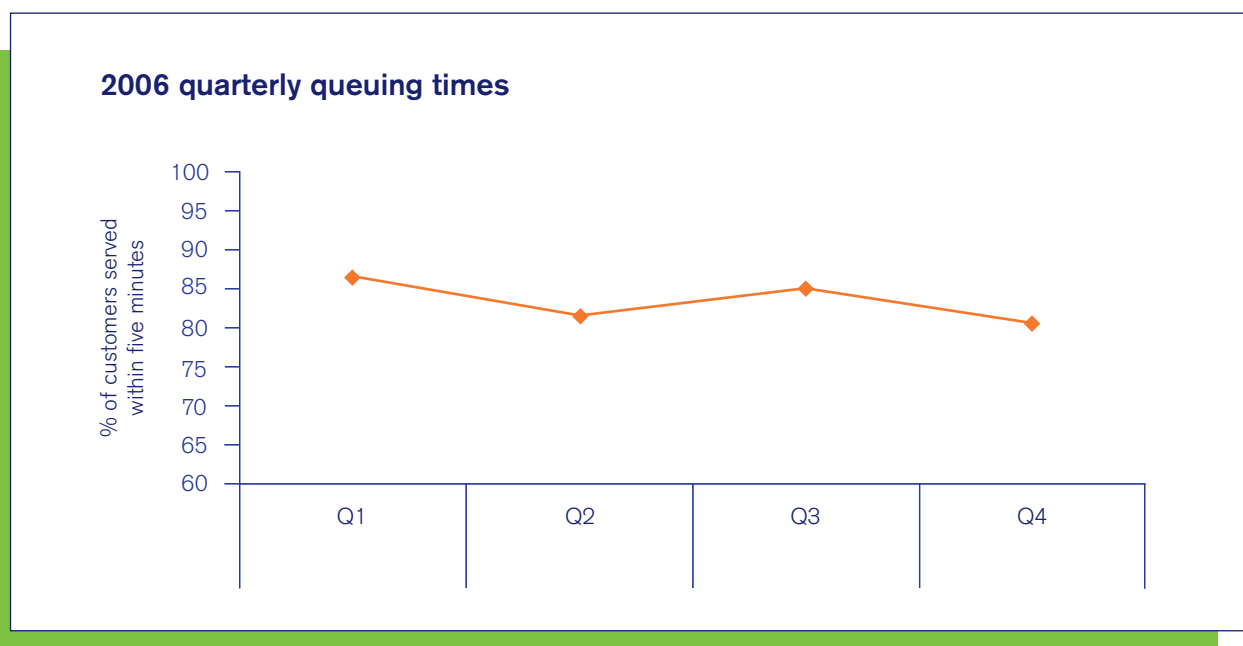
Providing the approach to the restructuring exercise is one that takes account of customers' current and future needs. We are confident that this work will help to address some of the difficulties in the network.

Of course, at this stage it remains unclear to what extent the exercise will help alleviate the network's considerable financial problems. Fundamentally, however, many post offices will continue to require government support. Not only in terms of ongoing financial assistance, but also through government – both local and central – adopting a joined-up, creative approach to supporting the network, for example, by considering which of their services and products they could offer through the post office network.

Queuing

An important part of Postwatch's work is monitoring the effectiveness of Post Office Ltd's queue management, at local and national level. Post Office Ltd provides Postwatch with a national monthly report that outlines average queue duration by post office type. Our regional offices complement this information by investigating queuing issues at individual branches.

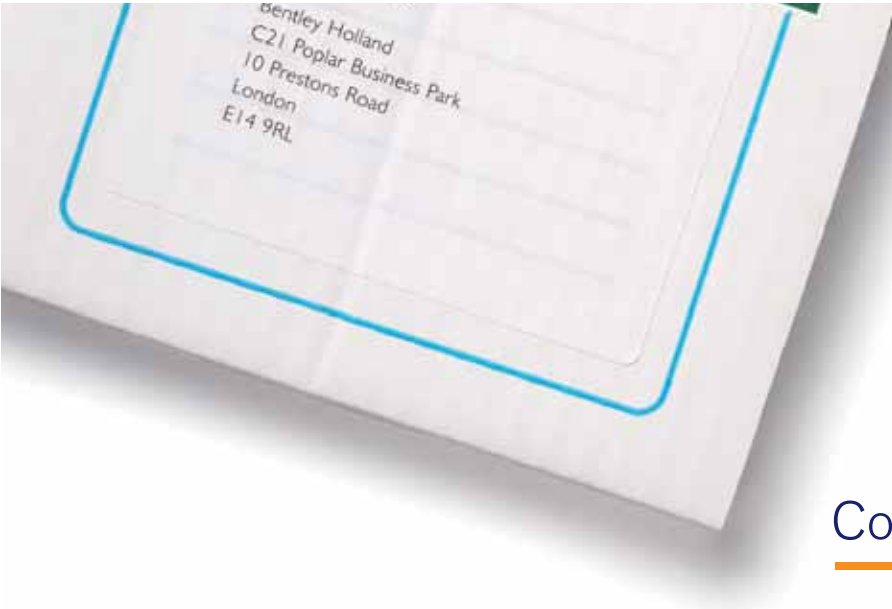
The graph below shows the percentage of customers who were served within five minutes of joining a post office queue, by quarter throughout 2006. The performance remained fairly consistent throughout the year. The decline in quarter four can be attributed to the peak Christmas posting period and the impact of Pricing in Proportion's introduction.



Franchised and crown offices

Queuing is, however, only one aspect of the quality of service at post offices that we investigate. During the year, Postwatch researched other important aspects of the customer experience, such as facilities for disabled individuals and the service given by customer advisers. In particular, we examined whether there were disparities in the quality of service between crown offices – those that Post Office Ltd own and manage – and franchised branches.

Our work showed that crown offices offer better facilities, particularly with regard to individuals with disabilities or who use wheelchairs. Furthermore, we found that the quality of advice given by crown office counter staff is better overall. Conversely, we found that customers at crown offices queue for almost twice the duration as those at franchised offices. We used these findings to work with Post Office Ltd on identifying issues, for both franchised and crown offices, that could be addressed to improve the customer experience at these needed and valued branches.



Collections and deliveries

Reliable, regular collections and deliveries are the cornerstone of a universal postal service. Where problems occur, we investigate and press Royal Mail for improvements.

Final collection times

For over two years Royal Mail has brought forward post box final collection times. While many of these changes are uncontroversial, in some instances final collection times have been brought forward by as much as seven hours. Furthermore, many of these changes have taken place in villages, where there is only one collection point.

In total, Royal Mail has made approximately 6,000 such alterations in the past two years. As well as questioning some of these changes locally, Postwatch has pressed Postcomm to take action on this issue.

We therefore welcomed the revision to Royal Mail's licence in May 2006, which required the company to **inform** Postwatch and Postcomm of any changes to its collection and delivery time specifications. This is a welcome first step. However, we want Postcomm to go further and will be working in the year ahead for a requirement that Royal Mail **consults** both Postwatch and Postcomm on any changes to these specifications.

Tabs

Postwatch has campaigned for the reinstatement of collection tabs since Royal Mail removed them in 2002. Tabs are needed by customers as they display whether the day's final collection has been made from a post box. Although Royal Mail agreed in 2004 to reintroduce them, our surveys since that time have revealed serious failings in the company fulfilling this commitment.

This year showed welcome progress. In September, we visited over 1,600 post boxes, and found 76 per cent were displaying correct tabs – still too few, but a significant improvement on the previous year's tally of 51 per cent. Postwatch regional offices will continue working to ensure Royal Mail honours its commitment to reinstate tabs. Likewise, we encourage customers who notice a post box with a tab holder but not displaying the correct tab to contact Royal Mail's customer service helpline 08457 740 740.



Access to post boxes

It is important that customers have reasonable access to postal collection points. We believe action is necessary to help rural customers in this respect. During the year, Postwatch pressed Postcomm to add a requirement to Condition 3 of Royal Mail's licence to ensure the provision of adequate access to collection points in rural area. Additionally, Postwatch wants an associated Code of Practice to be developed to govern overall access provision, which should include not only post boxes but also post offices.

Caller offices

Caller offices are important as they allow customers to collect mail that could not be delivered to their address. Our qualitative research has showed high customer satisfaction with caller offices, including offices' opening times.

However, since this research was undertaken we have received various customer concerns. Of principal concern over the past year have been changes to opening times at some caller offices. These have been undertaken with little notification and no consultation with affected communities.

When such alterations occur that adversely affect the customer experience, we want Royal Mail to communicate effectively to customers these changes prior to their implementation and the reasons for such alterations. We have been disappointed that Royal Mail has failed to do this and have campaigned locally against some changes as a result. We will continue to press Royal Mail, both on the rationale for changes, and how customers are informed.



Pricing in Proportion (PiP)

On 21st August 2006, Royal Mail introduced 'PiP', a change in the way the company charges for letters and packets to take account of the size and thickness, as well as the weight, of the item to be posted.

Customer awareness

In advance of PiP's introduction, we helped ensure customers were aware of this major change and its implications. As well as undertaking numerous regional events, specifically targeting small businesses, we also worked with Royal Mail in giving input to the company's own communication campaign. Our research showed that, at the time of PiP's introduction, customer awareness levels of the change were high – 84 per cent of customers asked in October said they knew of the changes.

Post office problems

In order to assess the impact PiP was having at post offices, we also carried out mystery shopping research in October, which involved testing staff awareness and expertise of PiP. The results gave cause for concern: of the 1,080 transactions we undertook, 12 per cent of the items were sent with the incorrect postage. We used these results to press for further training for post office staff, particularly in advance of the peak Christmas posting period, when many customers relied on post office staff for guidance.

Next steps

Despite these post office difficulties, overall Royal Mail worked hard to ensure that customers were aware and understood the changes. PiP's introduction, however, is not the end of this challenge. There remain issues which Postwatch will continue to work on:

- Royal Mail, sensibly, temporarily suspended surcharging while customers adapted to PiP. In March 2007, this amnesty ended, after surcharge levels had returned to pre-PiP levels. Surcharge levels are an important indication of customer understanding of the new pricing structure, and Postwatch requested Postcomm to monitor this matter.
- As the year ended, Postcomm began consulting on Royal Mail's application to extend PiP to Packetpost Returns, (a service that allows customers to return packets with the postage paid by the original sender). It is likely that Royal Mail will seek to apply the PiP framework to other areas, for example international mail and its Special Delivery products. We will give our comment to Postcomm on the matter.



Zonal pricing

In July 2006, Royal Mail applied to Postcomm to introduce a zonal pricing structure for certain bulk mail products.

Cost-reflective

As with PiP, Royal Mail argues that zonal pricing would help make its prices more cost-reflective. An amended submission was made to Postcomm by Royal Mail in February 2007, which received criticism as it included a proposal for the London zone to incur a surcharge, rather than a discount, as was proposed in the original submission.

Postwatch expressed concern that zonal pricing could adversely affect mail recipients in particular parts of the UK. Under Royal Mail's proposal, there is a risk that bulk mailers might reduce mailings to rural areas and all or parts of London.

This risk would be exacerbated by high surcharge levels. Whilst the surcharge for London is proposed to start at a modest 2.5 per cent, Royal Mail estimates that to be cost-reflective it would need to rise to 12 per cent. Likewise, rural area surcharges would start at 4.8 per cent, but 11 per cent is the cost-reflective point – and therefore the company's likely long-term target.

Such structural changes and price hikes risk being unpopular with mail recipients and bulk mailers alike, with the overall potential effect being falling mail volumes. As the year ended, Postcomm began consulting on the proposal. This looks set to be a major area of work in the year ahead. As well as the technical detail (similarly to PiP) some of Postwatch's key concerns will focus on transparency and customer understanding of the proposals and the potential impact of zonal pricing on the competitive market.



How Royal Mail's proposals would work

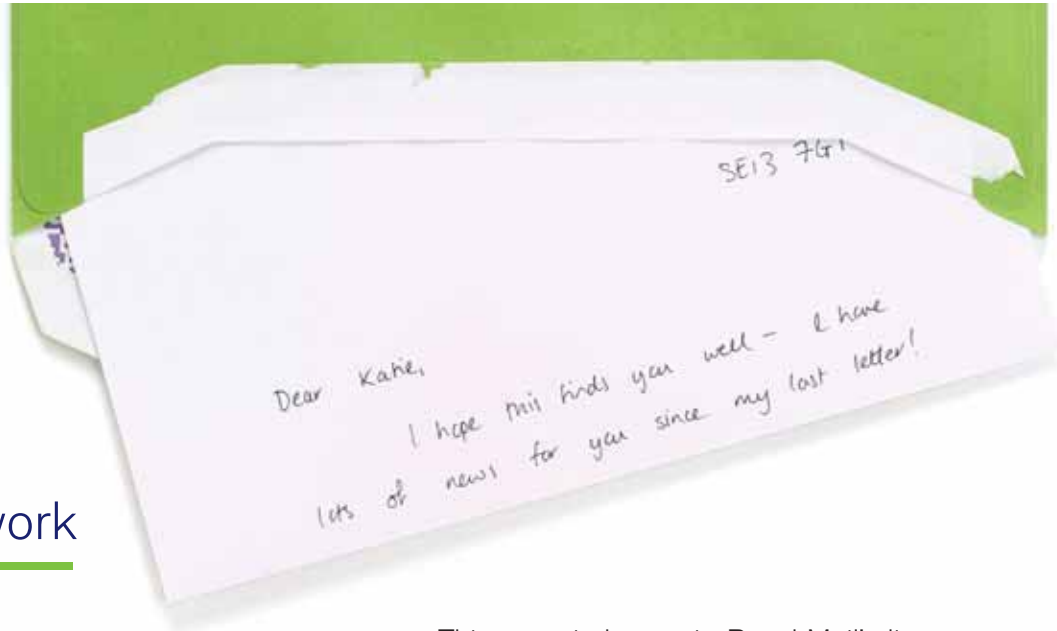
Royal Mail wants to introduce this new pricing structure for Mailsort products, Presstream and Walksort.

Royal Mail proposes the criteria below to determine its zones:

Zone	Name	Business density	Delivery point density
London	Greater London	Not applicable	Not applicable
A	Business District	Greater than 10%	Greater than 500 per km ²
B	High Density	Not applicable	Greater than 1,000 per km ²
C	Average Density	Not applicable	Greater than 100 per km ² and less than or equal to 1,000 per km ²
D	Low Density	Not applicable	Less than/equal to 100 per km ²

Royal Mail proposes these price differences for each zone:

Greater London	Business district	High density	Average density	Low density
+2.5%	-4.9%	-2.0%	-1.7%	+4.8%



Further work

Compensation

An important consultation to which Postwatch contributed during the year was on Royal Mail's compensation schemes. The current schemes need changing: they are complicated, at times illogical, and customers suffer from not having adequate information on what they are entitled to.

Our contribution emphasised straightforward measures that would improve both Royal Mail's service and customers' perceptions of the company. For example, we suggested that when a problem occurs, customers should be reimbursed for the postage paid as well as given the appropriate compensation. Additionally, Royal Mail should publish one easy-to-understand leaflet on compensation and deliver a copy to every address in the UK, as well as making it available at points of sale.

Non-price terms

Condition 21 of Royal Mail's licence requires that any application made by the company to Postcomm to make changes to non-price terms, can be accompanied by a Statement of Agreement from Postwatch.

This recent change to Royal Mail's licence has helped empower postal customers: when such an application is made by Royal Mail, Postwatch briefs potentially affected parties and canvasses their views. This helps inform our opinion on whether or not to issue a Statement of Agreement. During the year we issued two such statements – for applications for changes to the documentation requirement for PPI mail and also Minimum Order Values for mailers.

International work and the European directive

Postwatch supports the rapid and complete liberalisation of the European postal market. We worked with partners throughout Europe to ensure the consumer voice is heard in debates to introduce full market opening from 2009.

We also work closely with European partners through membership of several technical committees and working groups. For example, we are a member of the EU Technical Committee for Postal Services, which works to encourage voluntary harmonisation across European postal regimes.



Research

In order to gather evidence and help formulate our policies, decisions and priorities, Postwatch organises, commissions and conducts research on a wide range of postal service issues.

Our policy team undertakes national research, and our regional offices carry out research specific to their areas. Below are some examples of the national work we completed throughout the year. All research reports are available on our website.

Pricing in Proportion

It was essential Postwatch assessed both how customers reacted to PiP (and Royal Mail's associated communications literature), and post offices' progress in adapting to the new system.

Whilst the research showed that customer awareness was high and that some of Royal Mail's literature was particularly effective, it also revealed problems in the post office selling process and the clear need for post offices to redouble their efforts in training staff about PiP and its implications for customers.

Rural services

To inform the post office restructuring process, the government funded Post Office Ltd to run pilots in rural areas which tested innovative means of delivering services, such as mobile post offices and home delivery.

Postwatch undertook research to better understand customers' experiences of using these pilot services. This work came at a critical time, as it coincided with the government bringing forward its proposals on the future of the post office network. The findings, which included strong support among customers for these innovative services, were therefore important in helping to formulate both our view and our stakeholders' opinions on the desirability of these services.

Customer views on post offices

To inform our response to the government's consultation on the post office network, Postwatch commissioned research that explored customer attitudes to post offices.

The findings were important in contributing to our consultation response. We were able to cite high levels of support for continuing public investment in the network, the particular importance of post offices to remote rural communities and also evaluate the government's proposed access criteria against customers' responses.

Equitable access

To complement our other research on post offices, we also commissioned a study which explored how customers are affected by changes in post office provision.

We constructed a model for equitable post office provision and assessed how the needs of vulnerable customers should continue to be met. The findings helped to inform Postwatch's response to the government's consultation.

The principal conclusion was that any significant network change, particularly in rural areas, must be undertaken on the basis of a detailed evaluation of local service delivery options, undertaken in consultation with affected communities, local authorities and other stakeholders. Several other key findings were that a minimum range of services – including banking, mailing services and benefits payments – should be available through all outlets; and that at the UK level, at least 99 per cent of homes should be within 4km of a counter service offering the 'core' range of services for at least seven hours each week.



Complaints

When any postal operator responds to complainants, it should inform them about Postwatch and how to contact us. Customers with a complaint about any aspect of their postal service and who have already complained to the appropriate operator, can contact us for help.

Call centre

We have a dedicated call centre in Belfast that handles complaints and enquiries. During 2006-2007, 5,507 of the 11,665 complaints we received were by telephone. Our call centre received a total of 98,665 calls last year – an average of 1,897 per week. 85 per cent of calls were answered within 15 seconds. Additionally, during the year we introduced an Interactive Voice Response Service.



Reducing complaint volumes

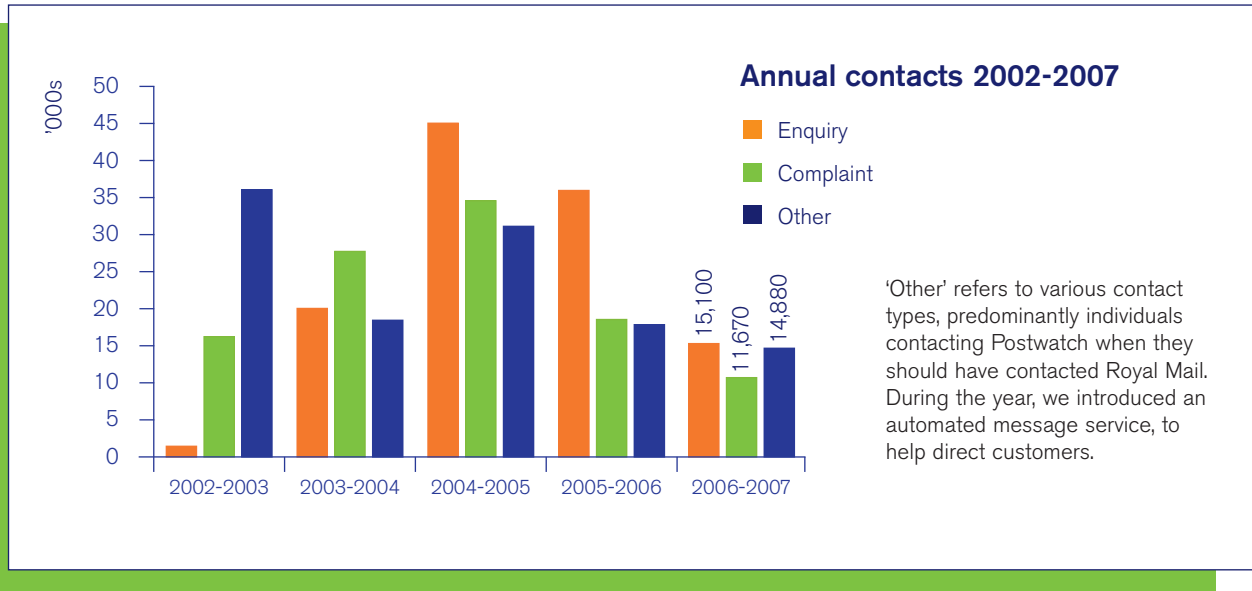
Despite major developments such as PiP and the government's announcement on post office closures, the overall number of complaints we received during the year fell, for the second successive year.

Several factors help explain falling complaint levels. Firstly, Royal Mail's improving service should mean more satisfied customers. Secondly, Royal Mail should treat its customers well when something goes wrong. Working with Royal Mail to improve both these service areas is central to the work Postwatch undertakes and we are pleased that the results illustrate that customers are receiving an improving service.

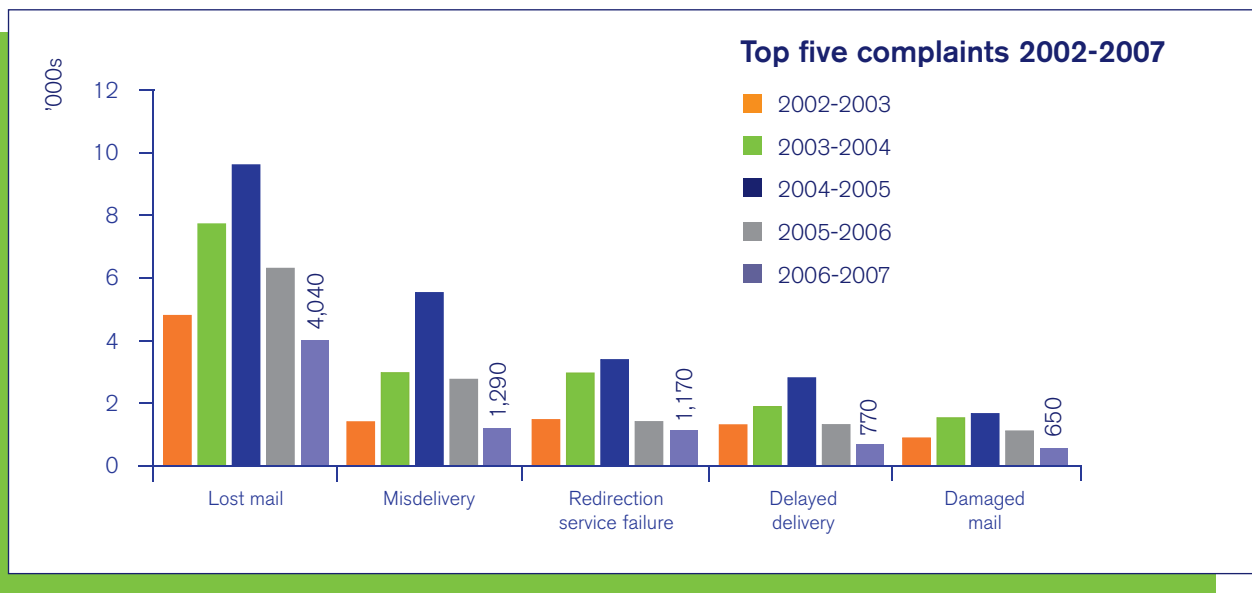
Additionally, the 're-charge' agreement between Postwatch and Royal Mail continues to assist in helping customers. This agreement was introduced in 2005 and involves Royal Mail paying Postwatch directly and in proportion to the number of complaints we receive. Royal Mail therefore has the incentive to 'get it right first time' when handling customer complaints.

Handling complaints

Approximately 90 per cent of the complaints we handle are from domestic customers. The number of complaints, enquiries and other contacts we have handled for each of the past five years is shown in the graph below.



The total number of complaints for 2006-2007 was 11,670. The graph below shows that the most common subjects about which customers complain has remained consistent over the past five years. Totals for the past year are given on the graph.





Why do customers complain?

Customers complain to postal companies when they are not satisfied with the service they have received. If they are dissatisfied with the outcome of an initial complaint, they then raise the issue with Postwatch. The table below gives the main reasons why customers take that next step and contact Postwatch.

Classification	%
Inadequate/inaccurate response	62
Failure to respond to customer	16
Inadequate redress offered	10
Attitude of staff	3
Failure to log as complaint/ provide reference number	2
Other	7

What do we achieve for customers?

Often, customers simply want an apology or an explanation from the postal operator for the service failure. In other cases, however, customers feel they should receive compensation. Over the past five years, Postwatch has secured approximately £1,460,000 in compensation and goodwill payments for customers. The table below gives year-on-year details of payment totals.

2002-2003	£319,606
2003-2004	£283,010
2004-2005	£314,748
2005-2006	£347,582
2006-2007	£192,072



Measuring our own performance

Postwatch sets internal performance measures to help ensure we meet our objectives. These measures include setting targets against our activities, and the outcomes expected from these activities. We then assess our performance against these measures.

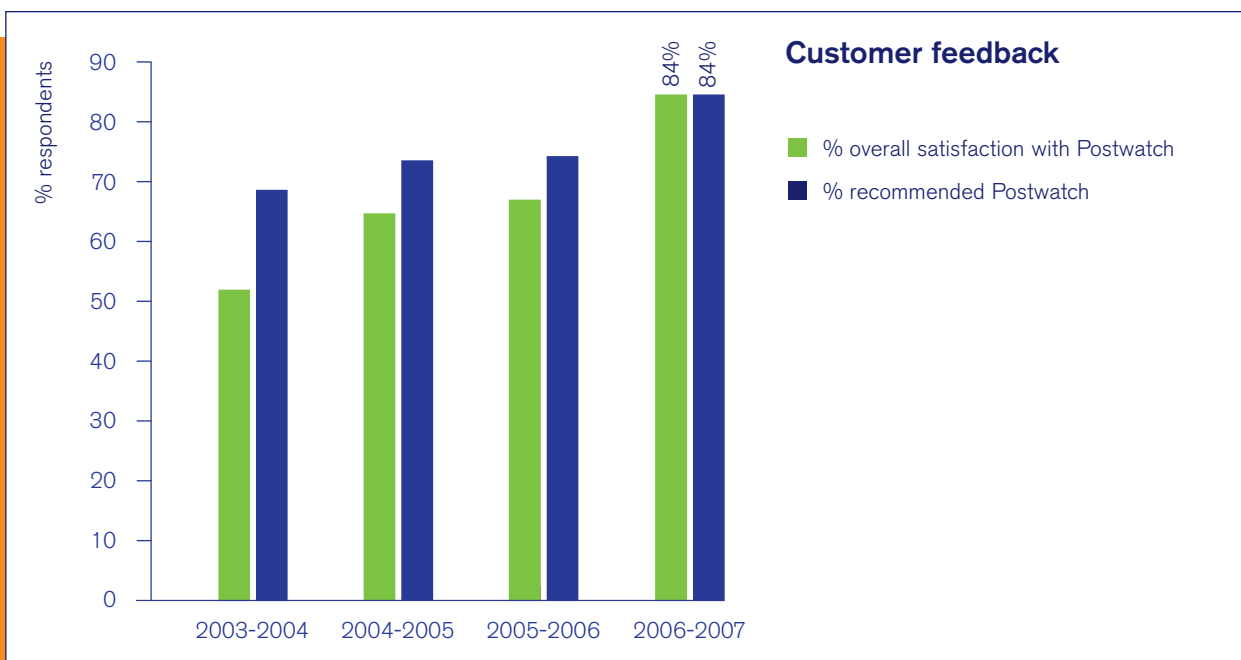
In addition, our annual customer survey helps us monitor the quality of our work. This year we sent 500 questionnaires to randomly selected complainants, asking them to rate Postwatch's performance in handling their case. 260 completed forms were returned.

Survey results

The graph below shows several key results – on overall satisfaction with our performance, and whether the respondent would

recommend Postwatch. As the graph shows, we have improved for both in each of the past four years.

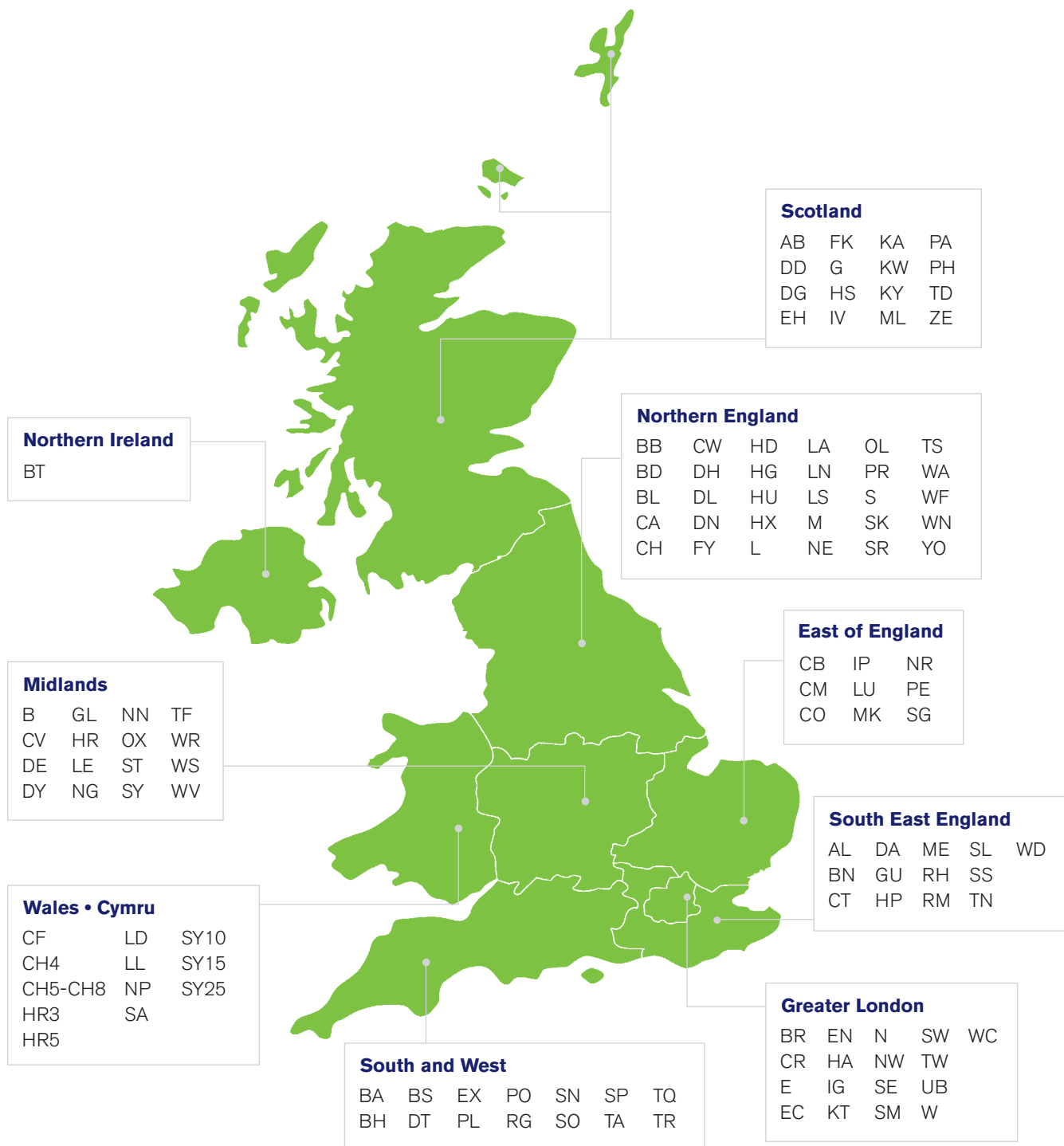
It is worth bearing in mind that all respondents were complainants, meaning that they had raised their postal concern with both a postal operator (usually Royal Mail) and Postwatch. They were all therefore, to differing degrees, dissatisfied postal customers.



Our regions

Our regional presence ensures that, throughout the UK, postal customers' interests and needs have a strong voice, and that awareness and understanding of local and regional issues is uppermost in our minds when working on behalf of customers. The following pages provide examples of the work Postwatch undertakes regionally.

The map below shows the areas and the postcodes covered by each Postwatch region.



Postwatch East

Chair **Dr Charles Winstanley TD, JP, DL**



	2006-2007
Estimated population	5 million
Complaints received	896
Compensation/goodwill payments	£15,400

Examining delivery consistency

Following Royal Mail's introduction of Single Daily Delivery in 2004, Postwatch research revealed that customers are generally satisfied to receive their mail later than early morning, provided they can rely on the delivery time to be consistent.

Several years on from Single Daily Delivery's introduction, Postwatch East considered it would be an appropriate time to examine the consistency of delivery times across the region. We worked with 26 different local organisations across the region to recruit 245 volunteers throughout all postcode areas in Eastern England, and asked participants to monitor their mail delivery times over a two week period and report back on their findings.

The results gave a picture of significantly varying service levels throughout Eastern England:

- 40 per cent of respondents in rural areas experienced inconsistent delivery times, compared with 20 per cent of respondents in urban areas.
- 26 per cent of respondents consistently received their mail within an hour each day.
- 30 per cent of customers experienced inconsistent daily delivery times of over two hours variance, and seven per cent

received deliveries across a period that exceeded four hours.

- Customers in the PE and CB postcode areas experienced the greatest inconsistency in mail delivery times.

Providing a reliable, consistent delivery service should not just be about ensuring mail is delivered on the correct day. An acceptable level of service also means customers should receive deliveries at a consistent time each day, regardless of where they live. The results of our research therefore gave cause for concern. Nearly one in every three customers having a 'delivery window' of greater than two hours is clearly unsatisfactory, and may have significant implications for households and businesses alike.

We shared our results with Royal Mail, and pressed the company to address the problems revealed by our survey, with priority given to the worst affected areas. We also publicised the results in order to encourage customers who were likewise receiving an unsatisfactory delivery service to raise this issue with Royal Mail. We will continue to work with our regional stakeholders and customers to monitor this important matter.

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Postwatch Greater London

Chair **Roger Darlington**



	2006-2007
Estimated population	7.4 million
Complaints received	2,022
Compensation/goodwill payments	£38,800

Tackling local postal problems

Analysing complaints data allows us to identify wider potential problems, both in terms of shortcomings with particular products, and also establishing geographic areas that are experiencing postal problems.

When problem areas are identified, our regional presence allows us to act locally and effect real change for customers. Postwatch Greater London monitors complaints information to ensure we are aware of local difficulties. When these are established, we raise awareness about the problems and press Royal Mail to act.

An example of this is the work we undertook during the year in Kentish Town, NW5. Several years ago, a resident of the area contacted Postwatch Greater London to complain that he frequently received mail intended for other nearby addresses. In particular, the customer received letters for houses with the same number as his, but located in neighbouring streets. While this was annoying and inconvenient in itself, of greater concern was that much of the customer's own mail was failing to arrive, and presumably being delivered to neighbours.

The customer made a series of complaints to Royal Mail, and on each occasion was given the same response: the delivery officer had been spoken to and special instructions given, and the delivery office manager would check the customer's mail daily.

Despite these assurances, and the continuing complaints, there was no sustained improvement, and problems persisted. In 2006, Postwatch Greater London decided to carry out a survey in the street where the customer lives, and those nearby.

Of the 300 questionnaires dispatched, we received over 60 responses, and respondents were nearly unanimous in stating they regularly experienced similar delivery problems. The results allowed us to demonstrate to Royal Mail the persistent postal difficulties customers were experiencing, and press for urgent action.

Royal Mail accepted that they had failed to respond adequately to repeated complaints or to identify a wider problem, and set out the measures they were taking to address the problem. By the end of the year, the problem appeared to have finally been resolved. However, this is not necessarily the end of the issue: Postwatch Greater London will continue to monitor complaint levels and take action if required.

Postwatch Midlands

Chair **Najma Hafeez**



	2006-2007
Estimated population	10.7 million
Complaints received	1,635
Compensation/goodwill payments	£31,000

Franchised post offices

The franchising of a crown post office can be controversial with staff and customers alike. Nonetheless, with crown offices making considerable losses, Postwatch understands the need to make changes to the network. Our focus is that where franchises occur, customer service does not suffer.

Postwatch Midlands has prioritised monitoring these changes to the network, assessing the local impact on customers, and raising the issue with Post Office Ltd when we identify problems. Working locally on these issues allows us to press for improvements that benefit customers not only within the region, but also raises concerns that apply more widely to the post office network.

During the year, we visited and assessed customer service at 16 branches that had been converted or relocated within the previous 12 months. Comparisons of quality of service were made by drawing on data from previous visits to the original locations. Our findings revealed a mixed picture for customers: while five offices showed considerable improvement in customer service, another five failed to display an adequate standard of service.

There were two main reasons for these service shortcomings: insufficient counter positions open, and a failure by the franchisees to carry out necessary refurbishment. In particular we had concerns about three offices – Wolverhampton, Rugby and Northampton – all of which were run by one particular franchisee. The Wolverhampton branch, in particular, was of considerable concern. Customers had alerted us to the failings of this branch, which was franchised in June 2005 and in which, despite several assurances from Post Office Ltd, the promised improvements to the interior and action to reduce queues had failed to take place.

After we had raised these problems, Post Office Ltd agreed to put in place a schedule of works for several franchised branches, including Wolverhampton, which will undergo refurbishment and be monitored regularly. Redevelopment of Northampton and Rugby offices is planned for the coming year, and we have pressed for more effective maintenance of the interior of the premises.

We will continue to monitor these offices and all other franchised branches in our region to ensure that customer service does not suffer when such changes occur.

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Chair **Judith Donovan CBE**



	2006-2007
Estimated population	14.5 million
Complaints received	2,362
Compensation/goodwill payments	£35,400

Helping older customers

To fully understand the needs of various postal customers, it is important that Postwatch not only uses complaints data, but also works regionally with organisations and community groups to learn – and act on – the views of particular vulnerable customers.

During the year, Postwatch North prioritised working with elderly customers to ensure that, during a period of significant upheaval in the postal industry and changes to the way many services are delivered, the needs of these individuals continue to be met. As part of this activity, we worked with Age Concern and local older people's forums to canvass members' views on a range of issues, focussing on IT, PiP and post offices.

We sent out 2,000 questionnaires. Some of the key findings were:

- 50 per cent of respondents use a post office at least once a week, with the most frequently used services being buying stamps, sending mail, and bill payment.
- 57 per cent of elderly people are without access to a computer, and only 16 per cent of respondents had ever bought goods or services online.

- 60 per cent stated they hadn't noticed any change in the postal pricing system or had used it and found it 'fine'.
- Only 14 per cent of respondents stated they use a post office to access cash.

These results have implications across a range of areas. For example, while elderly people currently make up a significant proportion of regular customers at post offices, they are less likely to buy products online. Furthermore, among the IT-literate elderly, there is nonetheless a stated resistance to buying services online. With sales of stamps and other services being introduced online in the past year, and with further branch closures in the near future, Post Office Ltd therefore faces a challenge to retain this large part of its customer base.

We used these results to draw attention to the importance of placing vulnerable customers' needs at the centre of postal changes – a particularly important issue, as post office closures and an expansion of alternative delivery methods will take place in the year ahead. Such service alterations, and the methods by which they are communicated, must be inclusive, and not alienate particular groups of customers. We will continue to work to ensure this is the case.

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Postwatch Northern Ireland

Chair **Dr Maureen Edmondson**

Estimated population

2006-2007

1.7 million

Complaints received

332

Compensation/goodwill payments

£6,900



Rural post office research

The network change programme will be Postwatch Northern Ireland's focus in the forthcoming year, as well as being an issue of great importance to postal customers across Northern Ireland. Through Urban Reinvention we gained valuable experience in understanding urban customers' needs, and during the past year we built on this, increasing our awareness of what rural communities need and expect from their post offices.

To that end, we commissioned Ipsos MORI to undertake a survey on attitudes towards post office issues, involving over 300 face-to-face interviews with a representative sample of adults in rural areas across Northern Ireland. The findings posed important questions for Post Office Ltd in advance of the company undertaking network restructuring.

Perhaps unsurprisingly, the overwhelming majority of interviewees stated that post offices are important to them, with over three-quarters rating them as very important. More revealing was the frequency of post office use: over 40 per cent of interviewees stated they use the post office at least twice a week, with one in ten using the service at least four times every week. This has implications for service delivery changes. For example, the appropriateness of replacing a traditional post

office with an outreach service must be viewed against a local population's shopping habits and needs. Whilst there are undoubtedly settlements where an outreach service will meet the needs of the local population, our research highlighted the fact that, equally, there are areas where this would not be satisfactory.

Similarly, the research illustrated the need for Post Office Ltd's outreach technology to be robust. Over one-third of interviewees stated they use post offices to withdraw money, with this rising to 58 per cent for over-55s. Although outreach services may serve a particular village for fewer hours every week, there should not be a diminution in the services offered. The technology must therefore be reliable and ensure that the many customers who use post offices to access cash can continue to do so.

The findings have been invaluable in building our understanding of rural needs, as well as raising awareness of these issues and forthcoming closures among our stakeholders. Together with other regional offices' complementary research, this work has ensured Postwatch Northern Ireland is fully prepared for a busy year ahead.

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Postwatch Scotland

Chair **Professor Alan Alexander FRSE**



	2006-2007
Estimated population	5.1 million
Complaints received	996
Compensation/goodwill payments	£10,300

Working for remote rural communities

Postwatch has a statutory duty to look after the interests of postal customers in rural areas. The future of post offices in the countryside is central to this work. In Scotland, this issue is particularly important, where two-thirds of the country's post offices are located rurally. Furthermore, many of these are in remote rural areas, where communities are often isolated, meaning customers have considerable reliance on local services.

Much of the previous research on this issue has focussed on post offices in England, many of which are located close to market towns. During the year, Postwatch Scotland commissioned research which aimed to complement this previous work by studying the role post offices play in remote Scottish communities. To underline the importance of this issue, several key organisations – the Scottish Executive, the Highland Council, Shetland Islands Council, and Highlands and Islands Enterprise – contributed both to funding and methodology.

Our research involved surveys and interviews in five remote areas, three of which were island communities. The research gave valuable insights, a fundamental one being

these services are needed, valued and used by residents and businesses in the affected communities. In Durness on Scotland's north coast, for example, 28 per cent of residents stated that they would leave the area if the post office closed.

The research also highlighted how disruptive closures may be. For example, the closure of the post office in North Ronaldsay, an Orkney community, would necessitate customers flying to Kirkwall to access their next nearest branch. Additionally, customers from all communities we visited view the government investment in the rural network as money well spent. By and large, these services need financial assistance, and the vast majority of businesses and residents believe this should continue.

The research also confirmed our belief that any network restructuring exercise should not adopt a top-down approach, and nor can these services' future be decided on commercial grounds. Every community our research examined had differing needs, driven by varying circumstances, including location, transport links and socio-economic factors. Decisions on the future of these services need to take into account local needs, and Postwatch Scotland will use this research to ensure this happens.

Postwatch South East

Chair **Dr David Bland OBE**

Estimated population
Complaints received
Compensation/goodwill payments

2006-2007

5.1 million
1,265
£22,800



Rural Alternatives Research

The rural post office network runs at a loss of some £4 million a week. Meeting both the need to reduce losses and to retain services in many rural areas requires innovative thinking and action.

By way of contributing to this important issue, and in anticipation of restructuring the post office network, during the year Postwatch South East commissioned Ipsos MORI to carry out research into customers' attitudes to alternative means of paying for and accessing postal services in the absence of a local post office.

The methodology was informed both by monitoring Post Office Ltd's product trials, and discussions we had held with manufacturers to determine what service delivery options the latest technology could offer. Ipsos MORI then took this information to four communities in the region, all currently with post offices, and conducted focus groups and in-depth interviews with residents and businesses.

The findings were interesting and instructive. While innovative delivery services understandably do not have the same emotional appeal as a local post office, the alternatives were nonetheless perceived to have benefits for customers.

The door-to-door service, for example, which has the potential to allow delivery officers to also collect mail and sell various products, was viewed as being particularly useful for housebound customers or those with disabilities. Likewise, some respondents thought postal kiosks could offer a faster service than at a post office counter, and had the advantage of flexibility – they could, for example, be located to allow 24-hour access.

A fundamental finding was that the range of different customer needs demands a locally focussed and customer-orientated approach to implementing network change in rural areas. Businesses, for example, may adapt easier to the potential IT-based alternatives, but for some individuals, these innovations are not user-friendly. If they are to be introduced, care needs to be taken how this happens, and what assistance the local community receives at the time.

We shared these results with our regional and national stakeholders, and will also use them to inform our assessment of Post Office Ltd's proposals during the network restructuring programme in the year ahead.

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Postwatch South and West

Chair **Christina Baron**



2006-2007

Estimated population

7.4 million

Complaints received

1,504

Compensation/goodwill payments

£21,400

Final collection times

Royal Mail is obliged to make one delivery and collection every working day. However, despite this duty being a cornerstone of the UK's postal service, there are no specific conditions set out on when these collections and deliveries should take place.

Royal Mail's decision to bring forward the final collection times of some post boxes does not therefore infringe its universal service obligation. It has been, however, a major concern for Postwatch South and West, and a focus of our activities over the past year.

The issue first arose in Sherford, Devon, when Royal Mail announced it would bring forward the village post box's final collection time from 15.30 to 09.45. Royal Mail has since proposed changes to over 6,500 final collection times throughout the UK – of which, approximately 2,600 have been in the South and West. A number of these changes have involved Royal Mail proposing later collection times, and some have only been minor alterations. However, numerous proposals have involved, as in Sherford, a dramatically earlier final collection time for a village's only postal collection point.

The upshot of this has been that some customers are receiving their daily delivery after the final collection has been made from a settlement's only post box. In effect this deprives affected customers of being able to post items by return. Whilst we understand Royal Mail needs to run its business efficiently, this must not be at the expense of customer service. One of our key concerns has therefore been the need to place an obligation on Royal Mail to allow customers a reasonable 'processing gap' between delivery and final collection.

Through roadshows, regional media, and working with stakeholders, Postwatch South and West campaigned against a number of these proposals, and encouraged customers to have their say, particularly in those cases where deliveries are occurring after final collections have been made.

As well as focussing on individual changes, our work also addressed the wider customer service issues, and helped lead to Postcomm issuing a consultation document during the year. We contributed our view, and hope Postcomm's deliberations will result in improvements to Royal Mail's customers. This issue will remain a focus for our work.

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Postwatch Wales

Chair **Eifion Pritchard QPM**

Estimated population
Complaints received
Compensation/goodwill payments

2006-2007

2.9 million
500
£9,100



Investigating pilots

Post Office Ltd has introduced four pilots of 'outreach' activity in Wales, which have tested different ways of delivering services into rural areas. Postwatch Wales welcomed these developments as a way of providing needed services in areas where 'traditional' post offices are not financially viable.

The different pilots consisted of a mobile post office, home delivery, and services provided in conjunction with other existing local services. With the government proposing to extend the use of these innovative means of delivery, it was vital these pilots were instructive in both informing Post Office Ltd about operational efficacy, and ensuring the company fully understood the customer response.

Postwatch Wales therefore made it a priority to investigate the customer impact – both for households and businesses – of these pilots. Our committee members and regional network of focus groups were important in ensuring we were able to comprehensively monitor these pilots, undertake fieldwork to test effectiveness and gauge customer reaction, and make recommendations for improvements to the services where appropriate.

These recommendations ranged from the reliability of the equipment, to vehicle design

and the need to address specific local requirements such as scheduling. We were encouraged that the pilots enjoyed high levels of support among affected communities.

The mobile service, in particular, was well received – understandable, as it allowed post office services to be reintroduced in villages where post offices had closed some time ago. Whilst some aspects of the pilots caused concern among customers, particularly with reference to the home delivery model, our monitoring role and ability to work closely with communities helped ensure these issues were raised with Post Office Ltd and rectified wherever possible.

This work also served as useful preparation in advance of our involvement in monitoring proposals in the forthcoming year's anticipated post office closure programme. Monitoring the pilots has helped Postwatch Wales to strengthen links to local communities, improve our on-the-ground effectiveness, inform us of what type of pilots work where and why, and also provide useful further experience in working with various individuals and organisations on this sensitive issue – all skills that will be needed and used in the year ahead.

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Postcode area performance

The table below gives the percentage of First Class stamped and metered mail posted within that area arriving the next working day. Royal Mail's national minimum target for next day delivery is 93 per cent. Asterisks denote areas that are not included in national Quality of Service figures because their geographical remoteness makes next day delivery difficult.

Postcode area	Percentage of First Class stamped and metered mail delivered the next working day		Postwatch region
	2005-2006	2006-2007	
Aberdeen AB	95.1	94.9	Scotland
Bath BA	92.6	94.6	South and West
Birmingham B	93.9	93.7	Midlands
Blackburn and Burnley BB	94.2	93.1	North
Bolton BL	95.2	92.7	North
Borders TD	94.1	93.4	Scotland
Bournemouth BH	95.6	93.5	South and West
Bradford BD	95.7	95.7	North
Brighton BN	95.2	93.9	South East
Bristol BS	92.4	94.2	South and West
Bromley BR	95.0	95.5	Greater London
Cambridge CB	94.5	93.8	East
Canterbury CT	95.6	95.4	South East
Cardiff CF	93.5	93.8	Wales
Carlisle CA	95.7	93.6	North
Chelmsford CM	93.8	94.0	East
Chester and Deeside CH	94.8	93.8	North/Wales
City of London EC	93.4	95.1	Greater London
Colchester CO	94.4	94.5	East
Coventry and Warwickshire CV	94.1	93.6	Midlands
Crewe CW	94.6	95.2	North
Croydon CR	94.3	95.0	Greater London
Darlington DL	94.4	94.1	North
Dartford DA	95.3	94.9	South East
Derby DE	94.8	96.1	Midlands
Doncaster DN	95.2	94.3	North
Dorchester DT	93.7	93.4	South and West
Dudley DY	94.2	94.5	Midlands
Dumfries DG	95.5	95.6	Scotland
Dundee DD	93.8	92.0	Scotland
Durham DH	93.5	94.4	North
Edinburgh EH	92.6	93.8	Scotland
Enfield EN	94.6	93.9	Greater London
Exeter EX	93.7	91.2	South and West

Postcode area	Percentage of First Class stamped and metered mail delivered the next working day		Postwatch region
	2005-2006	2006-2007	
Falkirk FK	94.2	92.9	Scotland
Fylde FY	94.0	93.9	North
Glasgow G	93.6	93.7	Scotland
Gloucester GL	93.2	93.7	Midlands
Guildford GU	94.8	93.9	South East
Halifax HX	93.4	94.9	North
Harrogate HG	93.3	93.4	North
Harrow HA	94.0	95.2	Greater London
Hebrides HS *	90.2	83.9	Scotland
Hemel Hempstead HP	94.1	94.7	South East
Hereford HR	94.1	94.3	Midlands/Wales
Huddersfield HD	94.8	95.7	North
Hull HU	95.8	95.4	North
Ilford IG	92.5	95.3	Greater London
Inverness IV	93.8	93.0	Scotland
Ipswich IP	95.4	95.7	East
Kilmarnock KA	94.8	94.4	Scotland
Kingston upon Thames KT	95.4	95.6	Greater London
Kirkcaldy KY	94.7	94.1	Scotland
Kirkwall KW *	90.4	86.3	Scotland
Lancaster LA	94.6	94.1	North
Leeds LS	94.7	95.0	North
Leicester LE	95.2	93.4	Midlands
Lerwick ZE *	89.9	40.2	Scotland
Lincoln LN	95.9	94.3	North
Liverpool L	93.4	93.4	North
Llandrindod Wells LD	93.4	92.9	Wales
London East E	89.4	93.5	Greater London
London North N	94.1	93.3	Greater London
London North West NW	93.7	93.4	Greater London
London South East SE	93.4	94.1	Greater London
London South West SW	92.2	93.8	Greater London
London West W	94.6	95.3	Greater London
London West Central WC	93.0	93.8	Greater London
Luton LU	94.4	94.9	East
Maidstone ME	93.6	94.7	South East
Manchester M	93.3	95.0	North
Milton Keynes MK	94.4	95.1	East
Motherwell ML	93.5	93.8	Scotland
Newcastle NE	94.6	94.5	North
Newport NP	93.1	94.1	Wales
North Wales LL	95.0	93.8	Wales
Northamptonshire NN	91.8	94.5	Midlands

* Not included in the national Quality of Service figure because geographical remoteness makes next day delivery difficult.

Postcode area	Percentage of First Class stamped and metered mail delivered the next working day		Postwatch region
	2005-2006	2006-2007	
Northern Ireland BT	91.1	92.9	Northern Ireland
Norwich NR	93.7	94.3	East
Nottingham NG	94.9	94.3	Midlands
Oldham OL	93.8	93.9	North
Oxford OX	93.6	93.9	Midlands
Paisley PA	94.6	91.9	Scotland
Perth PH	93.9	92.7	Scotland
Peterborough PE	93.4	93.0	East
Plymouth PL	93.8	92.2	South and West
Portsmouth PO	93.7	94.6	South and West
Preston PR	93.9	93.7	North
Reading RG	94.3	93.5	South and West
Redhill RH	94.7	95.1	South East
Romford RM	91.7	93.3	South East
Salisbury SP	94.7	93.7	South and West
Sheffield S	95.7	93.8	North
Shrewsbury and Mid Wales SY	95.5	94.4	Midlands/Wales
Slough SL	93.1	95.5	South East
Southampton SO	94.5	93.5	South and West
Southend-on-Sea SS	95.2	95.7	East
St Albans AL	94.6	95.6	South East
Stevenage SG	95.4	95.6	East
Stockport SK	93.8	94.2	North
Stoke-on-Trent ST	92.8	92.3	Midlands
Sunderland SR	96.1	92.9	North
Sutton SM	95.4	95.7	Greater London
Swansea SA	94.5	94.9	Wales
Swindon SN	94.6	95.3	South and West
Taunton TA	93.3	93.5	South and West
Teesside TS	93.8	93.5	North
Telford TF	95.1	95.1	Midlands
Tonbridge TN	95.8	93.6	South East
Torquay TQ	93.7	91.4	South and West
Truro TR	95.0	93.9	South and West
Twickenham TW	94.7	94.5	Greater London
Uxbridge UB	93.5	94.7	Greater London
Wakefield WF	93.9	94.8	North
Walsall WS	93.5	94.3	Midlands
Warrington WA	94.8	93.4	North
Watford WD	96.2	94.0	South East
Wigan WN	94.2	92.2	North
Wolverhampton WV	93.2	93.5	Midlands
Worcester WR	94.9	93.7	Midlands
York YO	94.3	94.6	North

Financial statements

for the year 1 April 2006 to 31 March 2007

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Accounting Officer's report

1. Format of annual accounts

These accounts have been prepared in a form directed by the Secretary of State for Trade and Industry with the approval of the Treasury in accordance with paragraphs 15-17 of Schedule 2 of the Postal Services Act 2000.

2. Statutory background

The Consumer Council for Postal Services (Postwatch) was established on 1 January 2001 under the Postal Services Act 2000. The Consumer Council is designated as an executive non-departmental public body (NDPB) and is funded through grant-in-aid from the Department of Trade and Industry (DTI). The cost is recouped by the Exchequer from the licence fees paid by operators of postal services.

3. History of the Council

The National Council operates through its nine committees covering the United Kingdom. There are committees for Scotland, Wales and Northern Ireland and six regions covering England.

The Council members are appointed by the Secretary of State for Trade and Industry and are generally appointed for a period of three years with an option of a further period of up to three years subject to a review of performance. Those appointed on 1 January 2007 were for a maximum of two years. The Regional Chairmen are also members of the National Council.

Council members during the year are (see pages 80 and 81 for further details):

- Millie Banerjee (Chair) CBE
- Dr Tom Begg OBE JP (Deputy Chair) Until 31 December 2006
- Professor David Croisdale-Appleby JP From 10 April 2006, appointed Deputy Chair 18 January 2007
- Judith Donovan CBE Appointed Deputy Chair 18 January 2007
- Professor Alan Alexander From 1 January 2007
- Moi Ali Until 31 December 2006
- Clara Arokiasamy Until 21 April 2006
- Christina Baron From 01 January 2007
- Dr David Bland OBE
- Sheila Button From 10 April 2006
- Helen Charlton
- Roger Darlington From 10 April 2006
- Dr Maureen Edmondson From 10 April 2006
- Najma Hafeez From 1 January 2007
- Elizabeth Hodder From 10 April 2006
- Charles Howeson Until 31 December 2006
- Eifion Pritchard QPM
- Nigel Walmsley From 10 April 2006
- Richard Ward Until 31 December 2006
- Dr Charles Winstanley TD, JP, DL

Management Board members during the year are (see page 53 for further details):

- Gregor McGregor (Chief Executive and Accounting Officer) Until 31 May 2006
- Dr Ian Leigh (Managing Director) Appointed Acting Accounting Officer and Chief Executive for the period 1 June 2006 to 24 October 2006
- Howard Webber Appointed Accounting Officer and Chief Executive from 25 October 2006
- Ian Fisher (Senior Director)
- Andy Frewin (Senior Director)
- Gillian Richmond (Senior Director) Until 9 April 2006

A copy of the Register of Interests of Council members can be obtained on request from Postwatch.

A copy of the Gifts and Hospitality Register will also be made available.

4. Operating review

Details of operations, purpose and performance are covered in detail on pages 2 to 30, with reports on regional activities on pages 31 to 40.

5. Research and development

These are covered on pages 25 and 26.

6. Policy for risk management

The Council is responsible for setting the tone and influencing the culture of risk management within Postwatch and for determining whether this is risk taking or risk averse and for what risks are and are not acceptable. The management have responsibility for day-to-day management of risk and report regularly to the Audit Committee who review and consider risk in its entirety.

7. Risk to future performance.

A Parliamentary Bill, the Consumers, Estate Agents and Redress Bill, is expected to be passed before summer recess (July 2007) to create a new cross-sector consumer representation body which will take on the role of consumer representation for postal services consumers. The Act also provides for the abolition of Postwatch on a date to be agreed.

It is highly probable that the Act will be passed in its current form and with closure of Postwatch to be agreed for a date on or after 31 March 2008. During the run down to closure there is the potential for the risks associated with Postwatch's ability to fulfil its role of postal services watchdog to increase significantly. Postwatch has identified several risks which come from a variety of sources and will take what mitigation it can, and will work closely with the DTI and other stakeholders to ensure that disruption to Postwatch's customers is minimised. During this period Postwatch will continue to monitor postal services taking appropriate action available to it and informing Ministers and other stakeholders should matters move outside its control.

There is a specific concern as to who takes over the management and running of the post office network restructuring programme should Postwatch be brought to an end before the programme is completed. The programme commenced in July 2007 and is planned to continue through to late 2008. Although funding has been agreed for Postwatch's activities there are issues, firstly, with the funding for the management and support services and, secondly, with who will perform these. Currently these services are provided by Postwatch with the programme also being reliant on the regional infrastructure of Postwatch and although the additional work and costs of staff forming the regional infrastructure are charged to the programme there are other costs and resources to keep the structure in place.

8. Post balance sheet events

As mentioned above, there is a Bill going through Parliament, the Consumers, Estate Agents and Redress Bill that is in its final stage and should receive Royal Assent before summer recess (July 2007). The effect of this act will be to abolish Postwatch, on a date to be agreed, and to establish a new cross-sector consumer representation body. We are unable at this point to estimate the cost of this closure to Postwatch as it will depend upon how many Postwatch staff are required by the new organisation and whether under TUPE all staff will be transferred to the new organisation for them to evaluate their needs and manage severances. There are significant property lease agreements which are expected to be transferred within government, subject to the landlord's agreement. The cost of ending finance and non property operating lease agreements is estimated at about £0.5 million.

The accounts were authorised for issue on 23 July 2007 by the Accounting Officer, Howard Webber.

* The DTI ceased to exist on 28th June 2007 and our sponsored body is now the Department of Business, Enterprise and Regulatory Reform (BERR). All references to DTI are equally relevant to BERR.

9. Better Payment Practice Code

Postwatch agrees to pay its suppliers in accordance with the Better Payment Practice Code unless other payment terms are agreed. The key principles are to settle the terms of payment with suppliers when agreeing the transaction; to settle disputes on invoices without delays; to ensure that suppliers are made aware of the terms of payment and to abide by the terms of payment. Excluding disputed items, 97 per cent of suppliers' invoices were paid within 30 days of the suppliers' invoice date. No interest was paid under the Late Payment of the Commercial Debts (Interest) Act 1998.

10. Pension liabilities

See note 1.9 (Accounting policies and notes to the financial statements) and the Remuneration report.

11. Auditors

The Comptroller and Auditor General (C & AG) has been appointed under statute to audit the financial statements of Postwatch, and reports to Parliament. The work is conducted by the C & AG's staff in the National Audit Office (NAO).

- As far as the Accounting Officer is aware there is no relevant audit information of which the entity's auditors are unaware, and
- The Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the entity's auditors are aware of this information.

The audit fee for providing audit services was £31,000. There was no other auditor remuneration (actual or notional).

The primary role of Internal Audit is to provide the Accounting Officer and the Audit Committee, with an objective evaluation of, and opinions on, the effectiveness of Postwatch arrangements for risk management, control and governance. An annual plan was endorsed by the Audit Committee for 2006-2007.

Recommendations arising from audits undertaken have been endorsed by the Audit Committee and are being addressed by Postwatch management and implemented within the existing system of internal control. The implementation of recommendations is monitored by Internal Audit and reported to the Audit Committee.



Howard Webber

Chief Executive and Accounting Officer

18 July 2007

Management commentary

1. Principal activities and key performance indicators of Postwatch

Postwatch's aim is to protect, promote and develop the interests of all customers of postal services in the United Kingdom. Details of its activities and how it undertakes them are contained on pages 2 to 40. Details of its objectives and strategies for achieving them are contained in its Corporate Plan for 2005-2008.

Its key performance indicators are:

- contributing to the development of an effective postal service market by representing the interests of consumers and effectively, comprehensively and promptly commenting on proposals and issues affecting them
- pursuing complaints made against postal operators, efficiently and effectively measured by number, quality of response and time
- informing consumers about the state of and developments in the postal services market including undertaking research and publicising the outcome
- protecting the interests of all consumers including individuals on low incomes, elderly people, disabled people and chronically sick and those in urban deprived and rural areas
- managing Postwatch effectively.

Details of operations, purpose and performance are covered in detail on pages 2 to 30, with reports on regional performance on pages 31 to 40.

2. Financial review

The net result for 2006-2007 was an expenditure of £8,893k (2005-2006 = £10,228k) compared to a budget of £10,077k (2005-2006 = £9,932k), a gross underspend of £1,184k (2005-2006 = £296k). £186k of the underspend was committed to cover deficits prior to the 2005-2006 year leaving a truer net underspend for the year of £998k (2005-2006 = £296k).

In addition further funding of £303k was provided during the year to clear the cash based deficit for 2005-2006.

Capital expenditure was £170k compared to a budget of £175k.

Cash flow improved significantly during the year mainly as a result of restructuring and as a result £400k of approved funding was not drawn down from the DTI leaving a net current cash underspend of £588k (£998k plus £5k underspend on capital, less £15k non cash underspend, less £400k not drawn down) which will be used to reduce 2007-2008 funding requirements. A further £99k of realised revaluation gains will be added to this to provide a gross funding reduction of £1,087k to Royal Mail, who provide funding under the licensing agreement.

Postwatch has commitments for the following year for operating leases for property and equipment of £830k (see note 13 to the accounts). Postwatch also has obligations under finance leases of £538k, of which £423k represents the capital element with £115k the interest component.

3. Future developments

See notes 7 and 8 in the Director's report. There is a Bill going through Parliament, the Consumers, Estate Agents and Redress Bill that will abolish Postwatch and create a cross-sector consumer body, which will assume the role of representing postal services consumers. The date for this to happen is unclear but could be as early as 31 March 2008.

The effects on our current staff cannot be quantified as some will be required to transfer to the new body but at this stage we are unable to say how many will be transferred and how many will lose their jobs. Equally we have various estimates for the cost of closure and transition to the new body which we cannot be specific about without further decisions and stages being completed.

Postwatch is working closely with DTI and other stakeholders to influence strategy and aid a smooth and efficient transformation to the proposed new structure for consumer representation. Postwatch will also consult with staff and advise of changes as they become evident and treat all staff fairly and equitably during any transition.

4. Risk to future performance

The risk to future performance is with risks in managing the run down to closure effectively whilst at the same time endeavouring to offer the same high levels of service we currently provide to postal service customers. The risks are similar to managing any major change programme where one of the net effects is to substantially reduce staffing levels. Potential risks are to sound and detailed planning, maintaining adequate staffing of the required skill types and levels, motivation, sufficient funding and involvement of stakeholders, with all having the potential to severely reduce the quality of service to our customers.

5. Employment issues

Postwatch aimed to be a good employer during the period by means of a:

- Pay and grading system
- Staff performance management system
- Staff appraisal system
- Recruitment policy
- Developed human resource policies and practices
- Section 75 Northern Ireland Act¹.

6. Disabled employees

Postwatch has an active policy whereby no job applicant or member of staff receives less favourable treatment on the grounds of disability. We comply with the requirements of the Disability Discrimination Act. Disability awareness training is to be given to staff. We provide open access to specialist training, counselling or advisory services to disabled members of staff in order to assist their personal and work-orientated development as a matter of course.

¹ Each public authority is required, in carrying out its functions relating to Northern Ireland, to have due regard to the need to promote equality of opportunity between different individuals and groups.

7. Provision of information to employees

Postwatch has a policy of maximising communication throughout the organisation as illustrated by the activities of our established Staff Consultative Committee (SCC). The SCC is the main vehicle for consultation with staff on all issues affecting terms and conditions of employment, including pay and reward issues. We also host workshops, to which all staff are invited, where we propose to make any major changes to our terms and conditions of employment. In addition we have extranet systems supported by hard copies of office and vacancy notices.

8. Equal opportunities

Postwatch is committed to the principle and practice of equality of opportunity. Postwatch's Equal Opportunity Policy aims to ensure that we employ staff who reflect the diverse community at large and that we value the individual contribution of people irrespective of their personal circumstances or background. Being fair to people is at the heart of that commitment. The aim is to ensure that no member of staff or job applicant should receive less favourable treatment on grounds of gender, race, disability, ethnic or national origin, age, religion or belief, marital status, caring responsibilities, alternative working patterns, sexual orientation, trade union activity or political beliefs. Our policy complies with all statutory obligations and is in line with government policy.

9. Going concern

Postwatch's accounts have been prepared on the basis of a going concern as a firm decision on the abolishment and date of abolishment of Postwatch has not been made and all indications are that the earliest timing would be the close of business on the 31 March 2008. Although the abolition of Postwatch is highly probable, any costs of closure are to be funded separately to our operational funding from DTI. Further, as a government body, any shortfall in funding to cover any liabilities due to Postwatch will be the responsibility of either our sponsor department or the new consumer organisation.

10. Social and community

Postwatch has a statutory duty to represent the community on postal services and to ensure that disadvantaged groups are adequately represented with their postal service needs being appropriately addressed.

Postwatch also aims to act responsibly and without detriment within the communities it operates or influences according to community standards.

11. Environment

Postwatch aims to act responsibly on environmental issues, operating environmental friendly policies including energy saving measures and recycling paper.

Remuneration report

Executive Directors' Remuneration Policy

The Council appointed a Remuneration Committee to ensure good governance throughout the organisation in all matters relating to pay and associated conditions of service. The Remuneration Committee is separate from the Executive to ensure the maximum degree of independence. The Committee reports directly to the Council.

This report covers the remuneration of the Executive Directors.

Remuneration Committee membership and advisors

Members of the Remuneration Committee are appointed from the National Council.

During the year the members of the Remuneration Committee, any two of whom may form a quorum, comprised David Croisdale-Appleby (Chair), Helen Charlton, Millie Banerjee and Nigel Walmsley. The Chief Executive attends all meetings of the Committee, except those that discuss his personal remuneration. The Head of Human Resources acts as Secretary to the Committee.

In considering matters within its remit, the Committee takes account of recommendations from the National Chair in respect of the Chief Executive and from the Chief Executive and National Chair in respect of the other Executive Directors.

Service contracts

Andy Frewin holds an open-ended appointment until he reaches the normal retiring age of 65. Howard Webber, Dr Ian Leigh and Ian Fisher are permanent civil servants on renewable secondment contracts; Howard Webber from the Home Office and Dr Ian Leigh and Ian Fisher from the DTI. Early termination, other than for misconduct, would result in compensation as set out in the Civil Service Compensation Scheme.

Remuneration

The remainder of this report has been audited.

The remuneration packages comprise:

Base salary

Base salaries are reviewed annually having regard for increases in RPIX and personal performance against tough personal objectives linked to the objectives of the organisation. Performance increases are limited to 6 per cent for the best level of performance.

Performance related annual bonuses

The Chief Executive and Executive Directors may earn a performance-related bonus as follows:

	Maximum annual bonus
Chief Executive	up to 10% of salary
Executive Directors	up to 5% of salary

Remuneration and pension entitlements earned by the Chairman and the Management Board members:

2006-2007	1	2	3	4	5	6	7	8
Position Name	Salary and other earnings, including performance pay (£k)	Benefits in kind	Combined Real increase in pension and related lump sum at age 60 (£k)	Combined Total accrued pension at age 60 at 31.03.07 and related lump sum (£k)	CETV at 31.03.06 (£k)	CETV at 31.03.07 (£k)	Real increase in CETV after adjustment for inflation and charges in market investment factors (£k)	Employers contribution to partnership pension account including risk benefit cover (£k)
Chair Millie Banerjee (2005-2006 Part year)	45-50 (10-15)	-	-	-	-	-	-	-
Chief Executive Gregor McGregor ¹ (2005-2006)	105-110 (130-135)	-	0.4	56.1	951.2	931.9	5.3	-
Chief Executive Howard Webber ² (2005-2006)	35-40 -	-	0.0	30.3	466.4	484.9	-0.9	-
Senior Director Ian Fisher (2005-2006)	80-85 (80-85)	-	2.8	140.7	672.3	709.1	13.1	-
Senior Director Andy Frewin (2005-2006)	75-80 (80-85)	-	3.6	116.5	458.8	483.0	13.6	-
Senior Director Gillian Richmond ³ (2005-2006)	45-50 (60-65)	-	-	-	-	-	-	(3.4)
Managing Director Dr Ian Leigh ⁴ (2005-2006)	85-90 80-85	-	0.2	110.6	542.6	571.1	12.2	-

The members of the Management Board were Gregor McGregor (until 31 May 2006), Howard Webber (from 25 October 2006), Ian Fisher, Andy Frewin, Dr Ian Leigh and Gillian Richmond (until 9 April 2006).

¹Gregor McGregor took early retirement on 31 May 2006. 'Salary and other earnings' includes severance payments

²Howard Webber from 25 October 2006

³Gillian Richmond until 9 April 2006. 'Salary and other earnings' includes severance payments

⁴Dr Ian Leigh acted as Chief Executive for the period 1 June 2006 to 24 October 2006

Salary

'Salary' includes gross salary; performance pay or bonuses; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation.

Benefits in kind

No members of the Management Board received any benefit in kind.

Pension

Pension benefits are provided through the CSP arrangements. From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes (classic, premium, and classic plus). The schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, and classic plus are increased annually in line with changes in the Retail Prices Index. New entrants after 1 October 2002 may choose between membership of premium or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (partnership pension account).

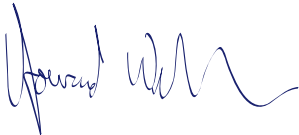
Employee contributions are set at the rate of 1.5 per cent of pensionable earnings for classic and 3.5 per cent for premium and classic plus. Benefits in classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per classic.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3 per cent and 12.5 per cent (depending on the age of the member) into a stakeholder pension product chosen by the employee. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3 per cent of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8 per cent of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

Further details about the CSP arrangements can be found at the website www.civilservice-pensions.gov.uk

Columns 5 and 6 of the previous table show the member's cash equivalent transfer value (CETV) accrued at the beginning and the end of the reporting period. Column 7 reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and from 2003-2004 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the CSP arrangements and for which the CS Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.



Howard Webber
Chief Executive and Accounting Officer

18 July 2007

Statement of Accounting Officer's responsibilities

Under Paragraph 16 (1), Schedule 2 of the Postal Services Act 2000 the Secretary of State with the approval of the Treasury has directed Postwatch to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of Postwatch and of its income and expenditure, recognised gains and losses and cash flows for the financial year.

In preparing the accounts, Postwatch and the Accounting Office are required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- observe the Accounts Direction issued by the Secretary of State, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis
- make judgements and estimates on a reasonable basis
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departure in the financial statements
- prepare the financial statements on a going concern basis, unless it is inappropriate to presume Postwatch will continue in operation.

The Accounting Officer for the DTI has designated the Chief Executive as Accounting Officer of Postwatch. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding Postwatch's assets, are set out in the Accounting Officers' Memorandum issued by the Treasury and published in 'Government Accounting'.

Statement on internal control

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of Postwatch's policies, aims and objectives, whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me in 'Government Accounting'.

A process of accountability has been agreed with DTI whereby Postwatch is required to submit annually a corporate plan and budget. The agreement also requires quarterly meetings to provide progress reports and explanations of any significant variances between forecast and actual expenditure.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Postwatch's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in Postwatch during the year ended 31 March 2007 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk

As Accounting Officer, I also have responsibility for reviewing our capacity to handle risk.

The National Council meets nine or ten times a year to consider the plans and overall strategic direction of Postwatch. The Management Board meets on a monthly basis to manage all executive activities.

The Management Board is responsible for identifying and reviewing risks, which are set out in our risk register, against Postwatch's objectives. Postwatch policy identifies the roles of the National Council, the Audit Committee, the Management Board, myself and the wider management team in managing risk in the organisation. In particular, the Audit Committee is responsible for reviewing annually the effectiveness of internal control in Postwatch, based on information provided by the Management Board, and making a report to the National Council.

The risk and control framework

The key responsibilities of the wider management team, which is in addition to the regular reviews by the Management Board, and which comprises Management Board members and all others with managerial responsibilities in Postwatch, are to:

- manage risk in their own areas of responsibility through the implementation of risk mitigation processes and by following the overall risk policies for Postwatch
- translate the risk register into day-to-day team planning
- report to the Management Board on the status of risks and controls
- participate in the annual review of effectiveness of the system of internal control and contribute to the Management Board report to the Audit Committee
- Council is responsible for setting the tone and for influencing the culture of risk management and for determining risk appetite.

Review of effectiveness

As Accounting Officer, I also have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within Postwatch who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the National Council, the Management Board and the Audit Committee, and a plan to address weaknesses, and ensure continuous improvement of the system is in place.

- The Management Board regularly reviews the effectiveness of the system through its risk and control reviews, reviews of internal and external audit reports and through weaknesses identified or brought to its attention as part of the management process.
- The Audit Committee, which meets five to six times a year, reviews the effectiveness of the system through its review of internal and external audit and other reports and also through its own initiatives. The Audit Committee Chairman in turn reports on issues of control to the National Council.
- Internal Audit agrees its forward workplan with the Audit Committee and reports back to the Audit Committee with its findings.

Postwatch has established and maintains arrangements for internal audit in accordance with the objectives, standards, scope and practices set out in the Treasury's Government Internal Audit Standards.

Postwatch Audit Committee

The Postwatch Audit Committee was established five years ago. The members of the Audit Committee are appointed from the National Council and are currently three Regional Chairs and one National Member. I am invited to attend and we invite our external auditors, the NAO, our internal auditors and our Head of Finance to attend each meeting. During this financial period we have held six Audit Committee meetings.

The Audit Committee has terms of reference from the National Council, which includes a remit to consider the adequacy of risk management and internal control.

The internal audit function provides assurance on risk management and governance and control processes.

Other committees

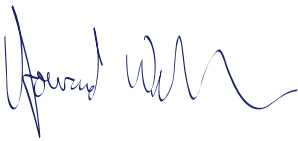
Postwatch has a Remuneration Committee which has agreed terms of reference and meets three or four times a year to discuss pay issues. The Committee is comprised of the National Chair and three National Members. The Remuneration Committee in addition takes an active role in monitoring the operation of our pay and grading system.

The Finance Committee has been established with the principal purpose of 'resolving issues where Council direction of the priorities of competing demands for resource was required'. The Finance Committee is comprised of a minimum of three full members, at least two from National Council and myself, the Accounting Officer. The Committee's focus is centred on the in-year budget for Postwatch.

Significant internal control problems

There were no significant control problems during the year.

However, work continues to be undertaken to improve controls, with the close co-operation and guidance from both our external and internal auditors, seeking further improvements and efficiencies where possible under our policy for continual improvement.



Howard Webber

Chief Executive and Accounting Officer

18 July 2007

The certificate and report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of the Consumer Council for Postal Services for the year ended 31 March 2007 under the Postal Services Act 2000. These comprise the income and expenditure account, the balance sheet, the cash flow statement and the statement of recognised gains and losses and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration report that is described in that report as having been audited.

Respective responsibilities of the Consumer Council for Postal Services, the Accounting Officer and Auditor

The Consumer Council for Postal Services and the Accounting Officer are responsible for preparing the Annual Report, the Remuneration report and the financial statements in accordance with the Postal Services Act 2000 and Secretary of State's directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements and the part of the Remuneration report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration report to be audited have been properly prepared in accordance with the Postal Services Act 2000 and Secretary of State's directions made thereunder. I report to you whether, in my opinion, certain information given in the Accounting Officer's report and the Management Commentary, is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you, if, in my opinion the Consumer Council for Postal Services, has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the statement on internal control reflects the Consumer Council for Postal Services' compliance with the Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of the Consumer Council for Postal Services' corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the Consumer Council for Postal Services and the Accounting Officer in the preparation of the

financial statements, and of whether the accounting policies are most appropriate to the Consumer Council for Postal Services' circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration report to be audited.

Audit opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Postal Services Act 2000 and directions made thereunder by the Secretary of State, of the state of the Consumer Council for Postal Services' affairs as at 31 March 2007 and of its deficit for the year then ended;
- the financial statements and the part of the Remuneration report to be audited have been properly prepared in accordance with the Postal Services Act 2000 and the Secretary of State's directions made thereunder; and
- information given within the Annual Report is consistent with the financial statements.

Audit opinion on regularity

In my opinion, in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Report

I have no observations to make on these financial statements.

John Bourn

Comptroller and Auditor General

National Audit Office
157-197 Buckingham Palace Road
London
SW1W 9SP

23 July 2007

Income and expenditure account

12 months ended 31 March 2007

	<i>Note</i>	<i>2006-2007</i> £'000	<i>Re-stated</i> <i>2005-2006</i> £'000
Income			
Receipt of legal costs awarded	2a	(220)	–
Rental income	2b	(69)	–
Total income		(289)	
Administration costs			
Staff costs	3	3,920	4,716
Other administrative costs	4a	4,698	5,485
Restructuring costs	4b	532	–
Total operating expenditure		9,150	10,201
Net operating cost		8,861	10,201
Interest receivable	5	(37)	(40)
Notional cost of capital	6	31	23
Finance charges payable on leases		38	44
Net operating cost after exceptional items and before taxation		8,893	10,228
		8,893	10,228
Deduct notional cost of capital		(31)	(23)
CHARGE TO INCOME AND EXPENDITURE RESERVE		8,862	10,205

All amounts relate to continuing operations.

Statement of recognised gains and losses

	<i>2006-2007</i> £'000	<i>2005-2006</i> £'000
Net gain on revaluation of tangible fixed assets	62	65

The Accounting policies and notes on pages 65 to 79 form part of these financial statements.

Balance sheet

As at 31 March 2007

		<i>As at</i> <i>31 March</i> <i>2007</i> <i>£'000</i>	<i>Re-stated</i> <i>As at</i> <i>31 March</i> <i>2006</i> <i>£'000</i>
	<i>Note</i>		
Fixed assets			
Intangible assets	7	145	240
Tangible assets	8	820	1,129
Current assets			
Debtors	9	311	352
Cash at bank and in hand		1,001	144
Total assets		2,277	1,865
Creditors: amount payable within one year	10	483	894
Net current assets/(current liabilities)		829	(398)
Total assets less current liabilities		1,794	971
Creditors: amount payable after more than one year	10	429	461
Provisions for liabilities and charges	11	24	50
TOTAL ASSETS LESS TOTAL LIABILITIES		1,341	460
Represented by:			
General reserve	16	1227	349
Revaluation reserve	15	114	111
		1,341	460

Approved



Howard Webber Chief Executive and Accounting Officer
Consumer Council for Postal Services (Postwatch)

18 July 2007

The Accounting policies and notes on pages 65 to 79 form part of these financial statements.

Cash flow statement

12 months ended 31 March 2007

	<i>Note</i>	<i>2006-2007</i>	<i>Re-stated</i>
		<i>£'000</i>	<i>2005-2006</i>
			<i>£'000</i>
Net cash (outflow) from operating activities	17a	(8,653)	(9,905)
Financing	17b	9,681	9,727
Net cost of financing	17c	(1)	(4)
Financing – capital element of finance lease payments		(62)	(34)
Capital expenditure	17d	(108)	(262)
INCREASE/(DECREASE) IN CASH IN THE PERIOD	17e	857	(478)

The Accounting policies and notes on pages 65 to 79 form part of these financial statements.

Accounting policies and notes to the financial statements

1. Accounting policies

1.1 Statement of accounting policies

The financial statements have been prepared in accordance with the 2006-2007 Government Financial Reporting Manual (FRoM) issued by HM Treasury. The accounting policies in the guidance follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. Where guidance permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of Postwatch for the purpose of giving a true and fair view has been selected. The particular accounting policies adopted by Postwatch are described below. They have been applied consistently in dealing with items considered to be material in relation to the accounts. The financial statements are in accordance with the Accounts Direction issued by the Secretary of State on 3 May 2002 with the approval of HM Treasury.

1.2 Accounting conventions

These accounts have been prepared under the modified historical cost convention.

1.3 Fixed assets and depreciation

Assets are revalued annually using indices provided by the Office of National Statistics and adjustments are made to values where material. Depreciation is provided on all tangible and intangible fixed assets at rates calculated to write off the cost or valuation of each asset, less any estimated residual value, evenly over its expected useful life. The expected useful lives of the principal categories are:

Furniture and fittings	– 5 years
Computer equipment	– 3 years
Software licences	– 3 years
Leasehold improvement	– 15 years, term of the lease

All capital expenditure over £1,000 is capitalised in the year purchased. Where capital expenditure such as furniture and IT equipment is bought in lots these are grouped together and capitalised.

1.4 Government grants

Grant-in-aid is receivable by the Council in order to discharge its functions under the Postal Services Act 2000.

With effect from the 2006-2007 reporting period the FRoM requires non-departmental public bodies to account for grants and grants-in-aid received for revenue purposes as financing because they are regarded as contributions from a controlling party which gives rise to a financial interest in the residual interest of NDPBs. This is a change in accounting policy from earlier periods when such items were recorded as income. The effect of this change on the certified 2005-2006 accounts and the impact of the change on the results of the current year is shown below and reflected in the comparatives. Note there is no impact on the net liability position of Postwatch as a result of this change in policy.

	<i>At 31 March 2006 (as previously stated)</i>	<i>Impact of adopting the new policy</i>	<i>At 31 March 2006 (re-stated)</i>
Net expenditure for 2005-2006	(489)	(9,716)	(10,205)
General reserve	429	798	1,227
Government grant reserve	798	(798)	–

The treatment of grant-in-aid, the grant reserve and income and expenditure account have been combined to form the general reserve.

1.5 Value Added Tax

Irrecoverable Value Added Tax is included with the expenditure to which it relates.

1.6 Operating and finance leases

Where substantially all risks and rewards of ownership are borne by Postwatch, the asset is recorded as a tangible fixed asset and a debt is recorded to the lessor of the minimum lease payments discounted by the interest rate implicit in the lease, and included under creditors. The interest element of the finance lease payment is charged to the income and expenditure account over the period of the lease at a constant rate in relation to the balance outstanding. Other leases are regarded as operating leases and the rentals are charged to the income and expenditure account on a straight line basis over the term of the lease.

1.7 Capital charge

The charge, reflecting the cost of capital utilised by Postwatch is included in the operating costs. The charge is calculated at the real rate set by HM Treasury (3.5 per cent for 2006-2007) on the average carrying amount of all assets less liabilities.

1.8 Research

Expenditure on research is written off in the year in which it is incurred.

1.9 Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Schemes (PCSPS), which are described at note 3. The defined benefit elements of the schemes are unfunded and are non-contributory except in respect of dependants' benefits and additional employee contributions to the classic plus and premium schemes. Postwatch recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution elements of the schemes, Postwatch recognises the contributions payable for the year.

No recognition of the staff PCSPS scheme is or will be made in Postwatch's accounts as this is a multi-employer scheme and liability for payment of future benefits does not lie with Postwatch.

There is also a partnership pension available to employees, which is a stakeholder-type arrangement. Further details of this pension arrangement are set out in note 3.

2a. Receipt of legal costs

In 2005-2006 Postwatch was successful in a judicial review of Postcomm. Judgement was in favour of Postwatch and Postwatch was awarded £220k.

	<i>2006-2007</i>	<i>2005-2006</i>
	<i>£'000</i>	<i>£'000</i>
Receipt of legal costs awarded	220	–
	220	–

2b. Rental income

	<i>2006-2007</i>	<i>2005-2006</i>
	<i>£'000</i>	<i>£'000</i>
Rental income from sub-let of property	69	–
	69	–

3. Staff and Council costs

Salaries and related costs of seconded staff, including pension contributions, are paid directly by the DTI and then recharged to the Council. Salaries of permanent and temporary staff are paid directly by the Council.

Total staff costs including the Chief Executive were:

	<i>2006-2007</i>	<i>2005-2006</i>
	<i>£'000</i>	<i>£'000</i>
Wages and salaries	3,464	3,845
Social security costs	280	289
Pension contributions	491	548
Casual/agency	5	34
	4,240*	4,716

* Includes restructuring costs of £320k (see note 4b)

Average monthly number of employees during the year

	<i>2006-2007</i>	<i>2005-2006</i>
	<i>No.</i>	<i>No.</i>
Policy	11	10
Operations	18	23
External relations (consumer advisors)	42	41
South East/London regional office	4	6
Other regions	17	19
Network	–	10
Executive	2	4
Casual/agency	–	1
	94	114

Average monthly number of Council members during the year

	<i>2006-2007</i>	<i>2005-2006</i>
	<i>No.</i>	<i>No.</i>
Chairs	1	1
Regional Chairs	9	9
National Council members	6	4
	16	14

Council members' costs

	2006-2007	2005-2006
	£'000	£'000
M Banerjee*	50	13
P Carr*	–	31
M Ali (until 31 December 2006)**	6	11
Dr D Bailey**	–	7
Dr T Begg OBE, JP (until 31 December 2006)	25	33
K Dixon	–	33
J Donovan CBE	30	33
C Howeson (until 31 December 2006)	25	33
E Pritchard QPM	26	27
J Stringer OBE	–	33
R Ward (until 31 December 2006)	25	33
Dr D Bland OBE	33	33
Dr C Winstanley JP	27	27
C Arokiasamy (until 21 April 2006)**	–	7
Helen Charlton**	5	3
Dr M Edmondson (from 10 April 2006)	21	–
R Darlington (from 10 April 2006)	22	–
N Hafeez (from 1 January 2007)	5	–
Professor A Alexander (from 1 January 2007)	5	–
C Baron (from 1 January 2007)	5	–
S Button** (from 10 April 2006)	11	–
N Walmsley** (from 10 April 2006)	5	–
E Hodder** (from 10 April 2006)	4	–
Professor D Croisdale-Appleby** (from 10 April 2006)	7	–
Total for the year to 31 March	337	357

* Millie Banerjee replaced Peter Carr as National Chair on 1 December 2005.

** These Council members are remunerated on the basis of daily rates and not salaries.

Council members are appointed by the Secretary of State for Trade and Industry. Their appointment is for an initial period of three years, subject to a review of performance after one year, with the possibility of an extension for a further three years thereafter.

Pension schemes

The PCSPS is an unfunded multi-employer defined benefit scheme but Postwatch is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2003 and details can be found in the resource accounts of the Cabinet Office: Civil Service Superannuation (www.civilservice-pensions.gov.uk).

Superannuation benefits are provided under the Principal Civil Service Pension Scheme (PCSPS). The Council's employees are members of the Principal Civil Service Pension Scheme (PCSPS). The scheme is non-contributory for employees, apart from widows' and widowers' benefits and additional contributions to the classic plus and premium schemes. Employer contributions of £488,506 were payable to the PCSPS for the year 2006-2007 (2005-2006 was £538,121), individual contribution rates vary depending on the level of superannuable pay, as stated below:

Earnings	Contribution
Up to £18,500	17.1%
£18,501 to £38,000	19.5%
£38,001 to £65,000	23.2%
£65,001+	25.5%

The contribution rates reflect benefits, as they accrue, not the costs as they are incurred, and reflect past experience of the scheme.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer's contributions of £2,916 (2005-2006 was £10,323) were paid to one or more stakeholder pension providers. Employer's contributions are age related and range between 3 per cent and 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, contributions of £685 (0.8 per cent of pensionable pay, 2005-2006 £936 = 0.8 per cent) of pensionable pay were due to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees. Contributions due to the partnership pension providers at the balance sheet date were £106.

4a. Other administrative costs

	2006-2007 £'000	2005-2006 £'000
Council and secretarial expenses	556	832
Networking, travel and subsistence	280	394
Office costs, including postage, computer, copying and telephones	620	653
Printing and publishing	71	87
Research	352	373
Training	38	54
Publicity	123	153
Professional fees	849	1,060
Rent, rates and associated services**	934	909
Miscellaneous	24	12
Depreciation and amortisation	357	395
Depreciation of finance assets	59	57
Auditors' remuneration*	31	31
Internal conference costs	24	37
External conference costs	40	70
Equipment hire	282	307
Office machinery maintenance**	46	43
Loss on revaluation of fixed assets	12	18
	4,698	5,485

* Auditors' remuneration related only to statutory audit work.

** Operating lease payments charged to administrative costs:

- on plant and machinery is £282,000 (2005-2006 = £307,000)
- on buildings is £710,000 (2005-2006 = £685,000)

4b. Restructuring costs

	2006-2007 £'000	2005-2006 £'000
Redundancy payments	320	–
Write off of leasehold assets on cancelled leases	212	–
	532	–

During the year Postwatch made 13 members of staff redundant due to the restructuring of central and regional offices.

5. Interest receivable and payable

	2006-2007 £'000	2005-2006 £'000
Receivable from the bank for funds on short-term deposit (net)	37	40

6. Capital charge

	2006-2007 £'000	2005-2006 £'000
At 3.5% (2006 = 3.5%) on the average of total assets less total liabilities for the year	31	23

7. Intangible fixed assets

	Software licences £'000	Total cost £'000
At 1 April 2006	662	662
Additions*	69	69
Revaluation gain	11	11
At 31 March 2007	742	742

Amortisation

At 1 April 2006	422	422
Provided during the year	169	169
Revaluation gain	6	6
At 31 March 2007	597	597

Net book value

At 31 March 2007	145	145
At 31 March 2006	240	240

* Software licences additions include the costs of associated software. It is not possible to separately identify these assets.

8. Tangible fixed assets

	<i>Leasehold improvements</i> £'000	<i>Furniture and fittings</i> £'000	<i>Computer equipment</i> £'000	<i>Total cost</i> £'000
Cost or valuation				
At 1 April 2006	1,028	718	473	2,219
Additions	33	3	69	105
Assets written off	(261)	(48)	–	(309)
Revaluation gain/(loss)	69	15	(22)	62
At 31 March 2007	869	688	520	2,077
Depreciation				
At 1 April 2006	234	529	327	1,090
Provided during the year	80	86	81	247
Assets written off	(64)	(33)	–	(97)
Revaluation gain/(loss)	16	11	(10)	17
At 31 March 2007	266	593	398	1,257
Net Book Value				
At 31 March 2007	603	95	122	820
At 31 March 2006	794	189	146	1,129
Asset financing				
Owned	396	95	78	569
Finance leased	207	–	44	251
Net book value as at 31 March 2007	603	95	122	820

9. Debtors

	<i>As at</i> <i>31 March</i> <i>2007</i> £'000	<i>As at</i> <i>31 March</i> <i>2006</i> £'000
Amounts falling due within one year:		
Prepayments and accrued income	299	342
Other debtors	12	10
	311	352
Balances with central government bodies	–	–
Balances with non-government bodies	311	352

10. Creditors

	<i>As at</i> <i>31 March</i> <i>2007</i> £'000	<i>As at</i> <i>31 March</i> <i>2006</i> £'000
Amounts falling due within one year:		
Trade creditors	37	289
Accruals	254	446
Other taxation and social security	82	109
Deferred income	43	10
Lease payments due	67	40
	483	894
Balances with central government bodies	82	109
Balances with non-government bodies	401	785
Amounts falling due after more than one year:		
Deferred income	73	82
Lease payments due	356	379
	429	461

Deferred income arises from rent free periods at the beginning of property leases. The benefit is spread over the term of the lease.

11. Provisions for liabilities and charges

	<i>Leasehold obligations</i> £'000	<i>Other</i> £'000	<i>Total</i> £'000
Balance at 1 April 2006	–	50	50
Provided for in year	24	–	24
Utilised in year	–	50	50
Balance at 31 March 2007	24	–	24

Leasehold obligations relate to obligations under the terms of the lease agreement for Postwatch's Grosvenor Gardens premises. Payments for these obligations are to be made in 2010-2011.

The other provision relates to legal costs on a case that was to be held during 2006-2007 to which Postwatch was committed at 31 March 2006. Postwatch settled the case out of court at a total cost of £56,353.

12. Related party transactions

Postwatch is a non-departmental public body sponsored by the Department for Trade and Industry (DTI). The DTI is regarded as a related party, as are other entities sponsored by the DTI.

The following Council member had transactions in the year with Postwatch.

Charles Howeson, past South and West Regional Chairman, owns 100 per cent of the share holding in Eko Tek Power Limited which provided Postwatch with regional administrative assistance. The total activity between Eko Tek Power Limited and Postwatch was £15,644. This agreement ended on the 31 December 2006.

The balance outstanding at the year-end was £nil.

13. Obligations under operating leases

The minimum lease payments to which Postwatch is committed under operating leases for the coming year are:

	<i>As at</i> <i>31 March</i> <i>2007</i> <i>£'000</i>	<i>As at</i> <i>31 March</i> <i>2006</i> <i>£'000</i>
On property leases expiring:		
After more than five years	660	707
Between two and five years	42	–
Less than one year	10	23
On office equipment leases expiring:		
Between two and five years	116	119
Less than one year	2	203
Total annual obligations under operating leases	830	1,052

14. Obligations under finance leases

The minimum lease payments to which Postwatch is committed under finance leases for the periods of the leases are:

	<i>As at</i> <i>31 March</i> <i>2007</i> <i>£'000</i>	<i>As at</i> <i>31 March</i> <i>2006</i> <i>£'000</i>
Less than one year	100	78
Between one and five years	334	312
Due thereafter	104	182
Total	538	572
Less interest element	(115)	(153)
Capital due	423	419

15. Revaluation reserve

	<i>As at 31 March 2007 £'000</i>	<i>As at 31 March 2006 £'000</i>
Balance brought forward	111	86
Arising on revaluations during the year	62	65
Transferred to general reserve	(59)	(40)
Balance carried forward	114	111

16. General reserve

	<i>As at 31 March 2007 £'000</i>	<i>Re-stated As at 31 March 2006 £'000</i>
Balance brought forward	349	787
Grant-in-aid – non capital – current year	9,378	9,727
Grant-in-aid – non capital – payment for last year	303	–
Current year net cost	(8,862)	(10,205)
Transferred from revaluation reserve	59	40
Balance carried forward	1,227	349

Due to a change in accounting policy on the treatment of grant-in-aid, the grant reserve and income and expenditure account have been combined to form the general reserve.

17. Cash flow notes

	<i>As at</i> <i>31 March</i> <i>2007</i> <i>£'000</i>	<i>Re-stated</i> <i>As at</i> <i>31 March</i> <i>2006</i> <i>£'000</i>
a) Reconciliation of operating profit to operating cash flows		
Operating cost	(8,861)	(10,201)
Depreciation charge	416	452
Decrease/(increase) in debtors	41	(39)
(Decrease)/increase in creditors	(447)	2
(Decrease)/increase in provisions	(26)	(137)
Revaluation loss	12	18
Loss on disposal of fixed assets	–	–
Write off of assets	212	–
Other non cash adjustments	–	–
Net cash (outflow)/inflow from operating activities	(8,653)	(9,905)
b) Financing		
Grant-in-aid received to fund current year activities	9,378	9,727
Grant-in-aid to fund 2004-2005 deficit	303	–
Financing	9,681	9,727
c) Net cost of financing		
Interest paid less interest received	37	40
Finance lease interest payments	(38)	(44)
	(1)	(4)
d) Capital expenditure		
Payments for intangible fixed assets	(3)	(48)
Payments for tangible fixed assets	(105)	(214)
	(108)	(262)
e) Reconciliation of net cash flow to movement in net funds		
Movement in net funds in the period	857	(478)
Net funds brought forward	144	622
NET FUNDS CARRIED FORWARD	1,001	144

18. Financial instruments

Postwatch has no borrowings and relies on grant-in-aid income from the DTI for its cash requirements and is, therefore, not exposed to liquidity risk. It also has no investments and is, therefore, not exposed to interest rate risk. A notional cost of capital charge at the Treasury rate of 3.5 per cent as applied to average net assets (including cash at commercial banks) is reflected in the accounts. However, the accounts also include a notional credit equivalent to this interest charge so there is no impact on the financial results for the year. All assets and liabilities are denominated in sterling and, therefore, there is no exposure to currency risk.

As permitted by FRS13 debtors and creditors which mature or become payable within 12 months from the balance sheet date have been omitted from this disclosure.

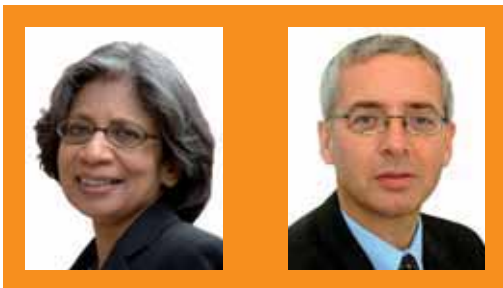
19. Contingent liabilities

There is a contingent liability in relation to indemnifying Regional Committee members against any civil liability. The indemnity will continue whilst the Regional Committee structure remains in place and it is, therefore, not possible to quantify a figure for any potential liability. The Department of Trade and Industry, as Postwatch's sponsor, has accepted the contingent liability. Historically there have been no claims against the indemnity.

The latter contingent liability is too remote to require disclosure under FRS 12, but as required by the Treasury, the DTI will disclose it as a contingent liability to be reported to Parliament.



Council members and Chief Executive



1 Millie Banerjee CBE
Chair
Appointed:
1 December 2005

2 Howard Webber
Chief Executive
Appointed:
25 October 2006



1	2	3	7	12
		4	8	13
		5	9	14
		6	10	15
			11	16

3 Professor Alan Alexander FRSE

Chair Scotland
Appointed:
1 January 2007

4 Christina Baron

Chair South and West
Appointed:
1 January 2007

5 Dr David Bland OBE

Chair South East
Appointed:
1 November 2002

6 Roger Darlington

Chair Greater London
Appointed:
10 April 2006

7 Judith Donovan CBE

Chair North of England
Appointed:
1 January 2001

8 Dr Maureen Edmondson

Chair Northern Ireland
Appointed:
10 April 2006

9 Najma Hafeez

Chair Midlands
Appointed:
1 January 2007

10 Eifion Pritchard QPM

Chair Wales
Appointed:
1 January 2001

11 Dr Charles Winstanley TD, JP, DL

Chair East of England
Appointed:
1 December 2002

12 Sheila Button

Council member
Appointed:
10 April 2006

13 Helen Charlton

Council member
Appointed:
1 January 2004

14 Professor David Croisdale-Appleby JP

Council member
Appointed:
10 April 2006

15 Elizabeth Hodder

Council member
Appointed:
10 April 2006

16 Nigel Walmsley

Council member
Appointed:
10 April 2006

Outgoing Council members

17 Dr Tom Begg OBE, JP

Left:
31 December 2006

18 Moi Ali

Left:
31 December 2006

19 Clara Arokiasamy

Left:
22 April 2006

20 Charles Howeson

Left:
31 December 2006

21 Richard Ward

Left:
31 December 2006



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If you require information contained in this report in any other format,
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