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**Postal Services Commission**

**Annual Report and Accounts  
2010 - 11**

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# Postal Services Commission

## Annual Report and Accounts 2010-11

(For the year ended 31 March 2011)

Accounts presented to the House of Commons pursuant to Section 6(4) of the Government Resources and Accounts Act 2000

Annual Report presented to the House of Commons by Command of Her Majesty

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## About Postcomm

**Postcomm – the Postal Services Commission – is the independent regulator of postal services. We were set up by the Postal Services Act 2000 as a non-ministerial government department. Our primary duty is to seek to ensure the provision of a universal postal service. Subject to this, and among other duties, we must further the interests of postal users in the UK, where appropriate by promoting effective competition.**

Our work is steered by a board of independent Commissioners, headed by our Chairman, Millie Banerjee. Our Commission has considerable experience of business, consumer issues, regional matters, UK and overseas mail operations, the public sector, competition and regulation.

We require Royal Mail to provide a universal postal service, and have licensed a number of companies which can compete with Royal Mail. We regulate some of the prices that Royal Mail can charge and its quality of service.

We must also give advice and information to the Government on the post office network. We do this by producing annual reports for the Secretary of State for Business, Innovation and Skills (BIS).

A list of all of the documents we published this year is available on our website, at <http://www.psc.gov.uk>

## Chairman's Statement

My time at Postcomm has been short, joining in January 2011, during a period of significant change. The Postal Services Act has now received Royal Assent and this will transfer responsibilities for postal regulation to Ofcom in Autumn 2011. We have assisted, where appropriate, with the passage of the Bill and will continue to work closely with our colleagues at Ofcom and the Department for Business, Innovation and Skills. Our guiding principle throughout this time has been to ensure the provision of the universal service and give the postal market the regulatory certainty it needs.

I would like to thank all colleagues in Postcomm, the Chief Executive Tim Brown and my predecessor Nigel Stapleton for their excellent work over the last year.

Since 2000, when Postcomm was created, the postal market has changed significantly. Letter volumes have continued to decline, as email, text and other digital communications have replaced post. The significant economic downturn has exacerbated the decline in volumes. As the market has changed and the way people use post has evolved so Postcomm too has evolved the way it regulates. We have both learnt from the way things have been done previously and from other organisations. The 2011 Price Control that was launched in February 2011 is an excellent example of this. This was an important stepping stone for securing the universal service and started the removal of superfluous regulation that the 2012 Price Control will continue.

During the year we have continued to work closely with Royal Mail, the universal service provider, and I am pleased that our relationship following the fall of the previous Postal Services Bill has continued to improve.

As the universal service provider, Royal Mail's financial health is crucial to the continued development and sustainability of the UK postal service. Royal Mail has continued to make significant efficiencies in its business and is in better health than during recent times. However the profit margin remains low and they will need to continue to change the way they operate if they are to improve their financial position.

As I have mentioned Postcomm's responsibilities are soon to transfer to Ofcom and our key piece of work at the moment is ensuring that the postal regulation is in the best possible state for Ofcom. We have been working closely with Ofcom, including bringing some of their non-executive directors on to the Commission, to ensure a seamless transfer. Our 2012 Price Control consultation was developed with input from our colleagues at Ofcom and I look forward to continuing to working with them closely over the coming months.

The most important part of Postcomm is its people. Since I joined Postcomm I have been impressed by the level of commitment and skill with which our staff go about their duties. Over the coming months there will be much uncertainty and change for all the staff here and I know that we have the



right people here to meet these challenges and deliver a regulatory structure in good shape for Ofcom.

My sincere thanks to all the Commissioners and good wishes to Ulf Dahlsten, who left the Commission this year.

A handwritten signature in black ink, appearing to read 'M. Banerjee', written in a cursive style.

**Millie Banerjee**





## Chief Executive's Report

2010/11 has been a challenging year for the market, the universal service and Postcomm. The Postal Services Act which abolishes Postcomm received Royal Assent in June. We have made great strides towards creating a viable framework for regulation in 2012 and I am sure Ofcom will build on this work.

This framework for 2012 and the transition provisions of 2011 have been the focus of our work this year:

- In November 2010, following our consultation running from May, we published our decision that we would be moving to a more 'light touch' regulatory framework. This would give Royal Mail the flexibility to compete, the market a chance to flourish and maintain protection of the universal service.
- Throughout Postcomm's life, our primary duty has been ensuring the universal service and part of this is allowing Royal Mail enough flexibility to fund the service whilst keeping it affordable for all. To this end in February we allowed Royal Mail to raise the prices on some products. These measures together with the deregulatory steps we decide upon in November have begun to give Royal Mail the sure footing it needs and protected the universal service at a time of declining letters volumes, but more is still needed.
- In Spring 2011 we published our consultations on the future regulatory regime for the postal market, including asking the fundamental question as to whether there should be any regulation and price control. This included proposals on cost transparency and accounting separation – both of which will allow better, more targeted regulation and more effective regulation of the postal market. The proposals in the consultation will give Royal Mail greater commercial freedom, provide assurance to the postal market that Royal Mail will not be allowed to exploit market power unreasonably and ensure that the universal service continues to be protected. Ofcom are now responsible for taking these forward.



Throughout the past year we have continued our policy of listening to all those who are interested in post and we have reflected many of the comments in the documents we have published. What continues to come across at the multitude of meetings, workshops and events is how central post is to Britain, both commercially and personally. The market studies we have conducted during the year have shown that mail is an integral element of our society and economy. We have used the information from our market studies to inform our proposals for more 'light touch' regulation, particularly where Royal Mail does not have market power and where there is effective competition.

All that I have mentioned above has been achieved while we still continue with our 'everyday' work. It's perhaps not as glamorous as those listed above but it is just as important to the effective regulation of postal services in the UK. This work included:

- Continuing to monitor Royal Mail's quality of service, taking action where appropriate;
- Continuing to monitor operators' compliance with complaint handling regulations;
- Establishing Customer Interest Forums to hear the views of ordinary postal users;
- Continuing our strategy of travelling all over the country to hear from 'postal people' – we've had workshops in London, visited delivery offices in Birmingham and held roadshows in Scotland, all in the name of hearing what you think about postal regulation;
- Launching a consultation on how we monitor the Postcode Address File;
- Continuing to talk to our European neighbours to learn from their experiences of postal regulation; and
- Registering six new licensees to deliver letters in the UK, bringing the total to 56, our highest number ever.

All our achievements over both the last year and indeed all the years Postcomm has been around would not have been possible without the hard work and dedication of all the people who have worked at Postcomm over the years. We leave postal regulation setting a direction for greater deregulation and this is something of which we can all be justly proud.



**Tim Brown**

## Our people



### ***Our Commissioners***

Postcomm's Commissioners are responsible for setting and amending Postcomm's regulatory framework and strategy. They approve all significant regulatory proposals and decisions, licences, enforcement orders, and financial penalties.

They also approve our business plan and monitor performance against business plan objectives. Day-to-day operational issues are delegated to the Chief Executive and Postcomm staff.

The Commissioners are appointed by the Secretary of State for Business, Innovation and Skills (BIS). They meet at least eleven times a year. Apart from our Chief Executive, all Commissioners, who are listed below, work part-time on Postcomm business.

**Simon Batey (1)**, MA (Oxon), FCA, was appointed as a Commissioner on 15 March 2010, for an initial three-year term. Mr Batey has served as Group Finance Director with three major UK companies, AMEC, United Utilities and Thames Water. Mr Batey currently has non-executive director positions with a number of companies including Telecity Group plc and BlackRock New Energy Investment Trust plc and has also served as a non-executive director of Arriva plc and THUS Group plc. He spent the first 12 years of his career at Armitage & Norton (now part of KPMG), latterly as a partner of the firm.

**Norman Blackwell (2)**, MA MBA PhD was appointed as a Commissioner in December 2010. Lord Blackwell is Chairman of the Board at Interserve PLC, the Senior Independent Director at Standard Life, a Non-Executive Director of Halma PLC and a Board Member of Ofcom. From 1995 to 1997 Lord

Blackwell was head of the then Prime Minister John Major's Policy Unit, where he coordinated domestic policy development across Whitehall. He was made a Life Peer in 1997 and remains an active member of the House of Lords with a seat on the Delegated Powers and Regulatory Reform Committee. Prior to 1995 he was a partner of McKinsey & Company, international management consultants. He holds an MBA PhD in Finance and Economics from the University of Pennsylvania and an MA in Natural Sciences from Trinity College Cambridge

**Professor Stephen Littlechild (3)**, B Com, Ph D, D Sc (Hon), D Civ Law (Hon), was appointed as a Commissioner on 1 July 2006 for three years and has since had his appointment extended until June 2011. Professor Littlechild was the first UK director general of electricity supply and head of the Office of Electricity Regulation (OFFER) from 1989-98. Since 1999, he has been an international consultant on regulation, competition and privatisation, especially in the electricity and telecommunications sectors, and a policy advisor to governments, the World Bank, regulators and companies in many countries as well as the UK. Professor Littlechild is an emeritus professor at the University of Birmingham and Fellow of the Judge Business School, University of Cambridge.

**Stuart McIntosh (4)** was appointed Commissioner in December 2010. Mr McIntosh is Competition Partner at Ofcom and also a member of the Ofcom Board. He has also been a Strategy partner in IBM's communications practice in the US. Before that Stuart also held senior positions in PWC, where he led PWC's Telecoms Consulting Practice, and Adventis, a boutique strategy consultancy. Stuart began his career as an Economist in the UK's Government Economic Service. He also worked for BT for a period of 4 years where he held the position of Head of Business Economics.

**Wanda Goldwag (5)**, BSc (Econ) was appointed as a Commissioner for a three year term in April 2005. Her appointment has since been extended until April 2011 and then extended again until Postcomm is abolished. With more than 25 years' experience in direct marketing, she is currently a part-time adviser to Smedvig Capital Limited on its portfolio. and a non executive director of the Performing Right Society, True North Human Capital Ltd, Challenge Consultancy and You at Work Ltd.

**Mike McTigue (6)** was appointed as a Commissioner in December 2010. Mike has held a number of directorships, and is currently, Chairman of Volex Group plc, Chairman of WYG plc, Chairman of JJB Sports plc, and senior independent director of Betfair Group plc. Mike also acts as a special advisor to General Atlantic, the US based private equity firm and is a Board Member at Ofcom and Pace Plc. Previously he was Chairman and CEO of Carrier1 International SA, and before that Executive Director & Chief Executive, Global Operations of Cable & Wireless plc. Prior to these experiences, Mike spent 5 years with Philips of the Netherlands, 5 years with Motorola, and 10 years with GE.

**Lucy Scott-Moncrieff (7)** was appointed as a Commissioner on 1 September 2008, for a three-year term. A solicitor, Ms Scott-Moncrieff is the managing partner of Scott-Moncrieff, Harbour and Sinclair, a legal aid practice. She is a Law Society Council Member and has been elected to the office of President of the Law Society in 2012-13. She is also a member of the QC Appointments Panel, a part time legal president for the Mental Health Tribunal, a director of Edge Training Ltd, a company that offers training on mental health and mental capacity law to health and social services organisations, and an associate with Verita, a consultancy doing investigations in health and social services organisations.

**Tim Brown (8)** was appointed as a Commissioner and Chief Executive of Postcomm in September 2008. Prior to this he was Sales and Marketing Director at DHL Express. Before that he spent 11 years at Royal Mail including Business Strategy Director for the Group, and Sales and Marketing Director of Parcelforce Worldwide. Mr Brown joined Royal Mail having worked at KPMG

Management Consultants. His work at KPMG included work with both the private and public sectors including the regulators and the regulated in electricity, water and telecoms. Mr Brown trained as an accountant, having qualified with the National Audit Office.

**Millie Banerjee (9)** was appointed as Postcomm's Chairman in January 2011. Millie is Chair of the British Transport Police Authority, a member of Newham Primary Care Trust and a Trustee of the Peabody Trust. She is also a member of the Ofcom Board having been appointed in September 2002. Previously she spent 25 years with BT (1970-1995), culminating at Director level in BT Products and Services Division, followed by Senior Vice President ICO Global Communications (1995-2000). She has been a member of the Strategy Board of the Cabinet Office (1998-2005) and she has held several non-executive appointments including at the Strategic Rail Authority. She was a Commissioner for Judicial Appointments from 2001-2006. She was also the Chair of Postwatch, the consumer body for postal services (2005-2008) and on the Board of Consumer Focus.

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**Nigel Stapleton's** term of appointment ended in December 2010.

**Ulf Dahlsten** left Postcomm in September 2010 to take up a role at the European Commission.

## Our Directors



**Jenny Block**, Postcomm's chief legal adviser, heads our legal team. She joined Postcomm on secondment in January 2010 and was appointed to her current role in November 2011, previous to this she was a partner at international law firm Simmons and Simmons.



**Stephen Gibson**, director of the Economic Policy team, is responsible for directing Postcomm's analysis of mail markets and its investigations into anti-competitive complaints about Royal Mail's activities, as well leading on all economic policy issues. He was previously Principal Economist at Ofcom and Head of Economics at Railtrack. At the start of his career he worked for five years as an economist in the Post Office Group's Corporate Planning Department.



**Sean O'Hara**, director of the Customer, Strategy and Information team, is responsible for monitoring Royal Mail's provision of a reliable universal service and Royal Mail's compliance with its obligations to postal users and quality of service. He is also responsible for all other licensed postal operators' duties regarding the security of mail and handling of non-contract customer complaints, and post office policy. Previously he worked in other regulators in a variety of customer protection and competition policy roles.



**Robin Pratt**, director of the Regulatory Finance team, is responsible for the design and implementation of Royal Mail's price control and formulating some of its major policy decisions, such as appropriate access arrangements. He joined Postcomm from Ofcom in April 2010 and brings with him a wealth of experience in regulatory strategy across network industries such as energy, water, transport, communications and post.



**Colin Sharples**, director of the Resources team is responsible for operational matters, including finance and business planning, human resources, ICT and information, corporate governance, risk management and security. He previously worked in a variety of board-level operational and change management roles in the private sector.

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**Rebecca Churchill** was the director of the Strategy and Market Development team until December 2010.

## **Our activities during the year**

### **May 2010**

We set out our proposals for a new regulatory framework which would replace the structure which had been in place since 2006. The framework was based on the principles of cost transparency and accounting separation.

### **June 2010**

We gave more detail on our proposals that we set out in May about cost transparency and accounting separation. It focused on the preparation of documentation of Royal Mail's costing practices, the introduction of more detailed regulatory accounting guidelines and proposals on principles of transfer pricing to support our accounting separation proposals.

### **September 2010**

We accepted Royal Mail's application for relief from the financial impact of failure to meet quality of service targets as a result of industrial action during 2009-10. We considered that there was strong evidence to support Royal Mail's claim that the industrial action which occurred in 2009-10 was a direct result of the company's ongoing transformation of its business.

### **October 2010**

As part of a supplementary consultation response Royal Mail requested additional revenue under the price control for 2011-12.

### **November 2010**

We launched two consultations: one on the move towards lighter touch regulation and the other on price increases that would maintain the pace of Royal Mail's modernisation, required to safeguard the universal service.

Ourselves and Consumer Focus published a major piece of research into the needs of postal customers and their views on potential changes to the postal service. According to this research customers would be prepared to make trade offs to ensure a sustainable postal service, if it was guaranteed that changes to Royal Mail deliver a reliable, value for money, one price goes anywhere service.

### **February 2011**

We agreed Royal Mail's request for additional allowed revenues following their request made in November.

We also decided upon a range of deregulatory measures which would give Royal Mail greater commercial freedom in markets where competition is growing.



We published the first in a series of documents which set out our initial views on the building blocks for a new and sustainable regulatory framework for 2012 and beyond. The papers published were aimed at facilitating discussion on some key issues prior to the handover of regulatory responsibility to Ofcom.

### **March 2011**

We published a consultation on the next phase of our analysis of markets work, setting out our provisional conclusions on retail market definitions and whether Royal Mail has market power in these markets.

We also published a consultation on the future of the access regime, whereby Royal Mail is obliged to provide access to its network and deliver mail over the final mile on behalf of other operators and also for some of its customers.

### **April 2011**

We published a consultation on whether there is a need for ex ante regulation of Royal Mail's prices beyond 2012 and, if so, what that regulatory framework might look like.

More information on all these achievements is available on our website: [www.psc.gov.uk](http://www.psc.gov.uk)

## Changing the face of postal regulation

**The Postal Services Act 2011 (“the Act”), was first introduced to Parliament on 13 October 2010, received Royal Assent on 13 June 2011. It provides for the privatisation of Royal Mail, a proposed solution to the historic pension fund deficit and a transfer of regulatory responsibility to Ofcom. The Act also ensures that the residual measures required to implement the 3rd Postal Services Directive are in place.**

The Act retains the regulator's primary duty with respect to the universal service, and will require Ofcom to have regard to the financial sustainability and efficient provision of a universal service. At the heart of this is retention of the current universal service obligation requiring collection and delivery six days a week at uniform, affordable prices. To further sustain a universal service, the act puts in place two additional safeguards:

- No proposal to change the minimum requirements of the universal service can be put forward until Ofcom has conducted a review of the needs of users.
- Any proposal to change the minimum requirements must be subject to a majority vote in both houses of Parliament. Any change in the minimum requirements cannot change the universal nature of the service.

The Government has also made clear that it considers safeguarding the universal service to be the priority but has stated that it remains committed to encouraging competition in the postal services market.

In the period leading up to the transfer of regulatory responsibility, Postcomm and Ofcom are working together to maintain regulatory stability for both postal users and operators, with a view to providing confidence and certainty for the future direction of regulation and ensuring a smooth transition. Ofcom assumes responsibility for implementing a new regulatory framework from the date when the Act comes into effect. In the meantime, Postcomm remains the regulator for the postal sector and continues to be the contact for postal industry stakeholders.

Ministers and the Hooper Review have explained the importance of moving forward with meaningful changes as soon as practicable, and for there to be no delay in introducing a new regulatory structure in 2012.

### ***Price Control***

Postcomm's current work on the price control seeks to:

- Implement and oversee the price control for the transitional 2011-12 year, which included some initial steps needed to help prepare for any 2012 price control, and rolling over other aspects of the previous price control, as set out in Annex 4 of the May 2010 “Laying the foundations” consultation, Annex 3 of our November 2010 document and our February 2011 decision.
- Consider a fundamental review of the price control that should apply from 2012 onwards.

As part of the work to set the price control for the 2011-12 transitional year, we considered and accepted Royal Mail's application for additional price rises to take effect in May 2011 to allow Royal

Mail to continue its modernisation programme. The scope of price controls in the 2011-12 transitional year is, in consultation with Ofcom being informed by the outcomes of the market study, and the universal service and access consultations. The scope of the price control will also be informed by an assessment of any changes needed to the scope, form, structure and level of the controls, consideration of the point at which these ex ante controls can be removed and the availability of suitable financial monitoring information to support lighter touch ex post regulation.

In April 2011 we published initial proposals about regulatory safeguards including the possible role of price controls as part of the 2012 regulatory framework. These proposals covered whether there was a need for controls on the prices and quality of universal service products, and controls on the terms of access to Royal Mail's network, and if so what the scope, structure and form of any such controls would be. We indicated the general factors which will need to be considered in determining the level of the price control, including how issues such as sustainable levels of financeability and a commercial return on investment should be assessed for the purpose. The proposals were developed taking account of the new legal framework for the regulation of postal services.

## Being informed

We can only regulate effectively if we know how the postal market is developing, where one market ends and another begins and who has power in each market. We are constantly monitoring the market to better understand how things are changing and to best understand when we might need to intervene. To support our regulation during 2010/11 we have also continued the process of assessing the state of the market through a market study.

### **Market size, trends and share**

Mail volumes handled by Royal Mail for 2010-11 have continued to fall and Royal Mail reported a decline of 4% in mail volumes in 2011, which brings mail volumes to a total of about 15.9 billion items.<sup>1</sup> Royal Mail still delivers more than 99% of addressed mail in the UK.

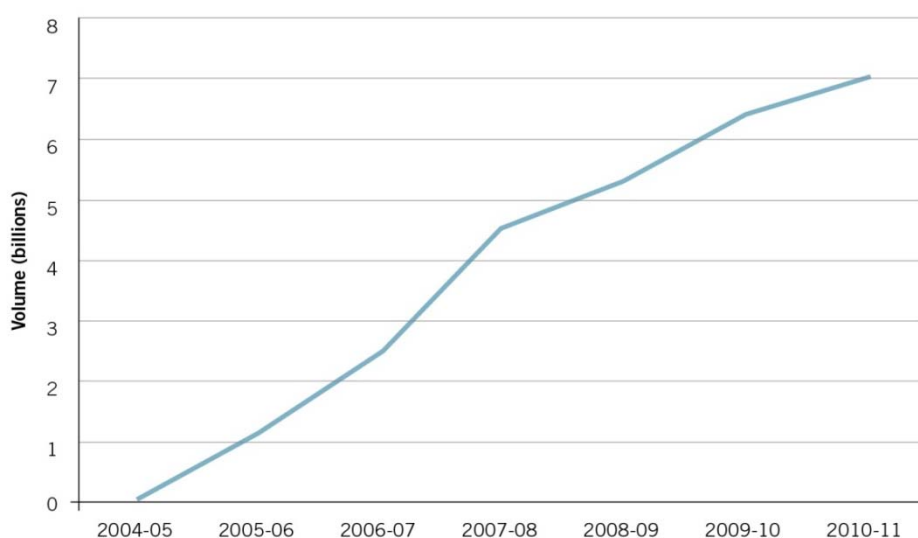
### **Market entry to date**

We have issued more postal licences this year, in particular to smaller businesses and sole traders, bringing the number of licence holders in June 2011 to 56. The main form of competition that these operators engage in, is downstream access, where the alternative operator collects and sorts mail from customers before transporting it to Royal Mail for final delivery. Large mail customers can set up direct access agreements with Royal Mail, inputting their own mail into Royal Mail's nationwide network at Inward Mail Centres.

### **Access volumes**

Royal Mail handled 7 billion items in 2010-11 through access agreements, which make up around 40% of Royal Mail's inland addressed mail volumes. In 2009-10 access accounted for around a third of Royal Mail's volumes. Of the 7 billion items of access mail, around a quarter of these enter the Royal Mail network through customer direct access agreements; operator access accounts for the remainder.<sup>2</sup> The graph below shows that there has been steady growth in access volumes overall since the introduction of competition into the market.

**Figure 1: Growth in access volumes.**



<http://www.royalmailgroup.com/link/download?catId=23600635&mediaId=139300798>

<sup>2</sup> From figures provided to Postcomm by Royal Mail Group

## Securing the universal service and protecting postal users

**Our primary duty is to ensure the provision of a universal postal service. It is at the heart of all our activities.**

### **Research on customer needs from a universal service**

In November 2010, we published the results of a research project commissioned jointly with Consumer Focus on customers' needs from a universal service<sup>3</sup>. The research explored the needs of residential, business and bulk customers, as both senders and recipients of mail and looked at trends in how customers have used postal services over the last three years. It covered the needs of special interest groups, described in the Postal Services Act 2000 as individuals who are disabled or chronically sick, individuals of pensionable age, individuals with low incomes, and individuals living in rural areas.

The research found that post is still an important method of communication and people recognise the importance of the postal service:

- 85% of residential customers and 93% of businesses agree that they will always need to send some things by post.
- 66% of residential customers agree that they like receiving post, with 15% disagreeing.
- The current service<sup>4</sup> is acceptable to nine out of 10 residential customers and nine out of 10 business customers.

Residential and business customers alike acknowledge that the way they use the postal service continues to change. As a result, they appreciate that changes to the service may be needed. In the survey, residential customers and businesses were presented with a range of potential changes to the postal service and asked to trade-off different aspects in order to test which were most important to them.

The research found that customers are tolerant of small changes, such as slight increases in stamp prices or minor reductions in the quality of service, in order to retain the 'one price goes anywhere' guarantee. Customers stressed that any reductions to the current service would need to be balanced out with benefits, such as no large price increases and the introduction of new services like paid for evening deliveries. Any changes need to be carefully considered, as both business and residential customers place a high value on the universal service.

### **Customer Interest Forum**

In 2010/11 we set up a Customer Interest Forum to provide us with an ongoing mechanism for engagement with customers in order to understand their views, needs and requirements from the postal service. There were five forums (London, Glasgow, Cardiff, Belfast and Chesterfield) and each forum met three times – in July and November 2010 and in March 2011. Each forum consisted of approximately 20 residential and small business customers.

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<sup>3</sup> TNS-BMRB, *Customer needs from a sustainable universal postal service in the UK, November 2010*, <http://www.psc.gov.uk/universal/customerneedsresearch>

<sup>4</sup> Availability of first and second class services, collection and delivery on six days a week, 93% target for first class stamped and metered items to be delivered the next working day and a guaranteed and insured next day service (Special Delivery Next Day)

We asked the participants at the forums to discuss a range of issues so that we could take into account customers' views on aspects of our work on the universal service and affordability of postal services.

The main findings from the five forums were:

- Customers consider the universal service to be a fundamental part of society and whilst they may well sometimes experience frustration or dissatisfaction with the postal service, they firmly value its existence.
- Participants consider that it is essential for the postal regulator to ensure that the postal service is accessible to everyone in society.
- On the uniform tariff, customers think that being able to send post anywhere in the UK for the same price makes the postal service convenient and straightforward.
- Both residential and small business customers consider postal services to be affordable.

When we asked participants to evaluate the three meetings they attended we received very positive feedback – they found the meetings informative, interesting and enjoyable. They particularly welcomed the fact that Postcomm had organised such events to listen to customers' views and to consider those views in our policy-making.

The reports from each wave of the forum<sup>5</sup> can be found on our website [www.psc.gov.uk](http://www.psc.gov.uk).

#### ***Update on net costs of elements of the universal service***

Alongside our universal service consultation in February 2011, we also published a report which estimates the net cost that some elements of the universal service impose on Royal Mail<sup>6</sup>. The report updated the results of a 2008 study<sup>7</sup> carried out by Frontier Economics on our behalf and assesses whether Royal Mail could operate more profitably (or reduce losses) if it were not obliged to comply with some parts of the current universal service specification.

#### ***Other activities:***

##### ***Monitoring Royal Mail's quality of service performance***

We monitor Royal Mail's quality of service performance against the targets set out in its licence<sup>8</sup>. The quality of service targets are for the UK as a whole (except for a postcode area target). Every quarter, Royal Mail publishes its quality of service results on its website<sup>9</sup>. In 2010-11, Royal Mail met four out of 12 quality of service targets – the same as in 2009-10.

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<sup>5</sup> Customer Interest Forum Wave one report: <http://www.psc.gov.uk/documents/1166.pdf>, Wave two report: <http://www.psc.gov.uk/documents/1797.pdf>,

<sup>6</sup> Frontier Economics, *The net costs of elements of the universal service – an update*, February 2011, <http://www.psc.gov.uk/documents/1805.pdf>

<sup>7</sup> Frontier Economics, *Net costs of elements of the universal service*, May 2008, <http://www.psc.gov.uk/documents/1579.pdf>

<sup>8</sup> Till such time as Postcomm retains the regulatory responsibility for postal services under the Postal Services Act 2000

<sup>9</sup> <http://www.royalmailgroup.com/portal/rmg/content1?catId=23300505&mediaId=23300506>

Royal Mail has applied to us for adjustments to the 2010-11 quality of service results to take account of the disruption to its network caused by the volcanic ash cloud in April 2010 and severe weather in November/December 2010 resulting in backlogs in January and we are considering their application.

The figures below are unadjusted for disruption caused by transformation related industrial action and severe weather conditions.

### Royal Mail's quality of service results

Scheduled services	Target	Cumulative performance in 2009-10	Cumulative performance in 2010-11
Retail first class	93%	87.9%	91.4%
Retail second class	98.5%	96.7%	98.2%
Bulk first class	91.0%	87.1%	89.2%
Bulk second class	97.5%	95.6%	96.5%
Bulk third class	97.5%	98.1%	98.0%
Standard parcels	90.0%	92.7%	94.3%
European	85.0%	94.8%	93.1%
International			
Delivery			
Special Delivery Next Day	99.0%	97.6%	97.8%
Postcode area target % (delivered)	91.5% in 118 postcode areas	14 of 118	68 of 118
% of collection points served each day	99.90%	98.70%	99.64%
% of delivery routes completed each day	99.90%	98.16%	99.39%
% of items delivered correctly	99.50%	99.66%	99.66%

### ***Decision on Royal Mail's request for relief from financial impact of quality of service failures due to industrial action***

In September 2010, we published our decision<sup>10</sup> to accept in full Royal Mail's application for relief from the financial impact of failure to meet quality of service targets as a result of industrial action during 2009-10. As a result, Royal Mail was not required to pay £37.2m compensation to bulk mail customers or to forego £49.2m in allowed revenue in 2010-11.

We considered that there was strong evidence to support Royal Mail's claim that the extensive industrial action which occurred in 2009-10 was a direct result of the company's ongoing transformation of its business. This process of transformation has been identified by us, Royal Mail, the Hooper Review and Government as essential and urgent to safeguard the provision of the universal service in the UK. In making this decision Postcomm was therefore mindful of the financial

<sup>10</sup> Postcomm, *Royal Mail's application for relief from the impact of industrial action upon the achievement of Condition 4 service standards: decision document*, September 2010, <http://www.psc.gov.uk/documents/980.pdf>

impact that compensation and forgoing revenue would have on Royal Mail's financial position and its ability to finance its activities, including the universal service.

***Investigating the measurement of quality of service performance***

In September 2010, we concluded our investigation into Royal Mail's monitoring of quality of service performance<sup>11</sup>. We found that the company failed to comply with requirements in its licence relating to the independent monitoring of performance. However, the investigation found that the actual quality of service figures had not been affected in any material way, that Royal Mail had not benefitted financially from the conduct investigated and that there was no adverse impact on Royal Mail's customers.

In light of the investigation's findings Royal Mail put in place a comprehensive remediation programme to address areas of concern and to strengthen its performance monitoring system. We did not impose a financial penalty as Royal Mail had already incurred considerable costs both in investigating the complaint and in carrying out its remedial action programme.

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<sup>11</sup> Postcomm, *An investigation into Royal Mail's monitoring of quality of service performance measurement: final decision*, September 2010, <http://www.psc.gov.uk/documents/887.pdf>



## The everyday

**With all the rapid change that has occurred over the year, towards which all our staff have contributed, it is important not to forget the everyday tasks which we do as well.**

### ***Postcode Address File (PAF)***

The PAF for the United Kingdom is maintained by Royal Mail – it contains 28 million addresses and, typically, receives 1.5 million updates a year.

The regulatory framework for PAF had been in place for three years and in September 2010 we decided to check that it was still working well and to see whether any further changes were needed. We found that in the main the arrangements we put in place in 2007 were operating smoothly but we made some recommendations on changes that should be made:

- The measure of “excess” profits made on PAF, beyond the regulatory target, should be considered cumulatively i.e. over 3 years rather than year on year. This would allow time to consider any allowed reinvestment of excess profits made.
- We also suggested that the PAF Advisory Board should consider additional ways further to improve their organisation, communications and transparency in line with comments we had received during the consultation.

### ***International***

We are always keen to both share our experiences and to learn from the experiences of other regulators.

The most significant development this year has been the creation of a pan-European group called the European Regulators Group for Post (ERGP) which was set up to advise the European Commission on postal regulation. The ERGP has set up working groups to tackle key regulation issues. Such interaction will help to ensure greater harmonisation of the internal market for post in the European Union following full market opening which will be achieved in every member state by 2013. Our Chief Executive Tim Brown was elected Vice-chairman of the ERGP and our Director, Regulatory Policy was appointed co-Chair of the Cost Accounting working group.

We have also been active in the European Committee for Postal Regulation (known as CERP) where we were represented on various project teams and helped to prepare the associated reports on best practice in areas such as market data, consumer issues, and an implementation guide on the universal service. CERP represents a wider group of countries than the European Union and includes ministries as well as national regulatory authorities. We also contributed to the debate and decisions on the restructuring of CERP so that it will focus exclusively on issues not covered by the ERGP, in particular policy issues affecting ministries as well as national regulatory authorities and issues concerning the operation and rules of the Universal Postal Union.

We maintained contact with the European Commission’s postal unit in the Internal Market Directorate. We also took part in several bilateral meetings with the ministries/regulators of other countries, such as France, Japan, Malaysia and Indonesia.

## Licensing postal operators

At the end of March 2011 there were the following 52 licensed operators, including Royal Mail, the universal service provider:

### A.K. Carriers Limited

28 Hunters Way, Darland, Gillingham, Kent, ME7 3BA

### A McLay & Company Limited

Longwood Drive, Forest Farm, Cardiff, CF14 7ZB

### A.P.P. Logistics

Unit 3, Eastman Way, Stevenage Business Park, Stevenage, SG1 4SX

### A.S.A.P. Letters (trading name of Mr Christopher Barry Adams)

11 Park Street, Uttoxeter, Staffordshire ST14 7AG

### Ashton Secure Delivery (trading name of Mr Christopher Robert Ashton)

20 Beaumont Road, St Judes, Plymouth, Devon PL4 9BN

### Cambridge Postal Services (trading name of Mr John James Dove) (not trading during 2010/11)

### CFH Total Document Management Limited

St Peters Park, Wells Road, Radstock, BA3 3UP

### Citipost AMP Limited (formerly Alternative Mail and Parcels Limited)

16 Gunnery Terrace, Cornwallis Road, Royal Arsenal, London, SE18 6SW

### City Cycle Couriers (trading name of Mr Kenneth Holder and Mr Rob Scott – both hold licences)

The Business Centre, 2 Cattedown Road, Plymouth, PL4 0EG

### City East Post (trading name of Mr Muhammad Razan Uddin)

337 Barking Road, London, E13 8EE

### City Link Post (trading name of Target Express Parcels Limited)

Woodlands Park, Ashton Road, Newton Le Willows, Warrington, WA12 0HF

### CMS (trading name of Royale Research Limited)

Record House, 236 Record Street, London, SE1 1TL

### Cycle 4U (trading name of Mr Stephen James Young)

Friends of the Earth Warehouse, 54-57 Allison Street, Birmingham, B5 5TH

### Cycle Link (trading name of Mr Joseph Dillon)

42-46 Bethel Street, Norwich, Norfolk, NR2 1NR

### D2D Distribution Limited

2-4 St Peters Street, St Albans, AL1 3LF

[D G Reports Ltd](#)

19 Thoresby Mews, Bridlington, East Yorkshire YO16 7GZ

[DHL Global Mail \(UK\) Limited](#)

15 The Avenue, Egham, Surrey TW20 9AB

[Document Outsourcing Limited](#)

Document House, 3 Phoenix Crescent, Strathclyde Business Park, Belshill, ML4 3NJ

[DX Network Services Limited](#)

DX House, Ridgeway, Iver, Bucks, SL0 9JQ

[DX Secure Limited \(formerly Secure Mail Services Ltd\)](#)

PO Box 390, Northampton, NN3 6YG

[Enerco2 Limited](#)

Suite 109, The Enterprise Centre, Cottingham Road, Hull, HU6 7RX

[Enviropost Ltd](#)

6a Chelsea Avenue, Blackpool FY2 0SU

[FedEx UK Limited \(formerly ANC Limited\)](#)

Parkhouse East Industrial Estate, Newcastle-under-Lyme, Staffordshire, ST5 7RB

[First Scottish Group Limited](#)

St David's House, St David's Drive, Dalgety Bay, Fife, KY11 9NB

[Fully Franked Local \(trading name of Mrs Julie Wilson\)](#)

86 Maxwell Gardens, Orpington, Bromley, Kent, BR6 9QU

[Go Post! – Glasgow's Own Post \(trading name of Mr Spencer Hugh Pryor\)](#)

15 Ardbeg Avenue, Burnside, Glasgow, G73 5NF

[Intercity Communications Limited](#)

64-70 Vyner Street, London, E2 9DQ

[LDS Cambridge Limited](#)

12 Garlic Row, Cambridge, CB5 8HW

[Letterbox Distribution \(trading name of Greatbatch Limited\)](#)

Unit 65, Lancaster Road Industrial Estate, Lancaster Road, New Barnet, Hertfordshire, EN4 8AS

[Lewis Direct Mail Marketing Limited](#)

433 Caledonian Road, London N7 9BG

[Local Mail Ltd](#)

16 Marigold Place, Old Harlow, Essex CM17 0BW

[Northern Mail \(trading name of The Mailing House Group Limited\)](#)

Nelson Park, Nelson Way, Cramlington, Northumberland, NE23 1JY

#### Parcelpoint Limited

First Floor, Skyways House, Speke Road, Liverpool, Merseyside, L70 1AB

Pedal Post (trading name of Mr Stephen Booth) (not trading during 2010/11)

Penny Farthing Post (Couriers) (trading name of Mr Stephen Richard Cooper)

Suite 8, Central House, Maltmill Lane, Halesowen, West Midlands, B62 8JA

#### Peoplepost Limited

83 Bison Place, Leyland, Lancashire, PR26 8HA

Post 123 (trading name of Mr Aaron Leitner)

26 Roston Road, Salford, M7 4FS

Product Development Corporation UK (trading name of Product Development Corporation)

First Floor, Regency House, York Business Park, York, YO26 6RW

Racer Consultancy Management Services Limited

101 Legacy Centre, Hanworth Trading Estate, Hampton Road West, Feltham, TW13 6DH

Red Star Parcels Limited (a UPS company)

St Davids Way, Bermuda Park, Nuneaton, Warwickshire, CV10 7SD

Regional Mail Services Limited

Unit a4, PortView Trade Centre, 310 Newtownards Road, Belfast, BT4 1HE

Royal Mail Group Limited

Customer Services, Freepost, 20 Turner Road, St Rollox Business & Retail Park, Glasgow G21 1AA

Scotpost (trading name of Mr Wesley Pollock)

325 Braehead Estate, Bonhill, G83 9NF

Secured Mail Limited

Unit 4A, Bechers Drive, Aintree Racecourse Business Park, Liverpool, L9 4AY

Securipost Limited

5th Floor, Telford Plaza 2, Ironmasters Way, Telford, Shropshire, TF3 4NT

The Satellite Distribution Company Limited

19 Canfield Place, Finchley Road, London, NW6 3BT

TNT Post UK Limited

Unit 1, Globeside Business Park, Fieldhouse Lane, Marlow, Berkshire, SL7 1HY

UK Mail (trading name of UK Mail Express Parcels and Mail Limited)

Express House, Wolseley Drive, Heartlands, Birmingham, B8 2SQ

Wightpost (trading name of Mr Peter Camplin)

34 Hill Street, Ryde, Isle of Wight, PO33 2QN

YellowJersey Delivery Limited  
PO Box 4772, Coventry, CV7 7UZ

Zip Mail Limited  
47 Chancery Lane, London, WC2A 1RF

## **The legal bit**

### ***Statutory reporting requirements under Section 45(2) of the Postal Services Act General survey of development***

A general survey of developments over the year is given by the report of the Chief Executive. This should be taken with chapters headed: Our activities during the year, Changing the face of postal regulation, Being Informed, Securing the universal service and protecting users, The everyday, Licensing postal operators and The Legal Bit<sup>12</sup>.

### ***Compliance with obligations under the Postal Services Directive***

The UK's obligations under the Postal Services Directive are given effect through the Postal Services Act 2000<sup>13</sup> and conditions in the licences granted to postal operators and in particular the universal service provider, Royal Mail Group Ltd. In addition, Royal Mail has prepared and submitted accounts which comply with Article 14 of the Directive.

The Third Postal Services Directive entered into force on 27 February 2008 (Directive 2008/6/EC). This Directive amends the provisions of the 1997 Directive and there was a deadline of 31 December 2010 to transpose the provisions of the new Directive into domestic law by member states. The Department for Business, Innovation and Skills did not fully implement by this transposition deadline although this only related to one part of one requirement of the Directive, in respect of consumer complaints procedures for non-licensed postal operators such as couriers, and this has subsequently been addressed in the Postal Services Act 2011.

### ***Consumer obligations***

With Consumer Focus, the consumer body that succeeded Postwatch in October 2008, Postcomm monitors Royal Mail's compliance with its licence obligations<sup>14</sup>, including for services provided to meet the universal service obligation under the Directive. Postcomm has worked closely with Consumer Focus to ensure that the concerns of retail customers are taken into account in its regulatory decisions.

Postcomm continues to monitor the compliance of licensees with the complaint handling regulations and the requirement to participate in the redress scheme. Postcomm has also monitored how the redress scheme operates in relation to the approval criteria set by Postcomm.

### ***Achievement of specified standards of performance by each licence holder***

As reported in previous years, only Royal Mail holds a licence with detailed requirements for the setting and monitoring of standards of performance<sup>15</sup>.

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<sup>12</sup> Under the new regime, Ofcom is required to prepare and send to the Secretary of State, a report of the carrying out of its functions during that financial year. The annual report should contain a report of Ofcom's proceedings during that year and such information relating to its financial position, and any other matters that the Secretary of State may require.

<sup>13</sup> Till such time as after which under the 2011 Act, UK's Directive obligations would be given effect through the regulatory conditions imposed by Ofcom under the authorisation regime (replacing the licensing regime)

<sup>14</sup> Till such time as Postcomm retains the regulatory responsibility for postal services under the 2000 Act.

<sup>15</sup> The Postal Services Act 2011 introduces an authorisation regime replacing the existing licences.

Royal Mail's performance against its standards of service is reported on its website at <http://www.royalmailgroup.com/portal/rmg/content1?catId=23300505&mediaId=23300506>

#### ***Final and provisional orders made during the year***

During the year an investigation into Royal Mail's monitoring of quality of service performance measurement was conducted, but Commission decided that no final order should be made.

#### ***Penalties imposed during the year***

There were no penalties imposed during the year.

#### ***Progress of projects described in the forward work plan***

Progress on the projects listed in Postcomm's forward work programme for the year is reported in the Chief Executive's report and in the chapters headed: Our activities during the year, Changing the face of postal regulation, Being Informed, Securing the universal service and protecting users, The everyday, Licensing postal operators and The Legal Bit.

#### ***Reports on other matters required by the Secretary of State***

Postcomm's tenth report on the post office network was published in October 2010.

#### **Reporting pursuant to paragraph 17.5 of the guidance given by the Secretary of State under Section 43 of the Postal Services Act 2000:**

#### ***Performance in relation to social and environmental aspects of Postcomm's work***

- Universal service: Royal Mail continued to be able to discharge its obligations under its licence to provide a universal postal service in the UK. Postcomm kept Royal Mail's financial performance under close review throughout the year. Postcomm made two changes to the price control which limits certain prices Royal Mail can charge its customers for the period from April 2010 to March 2011. Postcomm is also working on changes to the regulatory regime to come into effect in April 2011 and April 2012. The proposed changes to the price control and the regulatory framework are covered in the chapter of this report headed Changing the regulation of postal services.
- Affordable prices: Competition is increasingly ensuring that prices for bulk business customers remain affordable. For individual customers, expenditure on postal services continues to be a very small proportion of their overall outgoings. The price control introduced into Royal Mail's licence ensures that universal postal services remain affordable. Postcomm is also doing a project as part of its development of a new regulatory framework to consider whether there is an appropriate and reasonable approach to assess the affordability of universal postal services, and if so, how this might be taken into account when setting prices as part of the price control for 2012.
- Environmental: The incentives to efficiency in Royal Mail's price control continue to be the most important means by which Postcomm contributes, indirectly, to reducing the adverse environmental effects of postal operations.

#### ***Providing postal users with clear and readily available advice and information on postal services***

Responsibility for the provision of advice to postal users on postal services lies in the first instance with Customer Focus at present. In addition Postcomm publishes a number of factsheets and has a comprehensive website.

#### ***The situation of vulnerable postal users***

Postal users receiving Royal Mail's free services to the blind are now included in the revised retail compensation scheme for lost, damaged or delayed mail. There has been no change in the licensing requirements setting standards for proximity of letter boxes and post offices to users.

## Glossary

<b>Access</b>	Allowing other companies operating in the postal market, or users of postal services, to use Royal Mail's facilities for the provision of a postal service. Access to Royal Mail's postal facilities could in principle be at any point in the pipeline activity (e.g. a mail centre or delivery office). Condition 9 of Royal Mail's licence enables mail users and postal operators to make commercial agreements with Royal Mail allowing them to use the company's facilities to carry mail for part of its journey.
<b>Downstream</b>	The activities of inward sortation and delivery.
<b>Downstream access</b>	Access to Royal Mail's distribution systems at an inward mail centre or any point in the postal activity chain after that.
<b>Large letter</b>	Any postal item exceeding the dimensions of a PiP Letter and equal to or less than 353mm x 250mm and 25mm thick, and below 750g in weight.
<b>Letter</b>	Any postal item equal to or less than 165mm x 240mm and 10mm thick.
<b>Licensed mail area</b>	This is the range of services for which a licence under the Postal Service Act 2000 is required, broadly to send letters weighing less than 350g and/or costing less than £1 to send
<b>Market</b>	A market has both a product and geographic dimension. The product dimension includes all products and/or services that are regarded as interchangeable or substitutable. The geographic dimension is the area where operators are involved in the supply and demand of the product and/or services and where the competitive conditions are reasonably similar, and are different from neighbouring areas.
<b>Packet</b>	Any postal item that is greater than 250mm x 353mm of any thickness or less than 250mm x 353mm but more than 10mm thick. Packets are now categorised as letter packet, flat packet, packet and bag.
<b>Packets and Parcels Services (PPS)</b>	Services used to convey items up to 32kg which are not within the licensed mail area, whether they are handled by mail or parcel operators, express or courier companies or any other operator. This excludes letters and large letters for services without any tracking or other premium attribute.
<b>PiP</b>	Pricing in Proportion.



<b>PiP Letter</b>	Any postal item equal to or less than 165mm x 240mm and 5mm thick and below 100g weight.
<b>Pipeline</b>	Stages involved in the production and distribution process of a good or service from the initiation of the process to the delivery of the final product. In postal services the pipeline refers to all the stages from collection to final delivery.
<b>Pre-sorted</b>	Products where the sender has sorted their mailing items to a predetermined level before handing them to the operator.
<b>Retail</b>	A postal service serving a final customer.
<b>Universal (postal) Service</b>	Postal products and associated minimum service standards that must be made available to all 28 million addresses in the UK.
<b>Upstream</b>	The activities of collection, outward sortation and trunking.
<b>Upstream access</b>	Access to Royal Mail's distribution systems at a point in the postal delivery chain before the inward mail centre.
<b>Wholesale</b>	Postal activities that are sold as intermediary products to provide a retail service.

## Resource Accounts

### Introduction

These Accounts have been prepared and published by the Postal Services Commission (Postcomm) and have been prepared under a direction issued by HM Treasury in accordance with section 5(2) of the Government Resources and Accounts Act 2000. The Accounts demonstrate the resources that have been used to deliver Postcomm's objectives and have been prepared in accordance with the guidance set out in the Government Financial Reporting Manual.

#### ***Nature of Postcomm's Business and its Aim, Objectives and Activities***

This document contains the accounts of Postcomm for the period 1 April 2010 to 31 March 2011.

Postcomm is a non-ministerial government department and is governed by the Postal Services Act 2000.

Postcomm's objectives are set out in statute and the main tasks are to:

- ensure a universal service;
- protect customers' interests;
- further the interests of customers by promoting effective competition; and
- promote efficiency and economy on the part of postal operators.

The achievement of these four goals is supported by building effective stakeholder relations and using and developing resources effectively and efficiently.

The Postal Services Act 2011, first introduced to Parliament on 13 October 2010, received Royal Assent on 13 June 2011. The Act provides for the privatisation of Royal Mail, a solution to Royal Mail's historic pension fund deficit, and envisages the transfer of regulatory responsibility for postal services to Ofcom, and the subsequent abolition of Postcomm at some point in the 2011-12 financial year.

During 2010-11 we have worked hard to ensure that the likely transfer of responsibility to Ofcom and Royal Assent for the Postal Services Bill 2010 were appropriately factored into our initiatives and regulatory proposals. We have continued our work to help deliver a new regulatory framework for 2012, as set out in our Forward Work Plan and subsequent consultation and decision documents. Government has made clear that it supports our programme of work and that the new Bill should not be a cause for delay in seeking to put in place a revised regulatory framework from 2012 and we have been working with Ofcom to ensure a smooth transition to deliver a new regulatory framework to take effect from spring 2012.

## Management Commentary

### **Income**

In 2010-11 operating income of £8.211m was received, primarily from the Royal Mail Group. Details of income received can be found in Note 8 to the Resource Accounts. An additional £2.937m was collected from the Royal Mail Group on behalf of the Department for Business, Innovation and Skills (BIS) in respect of the costs of Consumer Focus. This was subsequently transferred to the Department.

### **Spending**

Total operating costs amounted to £8.212m. Three areas of expenditure absorbed 70 per cent of the total: staff costs (43 per cent), consultancy (23 per cent) and accommodation (4 per cent).

Capital expenditure in the year totalled £0.019m.

### **Finance**

Postcomm's budget is approved by Parliament following a consultation process with industry and other interested parties. For 2010-11 Parliament approved a resource budget of £10.037m, a capital budget of £0.150m, and a net cash requirement of £1.2m.

Postcomm proposed and agreed with HM Treasury to reduce its budget for 2010-11 initially by £0.5m and then subsequently by a further £0.7m to £8.837m whilst still delivering our full programme of work in 2010-11 as detailed in our forward work plan.

In April 2010 £3.2m was drawn from the Contingency Fund, to provide short term liquidity until the receipt of licence fees. This was fully repaid in September 2010.

### **Reconciliation between resource outturn to the resource budget Outturn**

	2010-11 £000's	2009-10 £000's
<b>Net Resource Outturn (Estimates)</b>	1	1
Net Operating Costs (Accounts)	1	1
<b>Resource Budget Outturn (Budget)</b>	1	1
<b>Of which</b>		
Departmental Expenditure Limits (DEL)	1	1
Annually Managed Expenditure (AME)	-	-

Postcomm is funded in the main by licence fees paid by Royal Mail. The market was fully liberalised in January 2006 and as new operators obtain licences, they will also contribute through their licence fees when their turnover within the licensed area reaches the set threshold. Postcomm expenditure history and summary financial information for 2010-11 is summarised in the table overleaf.

	<b>2009-10</b>	<b>2010-11</b>	<b>2010-11</b>	<b>2011-12</b>
	<b><u>Actual</u></b>	<b><u>Budget</u></b>	<b><u>Actual</u></b>	<b><u>Budget</u></b>
	<b><u>outturn</u></b>	<b><u>outturn</u></b>	<b><u>outturn</u></b>	<b><u>outturn</u></b>
	<b><u>£000</u></b>	<b><u>£000</u></b>	<b><u>£000</u></b>	<b><u>£000</u></b>
Staff costs <sup>1</sup>	3,950	3,561	3,498	3,640
Agency staff/interims	729	1,450	1,415	1,128
Other running costs <sup>2</sup>	1,481	1,336	1,217	1,374
Outside consultants, lawyers, etc. <sup>3</sup>	1,620	2,330	1,850	2,535
<i>Sub-total</i>	<b>7,780</b>	<b>8,677</b>	<b>7,980</b>	<b>8,677</b>
Depreciation, etc. <sup>4</sup>	275	260	232	260
<i>Total</i>	<b>8,055</b>	<b>8,937</b>	<b>8,212</b>	<b>8,937</b>
Capital expenditure	107	150	19	70

The above table shows Postcomm's expenditure at a summary level. The reporting categories differ from the Operating Cost Statement; however, the totals are the same.

<sup>1</sup> This relates only to those staff on the payroll.

<sup>2</sup> These are the costs of the building, IT support, telephones, finance, payroll, etc.

<sup>3</sup> This is the cost of those external economists, lawyers and other specialists used to supplement the in-house teams.

<sup>4</sup> This relates to the non-cash cost of depreciation.

The underspend is due to a sustained effort throughout the year to keep tight control and downward pressure on our costs, use our resources more efficiently, and not fill vacant full-time posts where more cost-effective interim arrangements were feasible. This was during a year when we have had one of our busiest and most challenging work programmes.

HM Treasury's publication *Managing Public Money* states that at financial year end all unspent monies, including those derived from Postcomm's licence fee income must be surrendered to the UK Consolidated Fund. Accordingly because Postcomm did not spend the full licence fee income for 2010-11, the statement of financial position at 31 March 2011 shows a negative taxpayers' equity of £3.301m.

This reflects the inclusion of liabilities falling due in the following year, which are due to be financed mainly by drawings from the UK Consolidated Fund. Such drawings will be from grants of supply approved by Parliament, to meet Postcomm's Net Cash Requirement. Such approval has been given for 2011-12.

#### ***Protected Personal Data Related Incidents***

Postcomm has not had any incidents of the loss of personal data during 2010-11.

## The Commission

The Commission comprises executive and non-executive members and is the ultimate decision making body for all matters dealt with by Postcomm. The Commission meets monthly, except that there is usually no meeting during the month of August.

### ***Executive Members of the Commission who served during the year***

Tim Brown, Chief Executive, appointed in September 2008 for a period of four years.

### ***Independent Non-Executive Members of the Commission who served during the year***

Millie Banerjee CBE, Chairman, appointed in January 2011 until March 2012.

Nigel Stapleton, Chairman, appointed in January 2004 for a period of three years. His appointment was extended from January 2007 for a further four years. He left Postcomm in December 2010 upon expiry of his term of office.

Simon Batey, Commissioner, appointed in March 2010 for a period of three years.

Norman Blackwell, Commissioner, appointed in December 2010 until March 2012.

Ulf Dahlsten, Commissioner, appointed in January 2008 for a period of three years. He resigned from the Commission in September 2010.

Wanda Goldwag, Commissioner, appointed in April 2005 for a period of three years. Wanda was reappointed in April 2008 for a further three years. Her appointment was extended in December 2010 until March 2012.

Stephen Littlechild, Commissioner, appointed in July 2006 for a period of three years. He was reappointed for a further six month term to December 2009; and in January 2010 he was reappointed again for a further 18 months.

Stuart McIntosh, Commissioner, appointed in December 2010 until March 2012.

Mike McTighe, Commissioner, appointed in December 2010 until March 2012.

Lucy Scott-Moncrieff, Commissioner, appointed in September 2008 for a period of three years.

The Chairman of the Commission was appointed by the Secretary of State for Business, Innovation and Skills (BIS). Her remuneration was set out in her contract and is subject to annual review in line with awards recommended by the Senior Salaries Review Body.

The Chief Executive and Accounting Officer of Postcomm is also a Commissioner and was appointed in accordance with the guidance issued by the Civil Service Commissioners on 22 September 2008. His remuneration was set out in his contract and is subject to annual review in line with awards recommended by the Senior Salaries Review Body.

The non-executive Commissioners were appointed by the Secretary of State for State for Business, Innovation and Skills (BIS) after consulting the Chairman. Their remuneration was set out in their

contracts and is subject to annual review in line with the awards made by the Senior Salaries Review Body.

Details of Commissioners' interests may be found on the Postcomm website: [www.psc.gov.uk](http://www.psc.gov.uk)

Details of remuneration can be found in the remuneration report on page 42.

## Governance

Postcomm has a corporate governance structure with committees that have clear terms of reference. They provide the necessary structure to ensure that there is a strong framework of internal control throughout the organisation.

The Executive Board comprises Postcomm's Chief Executive and Directors. Its role is to develop regulatory recommendations before these are formally submitted to the Commission, and to take decisions on strategic operational issues. It usually meets weekly. The terms and conditions of the appointment of the members of the Executive Board are in accordance with the Civil Service Code. Details of remuneration can be found in the Remuneration Report detailed below.

The Programme Board's role is to provide leadership on programme and risk management in Postcomm. Further details of the Board's role are given in the Statement on Internal Control on page 49.

The Audit Committee was chaired by Simon Batey in 2010-11. Other members were Ulf Dahlsten and Lucy Scott-Moncrieff. Ulf Dahlsten left the Commission in September 2010 and ceased to be a member of the Audit Committee. Mike McTighe was appointed to the Audit Committee in March 2011. The Chief Executive, the Director, Resources, the external auditors (National Audit Office) and the internal auditors (Tribal Business Assurance) attend by invitation. The role of the Committee is to ensure the adequacy of the system of internal control, review of financial statements and management effectiveness. The Committee met four times in 2010-11.

The Staff Development and Pay Advisory Committee's role relates to the pay and performance of senior Postcomm staff. Full details of the Committee's membership, role and senior staff salary and pension entitlements are given in the Remuneration Report on page 43.

### **Auditors**

The Comptroller and Auditor General, who has been appointed under statute and reports to Parliament, has audited the Resource Accounts. The notional cost of providing audit services was £38,000. There was no auditor remuneration (actual or notional) for non-audit work.

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 Postcomm's auditors are aware of that information. So far as he is aware, there is no relevant information of which Postcomm auditors are unaware.

Postcomm's internal audit service provides an independent appraisal service for management by measuring and evaluating the adequacy, reliability and effectiveness of management and financial control systems. Internal audit makes recommendations based on the appraisal of each system reviewed. An annual assurance report is provided to the Accounting Officer. Postcomm has chosen to outsource the provision of internal audit service to ensure wholly independent and fully professional analysis and recommendations. Postcomm's current provider with effect from 1 April 2006, following a competitive tender exercise, is Tribal Business Assurance.

## Sustainability Report

### ***Postcomm's Statutory Duties***

The Postal Services Act 2000 gives the Commission social duties, the foremost of which is to exercise its functions in the manner which it considers is best calculated to ensure the provision of a universal postal service.

In addition to these social duties, the Government, in March 2001, issued social and environmental guidance to Postcomm. Under section 43(2) of the Postal Services Act 2000, Postcomm is required, in exercising any of its functions, to have regard to any guidance given by the Secretary of State. The guidance draws together relevant aspects of the Government's social and environmental policies so that the Commission can carry out its functions in a way that is alert to the wider policy picture and, where possible, supportive of it.

### ***Environmental Policy (Internal Postcomm Operations)***

Postcomm has continued its efforts to improve sustainability and the energy efficiency of its offices by:

- Removing all individual desktop printers in the office so that all staff print to two existing networked multifunction photocopiers with the capacity to act as networked printers. These two copier/printers have duplex printing and monochrome set as a default to reduce the amount of paper and colour toner we use as well as an "on device" facility to delete unwanted print jobs before printing. They are energy efficient, and will go to standby switch off during periods of inactivity and automatically switch off at night. Removal of all desktop printers has also reduced the amount of non-biodegradable waste;
- Using glasses instead of disposable plastic cups;
- Using an energy efficient boiler, rather than kettles to produce hot water to reduce electricity consumption;
- Setting the timers on our air conditioning controllers to switch the units off at night;
- Improving the quality of overhead lighting, to reduce the need for additional desk lamps;
- Replacing bottled water with tap water;
- using infrared sensors to control the low energy lighting throughout the office, which automatically switch off the lights after a period of inactivity;
- Rolling out Citrix XenApp to allow staff to securely log-on to the Postcomm's network from any location without the need for additional computer equipment
- Purchasing low grade recycled paper for everyday draft printing, with better quality paper for use on final version prints;
- Increasing the number of recycling bins for waste paper by approximately 30%; and
- Further reducing the amount of taxis the organisation uses and increasing our use of public transport.



### ***Pension Liabilities***

The main pension scheme for employees is the Principal Civil Service Pension Scheme (PCSPS). The pension liabilities arising from Postcomm's membership of the PCSPS are not provided for in these accounts in accordance with Treasury instructions and are described in the Remuneration Report and Notes 1.9 and 9 to the financial statements.

### ***Equal Opportunities***

Postcomm recruits on the basis of fair and open competition and selection on merit, in accordance with the Recruitment Code laid down by the Civil Service Commissioners. Internal and external checks are carried out to ensure compliance with this code. Postcomm's Equal Opportunities Policy aims to ensure that no eligible job applicant or employee receives less favourable treatment on grounds of age, disability, sex, race, ethnic or national origin, sexual orientation, religion or religious affiliation or because the employee works part-time.

Compared to the period April 2009 to March 2010 when Postcomm recruited 15 members of staff, 12 members of staff were recruited to vacant posts between April 2010 and March 2011. On 31 March 2011 excluding 7 interim staff members and our eight external commissioners, Postcomm employed 55 people. The following table shows a breakdown by gender, ethnicity and disability.

	<b>Men</b>	<b>Women</b>	<b>Total</b>	<b>Ethnic Minority</b>	<b>Disability</b>
Chief Executive and Directors	5	1	6	-	-
Other staff	25	24	49	7	2
<b>Total 31 March 2011</b>	<b>30</b>	<b>25</b>	<b>55</b>	<b>7</b>	<b>2</b>
<b>Total 31 March 2010</b>	<b>26</b>	<b>27</b>	<b>53</b>	<b>6</b>	<b>3</b>

### ***Days lost due to absence***

Postcomm encourages a culture where good attendance is expected and valued. However, it recognises that from time to time absences for medical reasons may be unavoidable. Postcomm aims to treat its staff who are ill with sympathy and fairness and where possible to provide them with support which will enable them to recover their health and attend work regularly.

In 2010-11 the percentage of working days lost was 1 per cent or 3.01 days per annum per employee. This compares to the public sector average of 9.8 days per annum per employee.

### ***People***

Postcomm's most important investment is in its people. There is an active policy of recruiting and maintaining high calibre staff.

During the year Postcomm continued to give a high priority to training and developing staff to enhance their professionalism in pursuit of Postcomm's objectives.

This commitment to staff training is reflected in expenditure of £66,215 during the year.

### ***Creditor Payment, Policy and Performance***

Postcomm's policy is to comply with the Better Payment Practice Code. In October 2008, the Government set a new challenge to departments to pay all suppliers within 10 working days with effect from 1 December 2008. During 2010-11 Postcomm paid 100 per cent (2009-10 97 per cent) of undisputed bills within this deadline. In April 2010 Postcomm set itself the target to pay all suppliers within 5 working days. During 2010-11 Postcomm paid 95 per cent of undisputed bills within this deadline.

### ***Health and Safety***

Postcomm recognises and accepts its legal responsibility in relation to the health, safety and welfare of its employees and for all other people using its premises or engaged on its activities. Postcomm will comply with the Health and Safety at Work Act 1974 and all other relevant legislation as appropriate. Postcomm is committed to the positive promotion of accident prevention and the elimination of incidents involving personal injury, illness or damage.

The Health and Safety policy statement describes Postcomm's responsibilities and objectives and is available to all employees.

**Tim Brown**

Accounting Officer

29 June 2011

## Remuneration Report

### ***Staff Development and Pay Advisory Committee***

The Staff Development and Pay Advisory Committee consists of members of the Commission who are appointed by resolution of the Commission. The Staff Development and Pay Advisory Committee is chaired by Wanda Goldwag. The other members are Stephen Littlechild, and since March 2011, Stuart McIntosh. The Chairman and Chief Executive attend as observers and the Director of Resources provides a secretariat function.

The Committee's role is to review the pay awards and level of any bonus for Executive Board members and consider other matters relating to the pay and performance of senior Postcomm staff. Pay and bonus awards are made within the parameters set by the Cabinet Office for the Senior Civil Service following recommendations by the Senior Salaries Review Body. Further information about the work of the Review Body can be found at [www.ome.uk.com](http://www.ome.uk.com).

### ***Service contracts***

Remuneration of members of the Executive Board is set out in their contracts and subject to annual review in line with awards recommended by the Senior Salaries Review Body or by agreement with HM Treasury.

Unless otherwise stated below, the officials covered by this report hold appointments, which are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Tim Brown was appointed as Commissioner and Chief Executive for a four year term commencing 22 September 2008. Compensation for early termination for the Chief Executive is as set out in his contract.

Jenny Block was appointed as Director, Legal for a one year period commencing 1 November 2010.

Each member of the Executive Board participates in a bonus scheme which is in line with Senior Salaries Review Body recommendations or agreed with HM Treasury. Bonuses, where payable, are calculated as a percentage of salary based on the individual's performance. Bonus payments are non-consolidated and non-pensionable.

Non-Executive Commissioners are on fixed term appointments. Appointments and remuneration are set by the Secretary of State for Business, Innovation and Skills after consulting the Chairman. Their remuneration is currently set at £22,824 per annum for 3 – 4 days per month. They have no entitlement to performance related pay or pension entitlements.

## Salary and pension entitlements

The following information is subject to audit.

### *The Commission*

#### Remuneration

	2010-11		2009-10	
	Salary	Bonus Payments	Salary, including performance pay	Bonus Payments
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Millie Banerjee CBE ( <i>Chairman from 14/01/11</i> )	15-20 <sup>1</sup>	-	-	-
Nigel Stapleton ( <i>Chairman to 31/12/10</i> )	55-60 <sup>2</sup>	-	85-90	-
Tim Brown ( <i>Chief Executive</i> )	155-160 <sup>3</sup>	10-15	150-155	10-15
Simon Batey	20-25	-	0-5 <sup>4</sup>	-
Norman Blackwell ( <i>from 16/12/10</i> )	0-5 <sup>5</sup>	-	-	-
Ulf Dahlsten ( <i>until 30/09/10</i> )	10-15 <sup>6</sup>	-	20-25	-
Wanda Goldwag	20-25	-	20-25	-
Stephen Littlechild	20-25	-	20-25	-
Stuart McIntosh ( <i>from 16/12/10</i> )	- <sup>7</sup>	-	-	-
Mike McTighe ( <i>from 16/12/10</i> )	0-5 <sup>5</sup>	-	-	-
Lucy Scott-Moncrieff	20-25	-	20-25	-

<sup>1</sup>Full year equivalent £50-55k

<sup>2</sup>Full year equivalent £85-90k

<sup>3</sup>The Chief Executive received a payment in respect of encashment of untaken annual leave and has had no pay increase

<sup>4</sup>Full year equivalent £20-25k

<sup>5</sup>Full year equivalent £10-15k

<sup>6</sup>Full year equivalent £20-25k

<sup>7</sup>This Commissioner receives no remuneration

Tim Brown has an outstanding season ticket loan as at 31 March 2011 of £1,597.

There are no benefits in kind.

## Executive Board

### Remuneration

Name and Title	2010-11		2009-10	
	Salary	Bonus Payments	Salary	Bonus Payments
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Jenny Block ( <i>Director, Legal from 01/11/10</i> )	45-50 <sup>1</sup>	5-10	-	-
Stephen Gibson ( <i>Director, Economic Policy</i> )	85-90	0-5	85-90	5-10
Sean O'Hara ( <i>Director, Customer, Strategy &amp; Information</i> )	80-85	0-5	80-85	5-10
Colin Sharples ( <i>Director, Resources</i> )	80-85	0-5	75-80	5-10

<sup>1</sup>Full year equivalent £110-115k

Sean O'Hara has an outstanding season ticket loan as at 31 March 2011 of £1,788.  
Colin Sharples has an outstanding season ticket loan as at 31 March 2011 of £733.

There are no benefits in kind.

For details of the remuneration of the Chief Executive please refer to the table titled "The Commission".

Jenny Block was appointed interim Director of Legal Services commencing 4 January 2010 until 31 October 2010. The total cost incurred in the financial year to 31 March 2011 was £71,969 (2009-10 £52,693). She was appointed to the post of Director of Legal Services after a fair and open competition recruitment process.

Rebecca Churchill was appointed interim Director of Strategy and Market Development on 16 November 2009 under a contract through a service provider to 23 December 2010. The total cost incurred in the financial year to 31 March 2011 was £177,131 (2009-10 £58,601).

Robin Pratt was appointed interim Director of Regulatory Finance commencing 1 April 2010 on secondment from Ofcom. The total cost paid to Ofcom by Postcomm in the financial year to 31 March 2011 was £175,000-£180,000. He is due a bonus payment of between £5,000-£10,000 which will be paid by Postcomm.

### SCS

Postcomm's analysis SCS by pay band is as follows:

SCS pay band	No of staff
1	3
2	1

### **Salary**

'Salary' is gross salary only.

### **Bonuses**

Bonuses are based on performance levels attained and are made as part of the appraisal process. They are non-consolidated and non-pensionable. The bonuses reported in 2010-11 relate to performance in 2010-11. The bonuses reported in 2009-10 relate to performance in 2009-10.

### **Benefits in kind**

The monetary value of benefits in kind covers any benefits provided by the employer and treated by HM Revenue and Customs as a taxable emolument. None of the Commissioners or the Executive Board received benefits in kind.

### **The Commission**

#### **Pension Benefits**

	Real increase in pension and lump sum at age 60 £000	Total accrued pension at age 60 at 31/03/11 and related lump sum £000	CETV at 31/03/11 £000	CETV at 31/03/10 <sup>3</sup> £000	Real increase in CETV £000
Millie Banerjee CBE ( <i>Chairman from 14/01/11</i> ) <sup>1</sup>	-	-	-	-	-
Tim Brown ( <i>Chief Executive</i> )	2.5-5	5-10	108	61	38
Tim Brown ( <i>Chief Executive</i> ) <sup>2</sup>	-	0-5 plus 5-10 lump sum	40	38	-
Simon Batey <sup>1</sup>	-	-	-	-	-
Norman Blackwell (from 16/12/10) <sup>1</sup>	-	-	-	-	-
Wanda Goldwag <sup>1</sup>	-	-	-	-	-
Stephen Littlechild <sup>1</sup>	-	-	-	-	-
Stuart McIntosh (from 16/12/10) <sup>1</sup>	-	-	-	-	-
Mike McTighe (from 16/12/10) <sup>1</sup>	-	-	-	-	-
Lucy Scott-Moncrieff <sup>1</sup>	-	-	-	-	-

<sup>1</sup> These Commissioners do not receive any pension benefits.

<sup>2</sup> This relates to a preserved award.

<sup>3</sup> CETV: Cash Equivalent Transfer Value. The figure may be different from the closing figure in last year's accounts. This is due to CETV factors being updated to comply with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008.

**Executive Board  
Pension Benefits**

	Real increase in pension and lump sum at age 60	Total accrued pension at age 60 at 31/03/11 and related lump sum	CETV at 31/03/11	CETV at 31/03/10 <sup>1</sup>	Real increase in CETV
	£000	£000	£000	£000	£000
Jenny Block ( <i>Director, Legal from 01/11/10</i> )	0-2.5	0-5	9	-	7
Stephen Gibson ( <i>Director, Economic Policy</i> )	0-2.5	5-10	65	43	16
Sean O'Hara ( <i>Director, Customer, Strategy &amp; Information</i> )	2.5-5 plus 10-12.5 lump sum	25-30 plus 85-90 lump sum	416	331	55
Colin Sharples ( <i>Director, Resources</i> )	0-2.5	5-10	63	47	9

<sup>1</sup> CETV: Cash Equivalent Transfer Value. The figure may be different from the closing figure in last year's accounts. This is due to CETV factors being updated to comply with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008.

**Commissioners' Pensions**

The Chief Executive is a civil servant and his arrangements are set out above. The remaining Commissioners do not receive any pension benefits.

**Civil Service Pensions**

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a 'final salary' scheme (**classic**, **premium** or **classic plus**); or a 'whole career' scheme (**nuvos**). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under **classic**, **premium**, **classic plus** and **nuvos** are increased annually in line with Pensions Increase legislation. Members who joined from October 2002 could opt for either the appropriate defined benefit arrangement or a good quality 'money purchase' stakeholder pension 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**, **classic plus** and **nuvos**. Benefits in **classic** accrue at the rate of 1/80th of final pensionable earnings 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. **Classic plus** is essentially a hybrid with benefits for service before 1 October 2002 worked out as in **premium**. In **nuvos** a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3 per cent of their pensionable earnings in that scheme year and, immediately after the scheme year end, the accrued pension is uprated in line with Pensions

Increase legislation. In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

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 from a panel of three providers. 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).

The accrued pension quoted, is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of **classic**, **premium** and **classic plus** and 65 for members of **nuvos**.

Further details about the Civil Service pension arrangements can be found at the website [www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)

#### ***Cash Equivalent Transfer Values***

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 figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are calculated in accordance with the Occupational Pension Schemes (Transfer Values) (Amendment) Regulations and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

#### ***Real increase in CETV***

This reflects the increase in CETV that is funded by the employer. It does not include 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.

**Tim Brown**

Accounting Officer

29 June 2011



## Statement of Accounting Officer's Responsibilities

Under the Government Resources and Accounts Act 2000, Postcomm is required to prepare resource accounts for each financial year, in conformity with a Treasury direction, detailing the resources acquired, held, or disposed of during the year and the use of resources by Postcomm during the year.

The resource accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of Postcomm at the year end and of the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year.

The Treasury has appointed the Chief Executive as Postcomm's Accounting Officer with responsibility for preparing Postcomm's accounts and for transmitting them to the Comptroller and Auditor General.

In preparing the resource accounts, the Accounting Officer is required to comply with the Government Financial Reporting Manual prepared by the Treasury and, in particular, to:

- Observe all 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 departures in the accounts; and
- Prepare the financial statements on a going concern basis unless it is inappropriate to do so.

The Postal Services Act 2011 provides for the transfer of Postcomm's regulatory responsibility for the postal sector and its staff to the Office of Communications (Ofcom). The Act will replace the existing licensing regime for providers of postal services with a general authorisation system, subject to regulatory conditions imposed by Ofcom, as already applies to communications providers. Regulatory responsibility for the postal sector will transfer from Postcomm to Ofcom at 30 September 2011 when Postcomm will cease to exist.

As Postcomm is to be abolished under the Act these accounts have been prepared on a basis other than going concern.

The relevant responsibilities of the Accounting Officer (including his responsibility for the propriety and regularity of public finances for which an Accounting Officer is answerable, for the keeping of proper records and for safeguarding Postcomm's assets) are set out in HM Treasury's publication "Managing Public Money".

## Statement on Internal Control

### **1** *Scope of Responsibility*

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of Postcomm's aims and objectives, whilst safeguarding the public funds and organisational assets for which I am personally responsible, in accordance with the responsibilities assigned to me in HM Treasury's publication "Managing Public Money".

Postcomm is a non-ministerial government department set up by the Postal Services Act 2000, under the sponsorship of the Department for Business, Innovation and Skills.

### **2** *The Purpose of the System of Internal Control*

The system of internal control is designed to manage risk to an acceptable level rather than to eliminate all risk of failure to achieve 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 Postcomm's 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 was in place in Postcomm for the year ended 31 March 2011 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

### **3** *Capacity to Handle Risk*

The Chief Executive and the Executive Board provide leadership on risk management in Postcomm. The Executive Board review risk as part of the Forward Work Plan (FWP) cycle and they comprise the key 'risk owners' for strategic risks, as well as for those projects that they directly manage.

Postcomm's Executive Board provides decision-making and risk resolution for Postcomm as a whole and is responsible for all risks within Postcomm, not just those relating to projects and programmes. Postcomm's Director of Resources as 'Risk Manager' is charged with identifying good and bad practice and monitoring risk mitigation activities.

Postcomm's work is project based and risk management is an integral part of this process. All project managers receive training in project management and all staff receive training in risk management. Lessons learned from projects and programmes are collated through the Programme Office and disseminated to staff through project review meetings with the Programme Office and through the intranet. Postcomm's Management of Risk (MoR) Framework is held within its Intranet, which is accessible to all staff.

### **4** *The Risk and Control Framework*

Postcomm's Management of Risk Framework and risk processes are consistent with best practice set out in the Office of Government Commerce (OGC) Management of Risk (MoR): Guidance for Practitioners and H M Treasury's Managing Public Money. The framework adopts the Strategic, Programmes, Projects and Operational Model that the guidance contains.

Ownership of the MoR framework lies with the Chief Executive. The Risk Manager is responsible for the implementation, co-ordination and monitoring of the risk management process. Responsibility for risk management across the organisation rests with the Executive Board supported by the Director of Resources. The 2012 Programme Management team have a role in reviewing the 2012

Programme and project risks to identify links between projects where the impact of one or more risks could affect others.

Postcomm's MOR sets out the principles for assessing risk to ensure that there is a clearly structured process in which likelihood and impact are considered and to facilitate monitoring of residual risk. The MoR guidance is designed to provide support to staff in monitoring risks.

Risk appetite and tolerances are determined by the Executive Board and it is their responsibility to review this regularly.

The Risk Manager and the Resources team provide support to this process and hold the corporate, operational and finance risk registers centrally. The corporate risk register is reviewed as part of the business planning cycle. The Risk Manager and/or the 2012 Programme Management team review 2012 Programme and project risks to identify links between projects where the impact of one or more risks could affect others. Serious project risks are escalated as and when necessary by the Risk Manager or the 2012 Programme Office team to the Chief Executive, Programme Board or the Executive Board, depending on the proximity and severity of the risk. The Risk Manager submits a quarterly report to the Audit Committee setting out any risks that have changed status, new risks identified, or risks that have closed over the period.

2012 Programme risks and their assessment are the responsibility of the Programme Board.

Project risks and their assessment are the responsibility of individual project managers.

Operational risks, finance risks and their assessment are the responsibility of the Director of Resources.

The Corporate Risk Register is reviewed in full by the following Boards / Committees:

- The Programme Board or Executive Board on a monthly basis;
- The Audit Committee on a six monthly basis; and
- The Commission on an annual basis.

The Audit Committee scrutinises particular risks in detail at each of its quarterly meetings. Directors acting as 'Risk Owners' attend Audit Committee meetings to give an account of how their risks are being managed, whether the status is changing and how mitigating actions are progressing and how effective they are proving to be. The Audit Committee considers the effectiveness and comprehensiveness of these assurances and provides advice to the Accounting Officer. The Audit Committee will also advise the Accounting Officer of new risks that it considers should be added to the Corporate Risk Register for the Board to manage.

As part of the preparation of the 2010-12 Forward Work Plan, a new corporate register was created. This incorporates some of the risks escalated from the 2012 Programme risk register. The new corporate risk register was discussed at the Executive Board in February 2010 and subsequently on a regular basis. Risks identified include those around the financeability of the universal service, transparency of Royal Mail's costs and the suitability of the current regulatory framework for a changing mail market. Postcomm's 2010-12 Forward Work Plan has been designed to mitigate and address these as far as Postcomm is able.

Postcomm takes account of risks to all stakeholders through the business planning process, formal consultation, informal discussions and public meetings.

Postcomm takes information risk seriously and is committed to maintaining the confidentiality, integrity and availability of its information assets. Postcomm has defined its Information Risk Policy which sets out control measures for managing information risk. Implementation of this policy has ensured that the management of information risk is strategically placed within Postcomm's Operational Risk Register.

A number of policies, procedures and measures are in place to ensure all sensitive and personal data held by Postcomm is protected and secured at all times from unlawful access, modification or deletion. These controls are assessed and tested on an annual basis.

To date, there have been no recorded security incidents involving mishandled personal protected data reported to the Cabinet Office and the Information Commissioner. Each year Postcomm carries out a review of its security arrangements to ensure compliance with the Security Policy Framework and completes a Security Risk Management Overview for Cabinet Office.

The Postal Services Bill 2010 was introduced to Parliament in October 2010 and this envisages the transfer of the staff and regulatory responsibility for postal services from Postcomm to Ofcom. In January 2011 Postcomm's new Chairman and three new Commissioners were appointed who are all also members of the Ofcom Board. The Postcomm Executive team have worked closely with their counterparts at Ofcom to ensure that there is a smooth transfer of regulatory responsibility and that the operational aspects of the transfer are handled efficiently and effectively. An Integration Steering Group made up of senior management from Postcomm and Ofcom meets each month. Members of Ofcom's management team attend Postcomm's Executive Board and joint Postcomm-Ofcom project teams are working on the 2012 Programme to put in place a new regulatory framework. A register for risks associated with the operational aspects of the proposed transfer has been opened. During the period leading up to the proposed transfer the Audit Committee may increase the frequency of its meeting to monthly so as to provide support to the Board and the Accounting Officer during this period.

## **5 Review of Effectiveness**

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control, which is informed by the work of the internal auditors, the Risk Manager, Commissioners 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 Executive Board and Audit Committee and a plan to address weaknesses identified through internal or external audit, and ensure continuous improvement of the system is in place.

The Commission, which meets at least 11 times a year, advises supports and encourages Postcomm Senior Management to manage risk, by drawing on their experience. The Commission receives reports on a monthly basis as part of the Executive Board Report.

Postcomm's Programme Board monitors progress on all projects and takes action as necessary to ensure delivery of Postcomm's business plan objectives.

The Internal Auditors have reviewed the Risk Management arrangements at Postcomm as part of the 2010-11 Internal Audit Plan. The Risk Management report presented to the Audit Committee in

March 2011 gave substantial assurance on the adequacy of controls and contained no recommended management actions.

No significant internal control problems have arisen during the financial year, and up to the signing of the accounts.

Internal Audit operates to standards defined in the Government's Internal Audit Standards and submits regular reports, including an annual opinion on the adequacy and effectiveness of our systems of internal control. The annual opinion of Internal Audit is that Postcomm has adequate and effective control processes in place.

**Tim Brown**

Accounting Officer

29 June 2011

## The Certificate and Report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements of the Postal Services Commission for the year ended 31 March 2011 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Statement of Comprehensive Net Expenditure and the Statement of Financial Position, the Statement of Cash flows, the Statement of Changes in Taxpayers' Equity 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 Accounting Officer and auditor***

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### ***Scope of the audit of the financial statements***

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Department's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Department; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

### ***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.

### ***Opinion on Financial Statements***

#### ***In my opinion:***

- the financial statements give a true and fair view of the state of the Department's affairs as at 31 March 2011 and of its net cash requirement, net resource outturn and net operating cost, for the year then ended; and

- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

#### ***Emphasis of Matter – Going Concern***

Without qualifying my opinion, I draw attention to Note 1 of the financial statements. The Postal Services Act 2011 provides for the abolition of Postcomm, which is planned for September 2011. As a consequence of this, the financial statements have been prepared on a basis other than going concern. Details of the impact of this on the financial statements are provided in Note 1 to the financial statements.

#### ***Opinion on other matters***

##### ***In my opinion:***

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the management commentary and the sustainability sections of the annual report for the financial year for which the financial statements are prepared is consistent with the financial statements.

#### ***Matters on which I report by exception***

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

#### ***Report***

I have no observations to make on these financial statements.

Amyas C E Morse  
Comptroller and Auditor General  
National Audit Office  
157-197 Buckingham Palace Road  
Victoria, London, SW1W 9SP

29 June 2011

## Statement of Parliamentary Supply Summary of Resource Outturn 2010-11

	2010-11			Outturn			Net total outturn compared with estimate: saving/ (excess)	2009-10 Prior-year Outturn
	Estimate							
	Gross expenditure £000	A in A £000	NET TOTAL £000	Gross expenditure £000	A in A £000	NET TOTAL £000		
Request for Resources 1 Ensuring the provision of a universal postal service at a uniform tariff, protecting consumers and promoting competition (Note 2)	10,037	(10,036)	1	8,212	(8,211)	1	-	1
<b>Total resources</b>	<b>10,037</b>	<b>(10,036)</b>	<b>1</b>	<b>8,212</b>	<b>(8,211)</b>	<b>1</b>	<b>-</b>	<b>1</b>
Non-operating cost Appropriations in Aid	-	-	-	-	-	-	-	-

The 2009-10 Statement of Parliamentary Supply cannot be restated on a CLOS (Clear Line of Sight) basis as it must reflect the funding voted by Parliament. A reconciliation to the restated based 2009-10 accounts is given below.

	2009-10 £000
<b>Net Resource Outturn (Statement of Parliamentary Supply)</b>	<b>1</b>
Removal of the cost of capital credit	61
<b>Adjusted Net Resource Outturn</b>	<b>62</b>

### Net Cash Requirement 2010-11

	Note	Estimate	Outturn	Net total outturn compared with estimate: saving	Prior year outturn
Net cash requirement	4	1,200	-	1,200	-

### Summary of income payable to the Consolidated Fund

(In addition to appropriations in aid, the following income relates to Postcomm and is payable to the Consolidated Fund (cash receipts being shown in italics and figures in £000s))

	Note	Forecast 2010-11		Outturn 2010-11	
		Income	<i>Receipts</i>	Income	<i>Receipts</i>
		Cash surrenderable to the Consolidated Fund	5	-	-

Explanations of variances between Estimate and Outturn are given in Note 3 and the Management Commentary.

The notes on pages 60 - 78 form part of these accounts.



## Statement of Comprehensive Net Expenditure for the year ended 31 March 2011

	Note	2010-11		restated 2009-10	
		£000	£000	£000	£000
<b>Administration costs</b>					
<b>Request for resources:</b>					
Staff costs	9	4,913		4,679	
Other administration costs	10	<u>3,299</u>		<u>3,376</u>	
<b>Gross administration costs</b>			<b>8,212</b>		<b>8,055</b>
Income	8		<u>(8,211)</u>		<u>(7,993)</u>
<b>Net operating costs</b>	3a		<u><b>1</b></u>		<u><b>62</b></u>

There is no other comprehensive expenditure  
The notes on pages 60 - 78 form part of these accounts.

## Statement of Financial Position as at 31 March 2011

	Note	31 March 2011		restated 31 March 2010		restated 31 March 2009	
		£000	£000	£000	£000	£000	£000
<b>Non-current assets:</b>							
Property, plant and equipment	11	-		277		403	
Intangible assets	12	-		100		166	
<b>Total non-current assets</b>			-	<b>377</b>			<b>569</b>
<b>Current assets:</b>							
Property, plant and equipment	11	130		-		-	
Intangible assets	12	29		-		-	
Trade and other receivables	13	214		230		361	
Cash and cash equivalents	14	494		2,170		496	
<b>Total current assets</b>			<b>867</b>		<b>2,400</b>		<b>857</b>
<b>Total assets</b>			<b>867</b>		<b>2,777</b>		<b>1,426</b>
<b>Current liabilities</b>							
Trade and other payables	15	(3,987)		(5,418)		(1,884)	
Provisions	16	(181)		-		-	
<b>Total current liabilities</b>			<b>(4,168)</b>		<b>(5,418)</b>		<b>(1,884)</b>
<b>Total assets less current liabilities</b>			<b>(3,301)</b>		<b>(2,641)</b>		<b>(458)</b>
<b>Non-current liabilities</b>							
Provisions	16	-		(215)		(147)	
<b>Total non-current liabilities</b>			<b>-</b>		<b>(215)</b>		<b>(147)</b>
<b>Assets less liabilities</b>			<b>(3,301)</b>		<b>(2,856)</b>		<b>(605)</b>
<b>Taxpayers' equity:</b>							
General fund			(3,386)		(2,941)		(739)
Revaluation reserve			85		85		134
<b>Total taxpayers' equity</b>			<b>(3,301)</b>		<b>(2,856)</b>		<b>(605)</b>

Tim Brown  
Accounting Officer

29 June 2011

The notes on pages 60 to 78 form part of these accounts.

## Statement of Cash Flows for the year ended 31 March 2011

	Note	2010-11 £000	restated 2009-10 £000
<b>Cash flows from operating activities</b>			
Net operating costs	3	(1)	(62)
Adjustments for non-cash transactions	10	280	355
Decrease in trade and other receivables	13	18	131
<i>Less movements in trade and other receivables relating to items not passing through the SoCNE</i>		-	-
Decrease in trade payables and other current liabilities	15	(1,431)	3,533
<i>Less movements in trade payables relating to items not passing through the SoCNE</i>		1,676	(1,674)
Use of provisions	16	(27)	(6)
<b>Net cash inflow from operating activities</b>		<b>515</b>	<b>2,277</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	11	(9)	(77)
Purchase of intangible assets	12	(10)	(30)
<b>Net cash flow from investing activities</b>		<b>(19)</b>	<b>(107)</b>
<b>Cash flows from financing activities</b>			
From the Consolidated Fund (Supply) - current year		-	-
Advances from the Contingency Fund		3,200	3,200
Repayments to the Contingency Fund		(3,200)	(3,200)
<b>Net financing</b>		<b>-</b>	<b>-</b>
<b>Net increase in cash and cash equivalents in the period before adjustments for receipts and payments to the Consolidated Fund</b>			
		<b>496</b>	<b>2,170</b>
Amounts collected in year <sup>1</sup>		2,937	3,671
Amounts paid over in year <sup>1</sup>		(2,937)	(3,671)
Excess cash		(2,172)	(496)
<b>Net increase in cash and cash equivalents in the period after adjustments for receipts and payments to the Consolidated Fund</b>	14	<b>(1,676)</b>	<b>1,674</b>
<b>Cash and cash equivalents at the beginning of the period</b>	14	<b>2,170</b>	<b>496</b>
<b>Cash and cash equivalents at the end of the period</b>	14	<b>494</b>	<b>2,170</b>

<sup>1</sup> Amounts received from Royal Mail in 2010-11 and paid over to the Department relate to Consumer Focus costs.

The notes on pages 60 to 78 form part of these accounts.

## Statement of Changes in Taxpayers' Equity for the year ended 31 March 2011

	Note	General Fund £000	Revaluation Reserve £000	Total Reserves £000
<b>Balance as at 31 March 2009</b>		<b>(773)</b>	<b>134</b>	<b>(639)</b>
Changes as a result of removal of cost of capital	1.7	34	-	34
<b>Balance as at 1 April 2009</b>		<b>(739)</b>	<b>134</b>	<b>(605)</b>
<b>Changes in taxpayers' equity for 2009-10</b>				
Non-current assets adjustment <sup>1</sup>		-	(25)	(25)
Actuarial loss relating to pension liabilities	16	(42)	-	(42)
Non-cash charges – auditor's remuneration	10	48	-	48
Transfers between reserves		24	(24)	-
Net operating cost for the year	3	(62)	-	(62)
<b>Total recognised income and expense for 2009-10</b>		<b>(32)</b>	<b>(49)</b>	<b>(81)</b>
Net Parliamentary Funding – drawn down		-	-	-
Net Parliamentary Funding – deemed		-	-	-
Excess cash	(2,170)		-	(2,170)
<b>Balance as at 31 March 2010</b>		<b>(2,941)</b>	<b>85</b>	<b>(2,856)</b>
<b>Changes in taxpayers' equity for 2010-11</b>				
Actuarial loss relating to pension liabilities	16	12	-	12
Non-cash charges – auditor's remuneration	10	38	-	38
Transfers between reserves		-	-	-
Net operating cost for the year	3	(1)	-	(1)
<b>Total recognised income and expense for 2010-11</b>		<b>49</b>	<b>-</b>	<b>49</b>
Net Parliamentary Funding – drawn down		-	-	-
Net Parliamentary Funding – deemed		-	-	-
Excess cash	(494)		-	(494)
<b>Balance as at 31 March 2011</b>		<b>(3,386)</b>	<b>85</b>	<b>(3,301)</b>

<sup>1</sup> This adjustment relates to the migration to our new non-current asset software on 1 April 2009 that highlighted prior year differences between the asset register and the general ledger.

The notes on pages 60 - 78 form part of these accounts.

## Notes to the departmental resource accounts

### **1. Statement of accounting policies**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted and interpreted in the Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM comply with IFRS as adapted or interpreted for the public sector context.

Where the FReM permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of Postcomm for the purpose of giving a true and fair view has been selected. The Department's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

In addition to the primary statements prepared under IFRS, the FReM also requires Postcomm to prepare two additional primary statements. The Statement of Parliamentary Supply and supporting notes show outturn against Estimate in terms of the net resource requirement and the net cash requirement.

#### **1.1 Accounting convention**

These accounts have been prepared under the historical cost convention on a basis other than going concern due to the future abolition of Postcomm in September 2011 following the Postal Services Act 2011.

#### **1.2 Property, plant and equipment**

Postcomm does not own any land or buildings.

As permitted by the FReM, property, plant and equipment are not revalued on an annual basis using indices. Depreciated historical cost is now used as a proxy for current value as this realistically reflects consumption of the asset. Revaluations would not cause a material difference to the carrying value of fixed assets.

The minimum level for capitalisation of a non-current asset is £1,000. An assessment is also made as to whether this misses certain groups of assets. If a group, which is materially relevant, is identified, those assets will be grouped and included in the asset register as one asset.

#### **1.3 Depreciation**

Depreciation is provided at rates calculated to write off the valuation of tangible fixed assets by equal instalments over their estimated useful lives as follows:

Office equipment	5 years
Computer equipment	3 years
Furniture and fittings	10 years
Leasehold improvements	30 September 2011 (the expected date of transfer to Ofcom)

Postcomm depreciates capitalised leasehold improvement costs over their expected tenure of the building.

Assets will have a de minimus value on transfer to Ofcom.

#### **1.4 Intangible assets**

Purchased computer software licences are capitalised as intangible assets where expenditure of £1,000 or more is incurred. As permitted by the FReM, intangible assets are not revalued on an annual basis using indices. Depreciated historical cost is now used as a proxy for current value as this realistically reflects consumption of the asset. Revaluations would not cause a material difference to the carrying value of non-current assets. Software licences are amortised over the shorter of the term of the licence and the useful economic life.

#### **1.5 Operating income**

Operating income is income that relates directly to the operating activities of Postcomm. It comprises principally the licence fee from Royal Mail Group plc (see Notes 6 and 8).

Postcomm's policy is to implement full cost recovery to comply with the Treasury Fees and Charges guide. Since all costs are recovered via the licence fees, and these are invoiced in advance based on estimated costs, any over recovery is treated as deferred income within payables and any under recovery as accrued income within receivables.

#### **1.6 Administration and programme expenditure**

The Statement of Comprehensive Net Expenditure only contains administration costs. The classification of expenditure and income as administration follows the definition of administration costs set by HM Treasury.

#### **1.7 Capital charge**

As a result of the introduction of the Government's 'Clear Line of Sight initiative', cost of capital charges and credits have been removed from the accounts. Comparatives for 2009-10 have therefore been restated.

The removal of the cost of capital credit has the following effect on Resource Outturn in 2009-10. The Statement of Parliamentary Supply and related notes have not been restated for this effect.

	2009-10 £000
<b>Net Resource Outturn (Statement of Parliamentary Supply)</b>	<b>1</b>
Removal of the cost of capital credit	61
<b>Adjusted Net Resource Outturn</b>	<b>62</b>

#### **1.8 Foreign exchange**

Transactions which are denominated in a foreign currency are translated into sterling at the exchange rate ruling on the date of each transaction.

#### **1.9 Pensions**

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) which is non-contributory and unfunded. Liability for payment of future benefits is a charge to the PCSPS. Departments, agencies and other bodies covered by the PCSPS meet the cost of pension cover provided for the staff they employ by payment of charges calculated on an accruing basis. There is a separate scheme statement for the PCSPS as a whole.

Postcomm's former Chairmen have a separate pension arrangement that is broadly analogous with the PCSPS. The arrangements provide for a defined benefit, unfunded scheme. However, unlike the PCSPS, a pension liability is included in the accounts as required under IAS 37.

In accordance with IAS19, Postcomm has recognised the gain/loss arising from its pension liability as part of the General Fund.

#### **1.10 VAT**

Most of the activities of Postcomm are outside the scope of VAT and in general output tax does not apply and input tax on purchases is not recoverable. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of non-current assets. Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT.

#### **1.11 Leases**

Rentals due under operating leases are charged to the Operating Cost Statement over the lease term on a straight-line basis, or on the basis of actual rentals which fairly reflects usage. Future payments, disclosed at Note 19, "Commitments under operating leases", are not discounted. Disclosures have been made to reflect that Postcomm is not a going concern.

#### **1.12 Contingent Liabilities**

In addition to contingent liabilities disclosed in accordance with IAS 37, Postcomm discloses for parliamentary reporting and accountability purposes certain contingent liabilities where the likelihood of a transfer of economic benefit is remote.

These comprise:

- Items over £250,000 (or lower, where required by specific statute) that do not arise in the normal course of business and which are reported to Parliament by departmental Minute prior to the Department entering into the arrangement;
- All items (whether or not they arise in the normal course of business) over £250,000 (or lower, where required by specific statute or where material in the context of resource accounts) which are required by the FReM to be noted in the resource accounts.

Where the time value of money is material, contingent liabilities which are required to be disclosed under IAS 37 are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be disclosed by IAS 37 are stated at the amounts reported to Parliament.

#### **1.13 Costs for Consumer Focus**

Under the Postal Services Act 2000, Postcomm has a fee collection responsibility for Consumer Focus, the independent consumer representative. Monies are collected and directly paid over to BIS in respect of the costs of Consumer Focus and Consumer Focus legacy Postwatch net property costs.

#### **1.14 Provisions**

Postcomm makes provision for liabilities and charges where, at the balance sheet date, a legal or constructive liability exists (i.e. a present obligation from past events exists), where the transfer of economic benefits is probable and a reasonable estimate can be made.

Where the time value of money is material, Postcomm discounts general provisions to its present value using a discount rate of 2.2 per cent, the Government's standard rate. Each year the financing charges in the Operating Cost Statement include the adjustments to amortise one year's discount and restate liabilities to current price levels.

### 1.15 The Statement of Parliamentary Supply and Operating Segments

The information contained in the Statement of Parliamentary Supply and associated notes is based on the Request for Resources information that will form part of parliamentary approval processes.

Postcomm's internal management reporting and financial statements are based on one operating segment therefore the disclosures required by IFRS 8 are not required.

### 1.16 Going Concern

Following the passing of the Postal Services Bill, abolition of Postcomm is expected to take place on 30 September 2011 and these Accounts have been prepared on a basis other than going concern. The only financial impact of this treatment has been to revise the asset life of the leasehold improvement so that it will have nil value as at the 30 September 2011.

In respect of the negative Statement of Financial Position, HM Treasury's Managing Public Money states that at financial year end all unspent monies, including those derived from Postcomm's licence fee income, must be surrendered to the UK Consolidated Fund. Accordingly because Postcomm did not spend the full licence fee income for 2010-11, the statement of financial position at 31 March 2011 shows a negative taxpayers' equity of £3.301m. This reflects the inclusion of liabilities falling due in the following year, which are due to be financed mainly by drawings from the UK Consolidated Fund. Such drawings will be from grants of supply to meet Postcomm's Net Cash Requirement which have been approved by Parliament up to Postcomm's abolition on 30 September 2011. At that point, the responsibility for satisfying any liabilities will transfer to Ofcom.

## 2. Analysis of net resource outturn by section

	2010-11					Estimate	Net total outturn compared with Estimate	restated 2009-10
	Outturn							
	Admin	Other current	Gross resource expenditure	A in A	Net total			
£000	£000	£000	£000	£000	£000	£000	£000	
<b>Request for Resources 1</b>								
Ensuring the provision of a universal postal service at a uniform tariff, protecting consumers and promoting competition	8,212	-	8,212	(8,211)	1	1	-	62
<b>Resource outturn</b>	8,212	-	8,212	(8,211)	1	1	-	62



### 3. Reconciliation of Outturn to net operating cost and against Administration Budget

#### 3(a) Reconciliation of net resource outturn to net operating cost

	Note			2010-11	restated
		Outturn	Estimate	£000	2009-10
				Outturn compared with estimate	
		Outturn	Estimate	£000	£000
Net Resource Outturn	2	1	1	-	62
Prior period adjustments		-	-	-	-
Non supply income (Consolidated Fund Extra Receipts (CFERs))	8	-	-	-	-
Non supply expenditure		-	-	-	-
<b>Net operating cost</b>		<b>1</b>	<b>1</b>	<b>-</b>	<b>62</b>

#### 3(b) Outturn against final Administration Budget

	2010-11		restated 2009-10	
	£000	£000	£000	£000
	Budget	Outturn	Budget	Outturn
Gross Administration Budget	10,037	8,212	10,308	8,055
Income allowable against the Administration Budget	(10,036)	(8,211)	(10,307)	(7,993)
Net outturn against the Administration Budget	1	1	1	62

The underspend is due to a sustained effort throughout the year to keep tight control and downward pressure on our costs, use our resources more efficiently, and not fill vacant full-time posts where more cost-effective interim arrangements were feasible. This was during a year when we have had one of our busiest and most challenging work programmes.

#### 4. Reconciliation of resources to net cash requirement

	Note	Estimate	Outturn	Net total outturn compared with estimate: saving/ (excess)
		£000	£000	£000
<b>Resource Outturn</b>	3	<b>1</b>	<b>1</b>	-
Capital:				
• Acquisition of fixed assets	11,12	150	19	131
Non-operating Appropriations in Aid (A in A):				
• Proceeds of fixed asset disposals	7	-	-	-
Accruals adjustments:				
• Non-cash items	10	(350)	(280)	(70)
• Changes in working capital other than cash		1389	(261)	1650
• Changes in payables falling due after more than one year		-		
• Use of provision	16	10	27	(17)
Excess cash receipts surrenderable to the Consolidated Fund	5	-	494	(494)
<b>Net cash requirement</b>		<b>1,200</b>	<b>-</b>	<b>1,200</b>

The variance in the net cash requirement is mainly due to the increase in trade payables.

#### 5. Analysis of income payable to the Consolidated Fund

In addition to appropriations in aid, the following income relates to Postcomm and is payable to the Consolidated Fund (cash receipts being shown in italics).

	Note	Forecast 2010-11		Outturn 2010-11	
		Income £000	Receipts £000	Income £000	Receipts £000
Operating income and receipts - excess A in A		-	-	-	-
Other operating income and receipts not classified as A in A		-	-	-	-
Non operating income and receipts not classified as A in A		-	-	-	-
Excess cash receipts surrenderable to the Consolidated Fund	15	-	-	-	<i>494</i>
<b>Total income payable to the Consolidated Fund</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b><i>494</i></b>

## 6. Reconciliation of income recorded within the Operating Cost Statement to operating income payable to the Consolidated Fund

	Note	2010-11 £000	restated 2009-10 £000
Operating Income	8	8,211	7,993
Income authorised to be appropriated in aid		(8,211)	(7,993)
<b>Operating Income payable to the Consolidated Fund</b>		<b>-</b>	<b>-</b>

## 7. Non-operating income – Excess A in A

	2010-11 £000	2009-10 £000
Proceeds on disposal of fixed assets	-	-
Allowable A in A	-	-
<b>Excess A in A</b>	<b>-</b>	<b>-</b>

## 8. Income

	2010-11 £000	restated 2009-10 £000
Licence fees	8,211	7,983
Other Income	-	10
<b>Total</b>	<b>8,211</b>	<b>7,993</b>

## 9. Staff numbers and related costs

### Staff costs comprise

	2010-11 £000		2011-12 £000	
	Permanently employed staff	Others	Total	Total
Wages and salaries	2,756	1,415	4,171	3,566
Social security costs	257	-	257	266
Other pension costs	485	-	485	506
Other staff costs	-	-	-	382
<b>Total</b>	<b>3,498</b>	<b>1,415</b>	<b>4,913</b>	<b>4,720</b>
Less recoveries in respect of outward secondments	-	-	-	(41)
<b>Total net costs*</b>	<b>3,498</b>	<b>1,415</b>	<b>4,913</b>	<b>4,679</b>

\* Of the total no charge has been made to capital

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but Postcomm is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2007. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)).

For 2010-11, employers' contributions of £484,216 were payable to the PCSPS (2009-10 £511,717) at one of four rates in the range 17.1 to 25.5 per cent (2009-10 17.1 to 25.5 per cent) of pensionable pay, based on salary bands. The contribution rates reflect benefits accruing during 2010-11 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £1,534 (2009-10 £4,828) were paid to one or more of a panel of four appointed stakeholder pension providers. Employer contributions are age-related and range from 3 to 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of £0 (2009-10 £390), 0.8 per cent of pensionable pay, were payable 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.

### Average number of persons employed

The average number of whole-time equivalent persons employed during the year is shown in the table below.

Objective	Permanently employed staff	2010-11		2009-10
		Other non permanent staff	Total	Total
Ensuring the provision of a universal postal service at a uniform tariff, protecting consumers and promoting competition	50.7	6.6	<b>57.3</b>	<b>56.4</b>
<b>Total</b>	<b>50.7</b>	<b>6.6</b>	<b>57.3</b>	<b>56.4</b>

## 10. Other administration costs

		2010-11	restated 2009-10
	Note	£000	£000
<b>Rental under operating leases:</b>			
Hire of office equipment		6	5
Other operating leases		168	162
		<u>174</u>	<u>167</u>
<b>Non-cash items (see below):</b>			
Auditors' remuneration and expenses <sup>1</sup>		38	48
Depreciation	11, 12	232	275
Loss on disposal of fixed assets	11, 12	5	-
Interest cost		8	9
Past service cost		(15)	-
Provision provided in year	16	12	23
		<u>280</u>	<u>355</u>
<b>Other expenditure:</b>			
Consultants costs		1,850	1,620
Learning and development		66	73
Building costs		192	184
IT services		192	303
Human resources		97	296
Office supplies		65	90
Contracted out services		150	110
Communications		79	25
Information		66	44
Utilities		31	40
Other		14	7
		<u>2,802</u>	<u>2,792</u>
Travel and subsistence		40	54
Hospitality		3	8
		<u>43</u>	<u>62</u>
<b>Total</b>		<u><b>3,299</b></u>	<u><b>3,376</b></u>

<sup>1</sup> There was no auditor remuneration for non-audit work.

Reconciliation of Operating Costs to Operating cashflows in the Cashflow Statement and the Statement of Parliamentary Supply

	2010-11	2009-10
	£000	£000
Other administration costs – non-cash items (as above)	280	355

Total non-cash transactions

280

355

**11. Property, plant and equipment**

	Leasehold improvements	Office equipment	Information Technology	Furniture and fittings	Total
	£000	£000	£000	£000	£000
<b>Cost or valuation</b>					
At 1 April 2010	914	106	573	311	1,904
Additions	-	-	9	-	9
Disposals		(4)	(110)	(13)	(127)
<b>At 31 March 2011</b>	<b>914</b>	<b>102</b>	<b>472</b>	<b>298</b>	<b>1,786</b>
<b>Depreciation</b>					
At 1 April 2010	778	96	504	249	1,627
Charged in year	50	5	67	29	151
Disposals	-	(4)	(110)	(8)	(122)
<b>At 31 March 2011</b>	<b>828</b>	<b>97</b>	<b>461</b>	<b>270</b>	<b>1,656</b>
<b>Net book value</b>					
<b>At 31 March 2011</b>	<b>86</b>	<b>5</b>	<b>11</b>	<b>28</b>	<b>130</b>
<b>Net book value</b>					
<b>At 31 March 2010</b>	<b>136</b>	<b>10</b>	<b>69</b>	<b>62</b>	<b>277</b>
<b>Asset financing:</b>					
Owned	86	5	11	28	130
<b>Net book value</b>					
<b>At 31 March 2011</b>	<b>86</b>	<b>5</b>	<b>11</b>	<b>28</b>	<b>130</b>

	Leasehold improvements	Office equipment	Information Technology	Furniture and fittings	Total
	£000	£000	£000	£000	£000
<b>Cost or valuation</b>					
At 1 April 2009	1,050	105	525	337	2,017
Adjustments <sup>1</sup>	(207)	1	42	(26)	(190)
Additions	71	-	6	-	77
Disposals	-	-	-	-	-
<b>At 31 March 2010</b>	<b>914</b>	<b>106</b>	<b>573</b>	<b>311</b>	<b>1,904</b>

<b>Depreciation</b>					
At 1 April 2009	937	77	358	242	1,614
Adjustments <sup>1</sup>	(178)	2	35	(25)	(166)
Charged in year	19	17	111	32	179
Disposals	-	-	-	-	-
<b>At 31 March 2010</b>	<b>778</b>	<b>96</b>	<b>504</b>	<b>249</b>	<b>1,627</b>
<b>Net book value</b>					
<b>At 31 March 2010</b>	<b>136</b>	<b>10</b>	<b>69</b>	<b>62</b>	<b>277</b>
<b>Net book value</b>					
<b>At 31 March 2009</b>	<b>113</b>	<b>28</b>	<b>167</b>	<b>95</b>	<b>403</b>
<b>Asset financing:</b>					
Owned	136	10	69	62	277
<b>Net book value</b>					
<b>At 31 March 2010</b>	<b>136</b>	<b>10</b>	<b>69</b>	<b>62</b>	<b>277</b>

<sup>1</sup> The adjustment relates to the migration to our new non-current asset software on 1 April 2009 that highlighted prior year differences between the asset register and the general ledger.

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**12. Intangible assets**

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	Software
	£000
<b>Cost or valuation</b>	
At 1 April 2010	527
Additions	10
Disposals	(81)
<b>At 31 March 2011</b>	<b>456</b>
<b>Amortisation</b>	
At 1 April 2010	427
Charged in year	81
Disposals	(81)
<b>At 31 March 2011</b>	<b>427</b>
<b>Net book value</b>	
<b>At 31 March 2011</b>	<b>29</b>
<b>Net book value</b>	
<b>At 31 March 2010</b>	<b>100</b>
<b>Asset financing:</b>	
Owned	29
<b>Net book value</b>	
<b>At 31 March 2011</b>	<b>29</b>

	Software
	£000
<b>Cost or valuation</b>	
At 1 April 2009	446
Adjustments <sup>1</sup>	51
Additions	30
Disposals	-
<b>At 31 March 2010</b>	<b>527</b>
<b>Amortisation</b>	
At 1 April 2009	280
Adjustments <sup>1</sup>	51
Charged in year	96
Disposals	-
<b>At 31 March 2010</b>	<b>427</b>
<b>Net book value</b>	
<b>At 31 March 2010</b>	<b>100</b>



<b>Net book value</b>	
<b>At 31 March 2009</b>	<u>166</u>
<b>Asset financing:</b>	
Owned	100
<b>Net book value</b>	
<b>At 31 March 2010</b>	<u>100</u>

<sup>1</sup> The adjustment relates to the migration to our new non-current asset software on 1 April 2009 that highlighted prior year differences between the asset register and the general ledger.

### 13. Trade receivables and other current assets

#### 13(a) Analysis by type

	<b>31 March 2011</b>	<b>31 March 2010</b>	<b>31 March 2009</b>
	<u>£000</u>	<u>£000</u>	<u>£000</u>
<b>Amounts falling due within one year:</b>			
Trade receivables – excluding items that relate to Consolidated Fund Extra Receipts	-	12	-
Trade receivables – including items that relate to Consolidated Fund Extra Receipts	-	-	-
Deposits and advances	18	19	17
Prepayments and accrued income	77	84	165
HM Revenue and Customs (VAT)	<u>119</u>	<u>115</u>	<u>179</u>
	<b><u>214</u></b>	<b><u>230</u></b>	<b><u>361</u></b>

Deposits and advances include loans outstanding of £13,649 (2009-10 £14,781) which relates to season ticket loans for twelve employees.

#### 13(b) Intra-government balances

	Debtors: amounts falling due within one year	Debtors: amounts falling due after more than one year
	<u>£000</u>	<u>£000</u>
Balances with other central government bodies	119	-
Balances with local authorities	-	-
Balances with public corporations and trading funds	-	-
Balances with bodies external to government	<u>95</u>	<u>-</u>
<b>At 31 March 2011</b>	<b><u>214</u></b>	<b><u>-</u></b>

Balances with other central government bodies	127	-
Balances with local authorities	-	-
Balances with public corporations and trading funds	-	-
Balances with bodies external to government	103	-
<b>At 31 March 2010</b>	<b>230</b>	<b>-</b>

Balances with other central government bodies	279	-
Balances with local authorities	-	-
Balances with public corporations and trading funds	-	-
Balances with bodies external to government	82	-
<b>At 31 March 2009</b>	<b>361</b>	<b>-</b>

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#### 14. Cash and cash equivalents

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	<b>31 March 2011 £000</b>	<b>31 March 2010 £000</b>	<b>31 March 2009 £000</b>
Balance at 1 April	2,170	496	494
Net change in cash and cash equivalent	(1,676)	1,674	2
<b>Total</b>	<b>494</b>	<b>2,170</b>	<b>496</b>

	<b>31 March 2011 £000</b>	<b>31 March 2010 £000</b>	<b>31 March 2009 £000</b>
The following balances at 31 March are held at:			
Government Banking Service	494	2,170	494
Commercial banks and cash in hand	-	-	2
<b>Total</b>	<b>494</b>	<b>2,170</b>	<b>496</b>

## 15. Trade payables and other current liabilities

### 15(a) Analysis by type

	31 March 2011 £000	restated 31 March 2010 £000	restated 31 March 2009 £000
<b>Amounts falling due within one year:</b>			
Taxation and social security payable	115	107	135
Trade payables	66	212	320
Other payables	4	6	12
Staff payables	210	191	245
Deferred licence fees	2,918	2,291	351
Accruals	180	441	325
Excess cash	494	2,170	-
Amounts issued from the Consolidated Fund for supply but not spent at year end	-		496
Consolidated Fund extra receipts due to be paid to the Consolidated Fund:			
received	-	-	-
receivable	-	-	-
	<b>3,987</b>	<b>5,418</b>	<b>1,884</b>

### 15(b) Intra-government balances

	Creditors: amounts falling due within one year £000	Creditors: amounts falling due after more than one year £000
Balances with other central government bodies	613	-
Balances with local authorities	-	-
Balances with public corporations and trading funds	2,918	-
Balances with bodies external to government	456	-
<b>At 31 March 2011</b>	<b>3,987</b>	-
Balances with other central government bodies	2,288	-
Balances with local authorities	-	-
Balances with public corporations and trading funds	2,291	-
Balances with bodies external to government	839	-
<b>At 31 March 2010</b>	<b>5,418</b>	-
Balances with other central government bodies	679	-
Balances with local authorities	-	-
Balances with public corporations and trading funds	351	-
Balances with bodies external to government	854	-
<b>At 31 March 2009</b>	<b>1,884</b>	-

## 16. Provisions for liabilities and charges

### 16(a) Pension liabilities

	<b>2010-11</b>	<b>2009-10</b>
	£000	£000
<b>Provision at 1 April</b>	192	147
Current service cost	-	-
Interest cost	8	9
Actuarial (gain)/loss	(12)	42
Past service cost	(15)	-
Less benefits paid	(7)	(6)
<b>Provision at 31 March</b>	<b>166</b>	<b>192</b>
Net movement in year (excluding actuarial gain)	(14)	3
History of experience losses		
	<b>2010-11</b>	<b>2009-10</b>
	£000	£000
Experience (gains)/losses arising on the scheme's liabilities	(3)	9
Amount recognised as a percentage of present value of scheme liabilities	(2.1)%	4.5%
Total amount recognised in statement of total recognised gains and losses	(12)	42
Percentage of present value of the scheme liabilities	(7.2)%	21.9%

The pensions provision is in respect of the unfunded pension liabilities which fall to Postcomm for the past Chairmen. The pension provision is unfunded, with the benefits being paid as they fall due and guaranteed by Postcomm. There is no fund, and therefore no surplus or deficit. Actuarial advice has been sought to ensure that the provision is set at a realistic level.

An actuarial valuation was carried out by the Government Actuary's Department (GAD) at 31 March 2011. The major assumptions used by the actuary were:-

	At 31 March 2011	At 31 March 2010
	% (per annum)	% (per annum)
Inflation assumption	2.65	2.75
Rate of increase in salaries	4.90	4.29
Investment return in excess of price increases	2.9	1.8
Rate of increase for pensions in payment and deferred pensions	2.65	2.75

## Analysis of Actuarial Loss

	2010-11	2009-10	2008-09
	£000	£000	£000
Changes in assumptions underlying the present value of scheme liabilities	(9)	33	(13)
Experience (losses)/gains arising on the scheme liabilities	(3)	9	5
Per statement of recognised gains and losses	<u>(12)</u>	<u>42</u>	<u>(8)</u>

From 31 March 2011, the discount rate for pension scheme liabilities changed from 1.8 per cent to 2.9 per cent. This rate is reflected in the valuation of the pension scheme liability as at 31 March 2011.

## 16(b) Early retirement

	2010-11
	£000
<b>Provision at 1 April</b>	23
Provided in the year	-
Unwinding of the discount	-
Provisions not required written back	-
Provisions utilised in year	<u>(20)</u>
<b>Provision at 31 March</b>	<b>3</b>

## 16(c) Contract liabilities

	2010-11
	£000
<b>Provision at 1 April</b>	-
Provided in the year	12
Unwinding of the discount	-
Provisions not required written back	-
Provisions utilised in year	<u>-</u>
<b>Provision at 31 March</b>	<b>12</b>

Any outstanding provisions at the point of transfer will be transferred to Ofcom.

## 17. Capital commitments

	2010-11	2009-10	2008-09
	£000	£000	£000
Contracted capital commitments at 31 March for which no provision has been made.	-	-	-

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## 18. Commitments under leases

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### Operating leases

Total future lease payments under operating leases are given in the table below for each of the following periods.

	<u>2010-11</u>	<u>2009-10</u>
	£000	£000
<b>Obligation under operating leases comprise:</b>		
Land and buildings:		
Expiry within 1 year	77	154
Expiry after 1 year but not more than 5 years	-	386
Expiry thereafter	-	-
	<u>77</u>	<u>540</u>
Other:		
Expiry within 1 year	3	4
Expiry after 1 year but not more than 5 years	-	-
Expiry thereafter	-	-
	<u>3</u>	<u>4</u>

COI, Postcomm's landlord at Hercules House, agreed, in anticipation of Postcomm's abolition, to a rolling three month notice period for the lease. There will be no further liability for lease or dilapidation payments after 30 September 2011.

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## 19. Other financial commitments

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Postcomm had not entered into any non-cancellable contracts (which are not operating leases) as at 31 March 2011.

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## 20. Contingent liabilities

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As at 31 March 2011 there were no contingent liabilities requiring disclosure. (31 March 2010 – nil)

In 2001-02 the Department of Trade and Industry (now BIS) laid a Minute before Parliament notifying them of an indemnity to the members of the Postal Services Commission. The indemnity means that the Commissioners would be indemnified against civil liability arising from their work in regulating the UK postal market, so long as they acted honestly, in good faith and without recklessness. It is not possible to quantify a figure for the potential liability, but if the liability is called, then provision for any payment will be sought through the normal Supply procedure.

From time to time Postcomm will be subject to legal challenge and judicial review of decisions made in the normal course of its business as regulator of the postal industry. Legal judgements could give rise to liabilities for legal costs but these cannot be quantified as the outcome of current proceedings would be unknown and there is therefore considerable uncertainty as to the nature and extent of any subsequent liability.

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## 21. Financial instruments

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As the cash requirements of Postcomm are met through the Estimates process, financial instruments play a more limited role in creating risk than would apply to a non-public sector body of a similar size. The majority of financial instruments relate to contracts to buy non-financial items in line with Postcomm's expected purchase and usage requirements and the Department is therefore exposed to little credit, liquidity or market risk.

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## **22. Related party transactions**

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None of the Senior Management Team, key managerial staff or other related parties has undertaken any material transactions with the Postal Services Commission during the year.

Postcomm collected £2.937m from Royal Mail Group, on behalf of BIS in respect of the costs of Consumer Focus. This was remitted directly to the Department.

Postcomm is a tenant of the Central Office of Information, receives financial and payroll services from Ofgem and consultancy services and a secondment from Ofcom. Expenditure in year was £345,896 (2009-10 £330,386) to COI, £71,494 (2009-10 £75,771) to Ofgem and £84,431 (for consultancy services ) and £184,275 (for a secondment) to Ofcom. An amount of £0 (2009-10 £5,785) was owing to Ofgem at the year end and is included in the figure for payables.

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## **23. Events after the reporting period**

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The Government introduced the new Postal Services Bill 2010 in the House of Commons in October 2010. The Bill provides for the privatisation of Royal Mail, a solution to Royal Mail's historic pension fund deficit, and envisages the transfer of regulatory responsibility for postal services to Ofcom, and the subsequent abolition of Postcomm at some point in the 2011-12 financial year. The Bill completed its 3rd Reading in the House of Lords on 24 May 2011 and its final stage in the House of Commons on 9 June 2011. The Bill received Royal Assent on 13 June 2011.

As outlined in note 16(a), the decision to uprate public service pensions using the Consumer Prices Index rather than the Retail Prices Index has been recognised in these accounts. This decision is currently before the courts in judicial review proceedings. The Government is robustly defending the case and therefore no adjustment has been made to the accounts for this matter. The financial implications consequent on the review finding against the government have not been assessed.



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