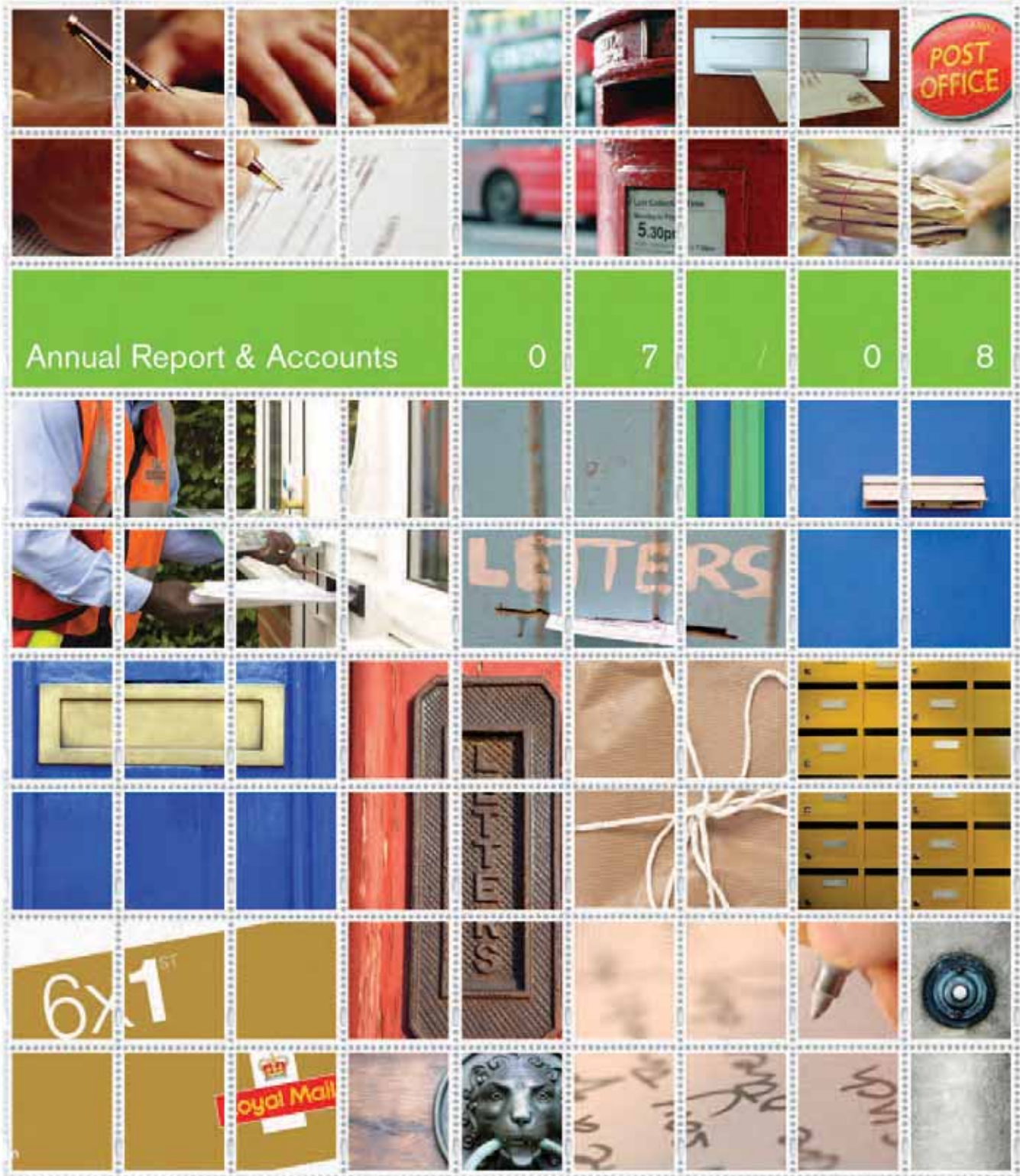


postwatch



Representing consumer interests in postal services

Who we are

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

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

Postwatch and Postcomm have a memorandum of understanding which sets out the respective roles of each organisation. This can be viewed on our website, or can be provided on request.

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

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Postwatch

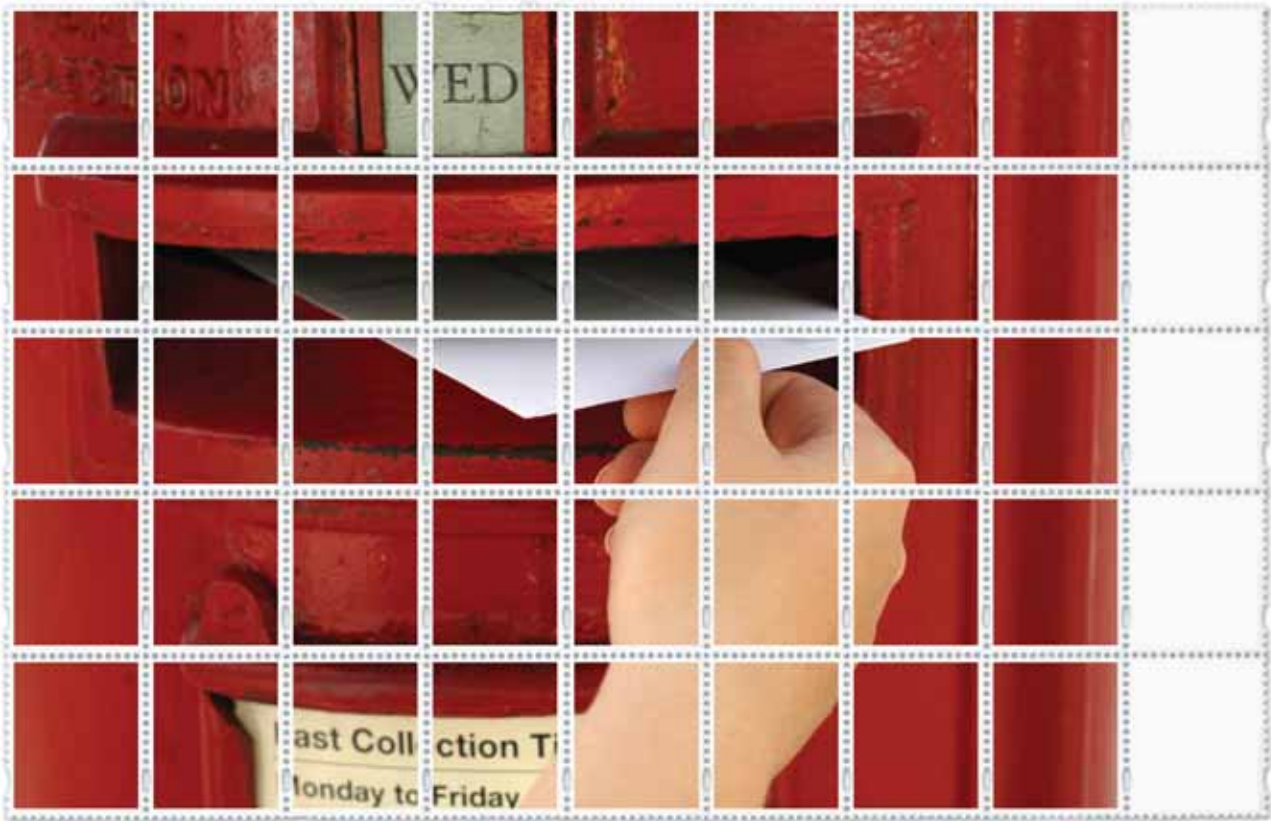
Annual Report 2007-2008

Report of the Consumer Council for Postal Services for the year to 31 March 2008, to the Secretary of State for Business, Enterprise and Regulatory Reform.

This document comprises a report made under section 55(1) and paragraph 15-17 of Schedule 2 of the Postal Services Act 2000.

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Statement from the Chair



Millie Banerjee

Millie Banerjee CBE
Chair

Postwatch's final full year has been an eventful and productive one.

The Government's radical plans for the post office network – 2,500 closures and 500 new 'outreach' services – gained extensive media and political attention. Every parliamentary constituency was affected by the closure programme, and millions of customers inconvenienced.

Postwatch agreed with the need for change. Increasing losses and a dwindling customer base had left the 14,500 strong network unsustainable. Furthermore, continuing unplanned, haphazard closures were leaving unacceptable gaps in provision, with vulnerable customers worst affected. Change was already happening; the closure programme's purpose was to manage this, and thereby ensure remaining post offices were located where customers needed them most.

Nonetheless, we had reservations about aspects of the programme. Its 18-month duration, for example, was unnecessarily short, and the six-week local consultation period insufficient. However, once the Government made the decision that planned closures would take place, our view was that it would be preferable if the customers' representative organisation was involved and influencing decisions, rather than failing to engage in a change of such magnitude and importance.

The challenge for Postwatch has been to minimise customer inconvenience by working with communities, stakeholders and Post Office Ltd to ensure the right post offices close. This has been enormously challenging; however our efforts have resulted in real customer gains, with over 80 changes to Post Office Ltd's proposals secured by the end of the year. With the programme continuing past Postwatch's abolition, a priority has also been to ensure arrangements are in place so that customers continue to receive the same level of representation until the programme's end.

The protracted industrial action throughout the latter half of 2007 highlighted the tension between the need for Royal Mail to modernise with the fundamental fact that the postal industry is, and will continue to be, labour intensive. The strike was hugely damaging – to both Royal Mail's operations and reputation. More widely, the postal industry as a whole suffered, as did the millions of businesses and households who need a regular, reliable postal service.

Royal Mail must resume doing the basic things well – a full recovery from the effects of the strike might not be possible, but getting the performance of its flagship products and services back up to an acceptable standard is crucial.



Central to achieving this is sustained, judicious investment in the business. The funding made available by Government represents a huge opportunity, and one that Royal Mail must now seize if it is to survive. Modernisation of the business is long overdue and sorely needed. However, gains must not be made at the expense of customer service. Customers have been disadvantaged in recent years by price increases, for example, and collection and delivery time changes. Royal Mail needs to balance the needs of all customers with the urgent requirement to improve.

Royal Mail Chief Executive Adam Crozier's post-competition mission to 'fight for every letter' applies to the postal industry as a whole. The internet has revolutionised how businesses and whole industries operate, and poses the most serious challenge to mail since the advent of the telephone. Yet the future story of the postal industry should not be one of managed decline, but of postal companies innovating to maintain and even build their customer base. E-commerce brings new positive possibilities for the postal industry; it is up to postal companies, including Royal Mail, to be responsive to these.

In this, Postwatch's final year, it is tempting to look back and reflect on the numerous successes we have achieved for customers during the lifetime of the organisation. However, at this moment of considerable flux and uncertainty, it is more important than ever to look forward. The Government's review of the postal industry is therefore timely and welcome and, we hope, will provide a platform for needed action and future improvements. Our input to this has emphasised the need for both Royal Mail to do more to place customers at the heart of its thinking, and for Postcomm to provide a regulatory regime that provides real incentives for this to happen. Customer interests should be the driving force in how Royal Mail goes forward and the UK postal market develops.

The review's findings will no doubt highlight the significant challenges that remain for Royal Mail and its competitors, Postcomm, and Postwatch's successor organisation.

Chief Executive's summary



A handwritten signature in blue ink, appearing to read 'Howard Webber', written in a cursive style.

Howard Webber
Chief Executive

In many ways this has been the most challenging year in the history of Postwatch. It is a great tribute to the focus and professionalism of my colleagues that we have achieved so much.

Millie Banerjee has mentioned the key challenges: ensuring that the post office closure programme causes minimum damage to the interests of customers; contributing fully to the Government-appointed independent review of the postal sector; and dealing with the uncertainties and difficulties that are a natural consequence of this being Postwatch's last full year of existence. All this in addition to business as usual – working to get a fair deal for customers who complain to us about postal and post office issues; putting the customer case to the regulator; carrying out research on the needs of domestic and small business customers; and so on.

The post office closure programme posed a particular organisational challenge. We cannot match the resources available to Post Office Ltd, but we do have a major and complex task, both to assess the closure programme as a whole and to measure every proposal for closure and outreach against the Government's access criteria, and against common sense.

This has been a huge and demanding job for our Council members in a range of capacities; for our regional committee members, deeply engaged in making post office visits and attending public meetings; for our central

team in London and Belfast organising the whole process; and for our regional staff making sure that everything happens as it should at local, area and regional level.

Then there is the complex issue of how we 'position' ourselves. On the one hand we are involved in the programme not as an arm of Government or part of Post Office Ltd, but as an independent organisation representing the interests of customers. It is vital that this independence is both real and seen to be real. On the other hand, we have to work closely and constructively with Post Office Ltd if we are to make sure that lessons are learnt and that the programme operates efficiently and fairly.

I believe that we have risen both to the organisational and to the more (definitely lower case 'p') political challenges. This is an assessment which the Business, Enterprise and Regulatory Reform Select Committee agreed with in its report earlier this year. The Committee was generally very favourable about our role in the programme. I am determined that we will continue to maintain our high standards.



Another vital issue for us – a perennial issue, and one which affects every household, business and charity in the UK – is the universal service. Monitoring the universal service, assessing every proposed change both for its necessity and for its effects on customers, and seeking to safeguard customer interests as competition develops in the postal industry are key tasks for Postwatch, ably carried out. They will also be key tasks for our successor body, the new National Consumer Council. That is why we undertook a major research project on the universal service, covered elsewhere in this report. I am confident that this is work the new NCC will build on.

That transition to the new NCC has of course taken up much of our time and energy this year. It has been a difficult, slow and complex process. We have tried to ensure throughout that Postwatch has been constructive in its contribution, that it has not swept problems out of sight which would return later in more urgent form, that staff are treated fairly and that the interests of postal customers are protected. Some of the results of this approach are already apparent. Others can be demonstrated only in the longer term.

This brings me back to my starting point. In the final full year of Postwatch's existence, with staff obviously concerned about their personal future, and with Council members and regional committee members knowing that their role was coming to an end, one might have expected some slackening of effort or loss of focus. This has absolutely not been the case – if anything, the reverse. I am truly grateful for the dedication and professionalism of members of the Council, members of regional committees, and my staff colleagues throughout the UK. I feel sure that these qualities will remain fully in evidence for the remaining months of Postwatch's existence – and that the spirit in which Postwatch has carried out its work will continue into the new NCC.



Our work

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

- Campaigning and lobbying for improvements in the postal service.
- Investigating and addressing postal problems and issues, both locally and nationally.
- Resolving individual customer complaints, pursuing also generic issues raised.
- Monitoring Royal Mail's performance against its targets.
- Advising Postcomm on appropriate action should Royal Mail fail to meet performance targets, or breach other licence conditions.
- Informing customers about postal issues and market developments.

Throughout the UK

Postwatch operates across the UK, with committees in Scotland, Wales, Northern Ireland and six regions in England. Each Regional Chair is supported by staff and committee members. Regional committees monitor and investigate postal service provision, and are essential in ensuring that where problems are identified, they are addressed swiftly and effectively.

Our regional presence also enables us to undertake several other key work areas. Firstly, informing Postcomm of local or regional failures by Royal Mail to meet its quality of service

standards or to comply with licence conditions, and to recommend suitable action. Secondly, over the past year, our regional structure has allowed us to locally scrutinise Post Office Ltd's proposals under its closure programme (page 21).

Complaints

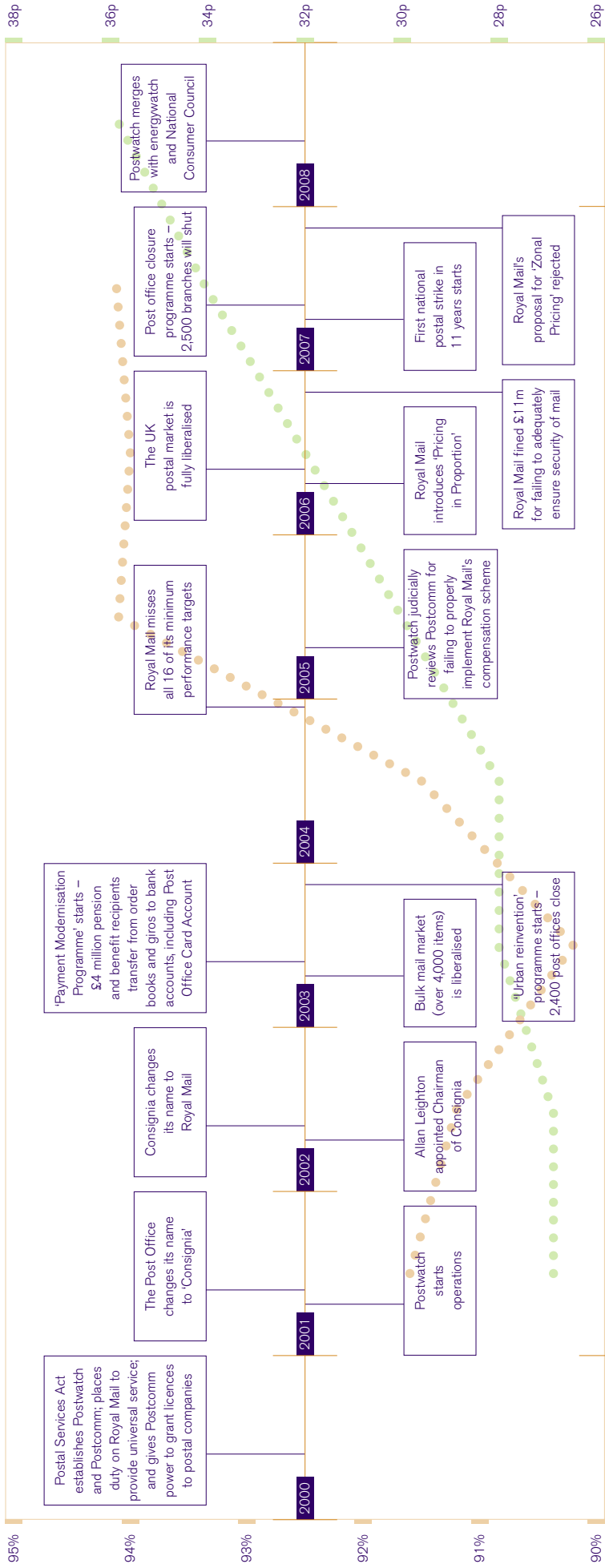
Postwatch assists postal customers with complaints, whether individuals, small and medium businesses, or bulk mailers. We investigate cases once the relevant postal company (usually Royal Mail) has had the opportunity to resolve the matter, and where the complaint relates to a service or product licensed by Postcomm or which is part of the universal postal service. See page 30 for further information.

Website and blog

Our website www.postwatch.co.uk is an important tool in communicating with stakeholders and customers. During the year, we received an average of over 18,000 hits a month.

The website provides information on our activities and publications, customer advice, and has a complaint facility. We also have a weblog (www.postwatchuk.blogspot.com) to allow a dialogue with customers. This was particularly useful during the period of industrial action (page 10), as it provided timely examples of how customers were being inconvenienced by the strike. During the year, the blog received on average 950 visitors a month.

Key events 2000-2008



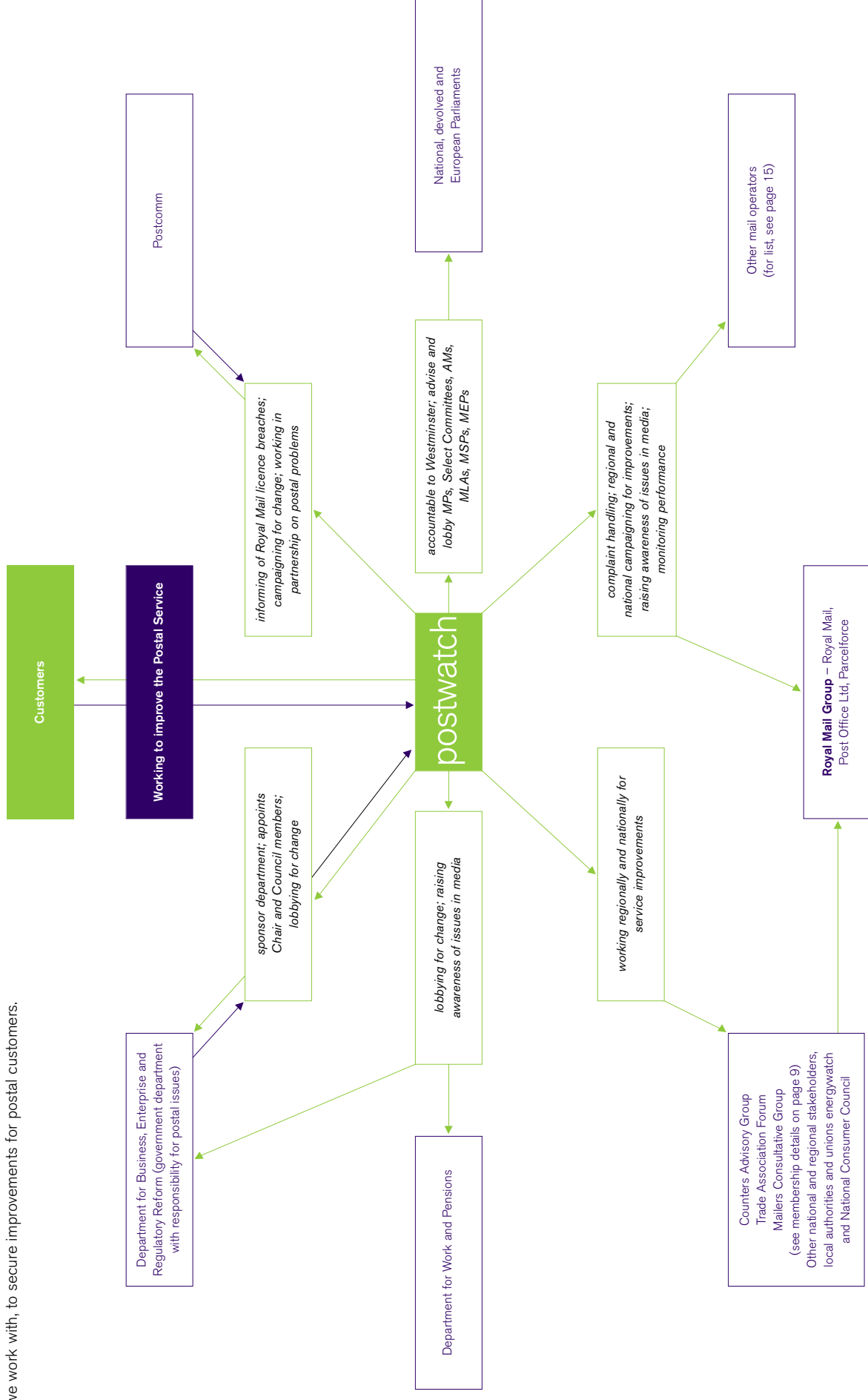
Key

- Royal Mail First Class post performance – % delivered next working day
- Price of a First Class stamp

2000	Price of a First Class stamp	27p
2000	Number of post offices	17743
2008	Price of a First Class stamp	36p
2008	Number of post offices	14,219

Working together

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





Our groups

Postwatch established various working groups to inform our campaigning and policy-making activities. Our work with member organisations ensures we canvass and understand a wide range of views on postal issues.

Counters Advisory Group

This group acts on customer concerns about issues affecting the post office network, such as funding, the future of urban deprived branches, and product and service developments. In the past year this group has been important in responding to the Government's decision to close 2,500 post offices, and Post Office Ltd's programme to implement this. This year, CAG hosted sessions with the Pat McFadden MP, the Postal Services Minister; Alan Cook, Chief Executive of Post Office Ltd; and Peter Luff MP, Business and Enterprise Committee Chairman.

Members:

Age Concern England; Citizens Advice; Commission for Rural Communities; Federation of Small Businesses; Help the Aged; Local Government Association; National Association of Local Councils; National Consumer Council; National Federation of Women's Institutes; Postcomm; Public Utilities Access Forum; Royal National Institute for the Blind; Rural Shops Alliances; Townswomen's Guild; Village Retail Services Association.

National Federation of Subpostmasters in advisory capacity.

Trade Association Forum

The Forum helps Postwatch understand the needs and views of large mailers. It enables us to work effectively on their behalf, and helps inform Postwatch's policy and activities, for example when responding to Postcomm consultations. The group looks at numerous policy issues, including Pricing in Proportion, Royal Mail's Compensation Scheme, and Zonal Pricing.

Members:

British Office Supplies and Services Federation; British Printing Industries Federation; Direct Marketing Association; Envelope Manufacturers Association; Intellect; Incorporated Society of British Advertisers; Institute for Practitioners in Advertising; Mail Order Traders' Association; Mail Order Photofinishers Association; Mail Users Association; Periodical Publishers Association; Mail Competition Forum; WWAV Rapp Collins.

Mailers Consultative Group

This group ensures we are aware of and act on the postal needs and concerns of small businesses and domestic customers, particularly vulnerable postal users. Postwatch seeks members' views before we submit consultation responses.

Members:

Age Concern; British Chambers of Commerce; Federation of Small Businesses; Forum of Private Business; Institute of Fundraising; National Consumer Federation; The Royal MENCAP Society; Royal National Institute for the Blind; National Talking Newspapers and Magazines.



Royal Mail performance

Postal services are essential to society, and, as the universal service provider carrying over 80 million items of post every day, Royal Mail is vital to the UK's postal service.

Targets missed

In 2007-08, Royal Mail met three of its twelve targets – a marked deterioration in service compared to the previous year, when it met eleven.

The table below shows how Royal Mail has performed in the past three years against four key targets:

Product (and minimum target)	2005-2006 % of all mail	2006-2007 % of all mail	2007-2008 % of all mail
First Class next working day delivery (93.0)	94.1	94.0	85.2
Second Class delivery within three working days (98.5)	98.8	98.9	95.7
Special Delivery next working day delivery (99.0)	98.8	99.0	97.8
Standard parcel delivery within three working days (90.0)	92.0	94.5	90.4

Strikes

Over the year industrial action was the main reason for Royal Mail's poor performance.

In response to Royal Mail's modernisation plans, the Communication Workers Union balloted its members in May on taking strike action.

On 29 June 2007, the first national postal strike for eleven years took place, with over 130,000 postal workers, of a total workforce of 180,000, estimated to be taking part.

An agreement was reached between the two sides in October, by which time 6 national strike days had taken place, along with a programme of rolling 'tactical' strikes, designed to maximise disruption by hitting various parts of Royal Mail's operations at different times. In addition, unofficial 'wildcat' strikes throughout the UK exacerbated the problems customers faced.



Postwatch does not involve itself in the details of industrial disputes. These are matters for the trade union and Royal Mail. Rather, our role involves raising awareness of the disruption, and advising customers on practical steps they can take to minimise personal inconvenience.

Customers are the losers when strikes occur. Although Royal Mail put in place collection and delivery contingency arrangements during the strike, backlogs built up, and customers continued to report significant problems for some time after the strikes ended. For weeks after the dispute was resolved, customers reported various problems, for example severe delivery delays and parcels being left at sorting offices rather than delivery being attempted.

The following table shows the number of days lost to strikes in recent years, by Royal Mail.

2002-2003	5,766
2003-2004	85,464
2004-2005	7,189
2005-2006	12,760
2006-2007	6,921
2007-2008	627,538

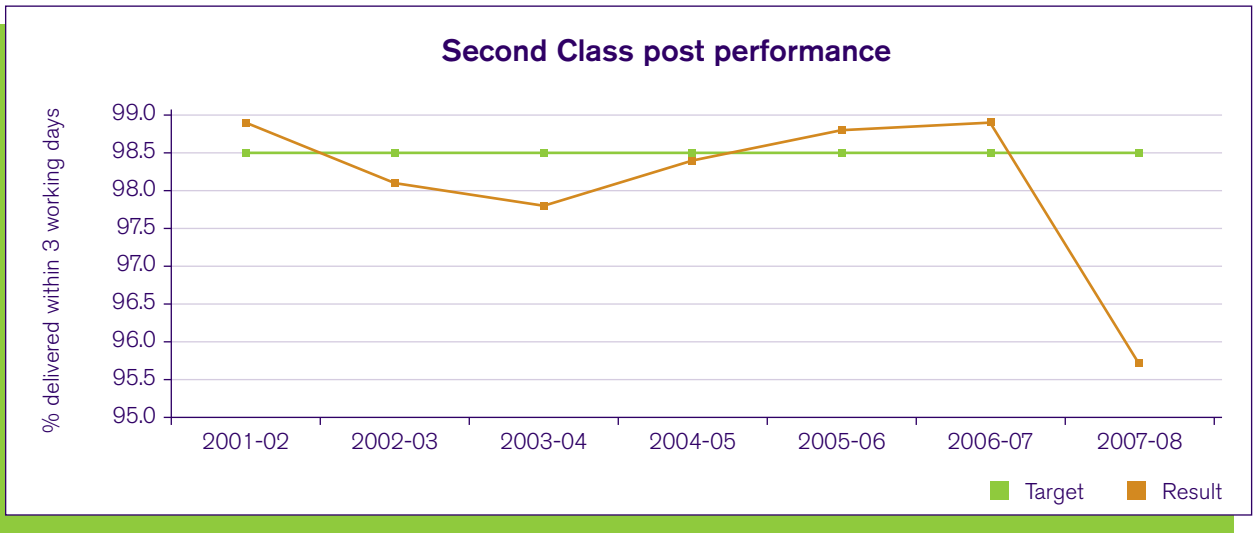
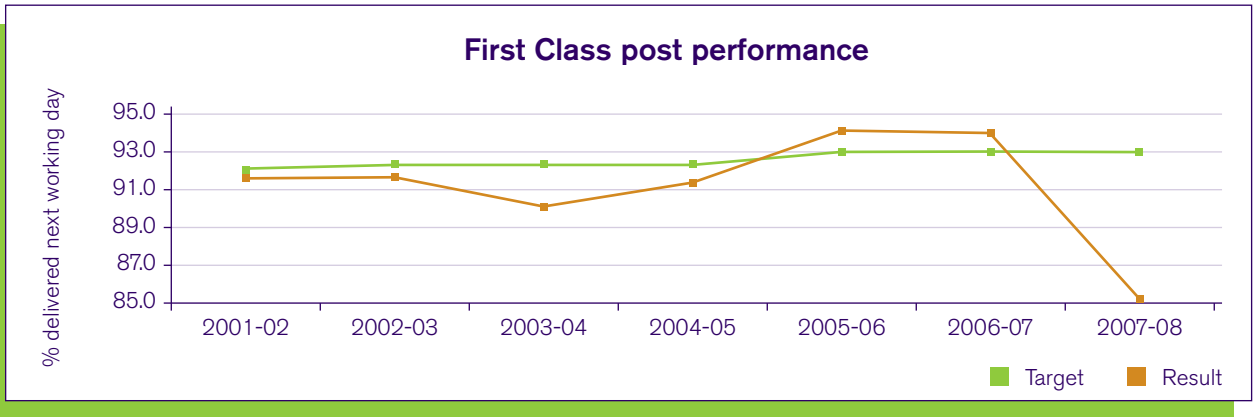
The direct mail market

The short-term effect for Royal Mail was a loss of revenue and a build-up of undelivered mail. The longer-term consequences, however, may be more severe. Customers who cannot post with any confidence are forced to explore other ways of communicating. The prolonged period of uncertainty and disruption caused by industrial action resulted in many businesses moving away from using mail to advertise. The Direct Marketing Association reported that 41 per cent of its members stated the strikes would have a long term impact on their relationship with mail – especially where advertisers can switch media or supplier.

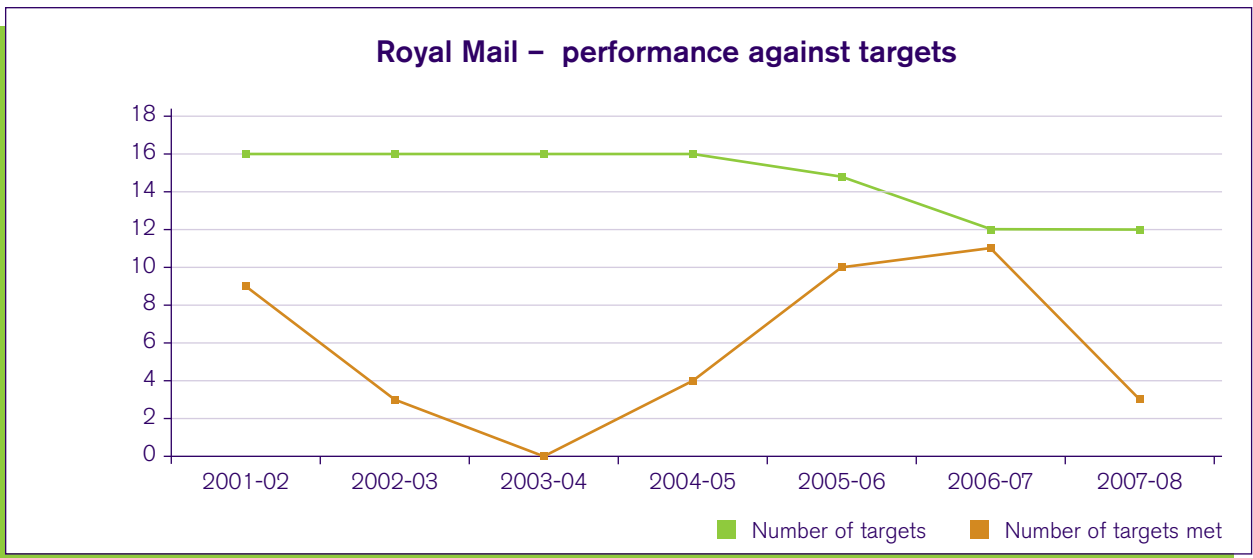
Conversely, other methods of trading provide new opportunities for the postal industry. An obvious one is e-fulfilment, with the Internet providing new ways for customers to trade with businesses. Direct marketing for, and shipment of, items bought online is a growing market and offers opportunities for Royal Mail and its competitors.

Longer-term performance

Royal Mail's performance worsened over the year. This brought to an end a period of year-on-year improvement since 2003/2004.



The following graph shows the number of targets Royal Mail has met in each of the past seven years.



Christmas performance

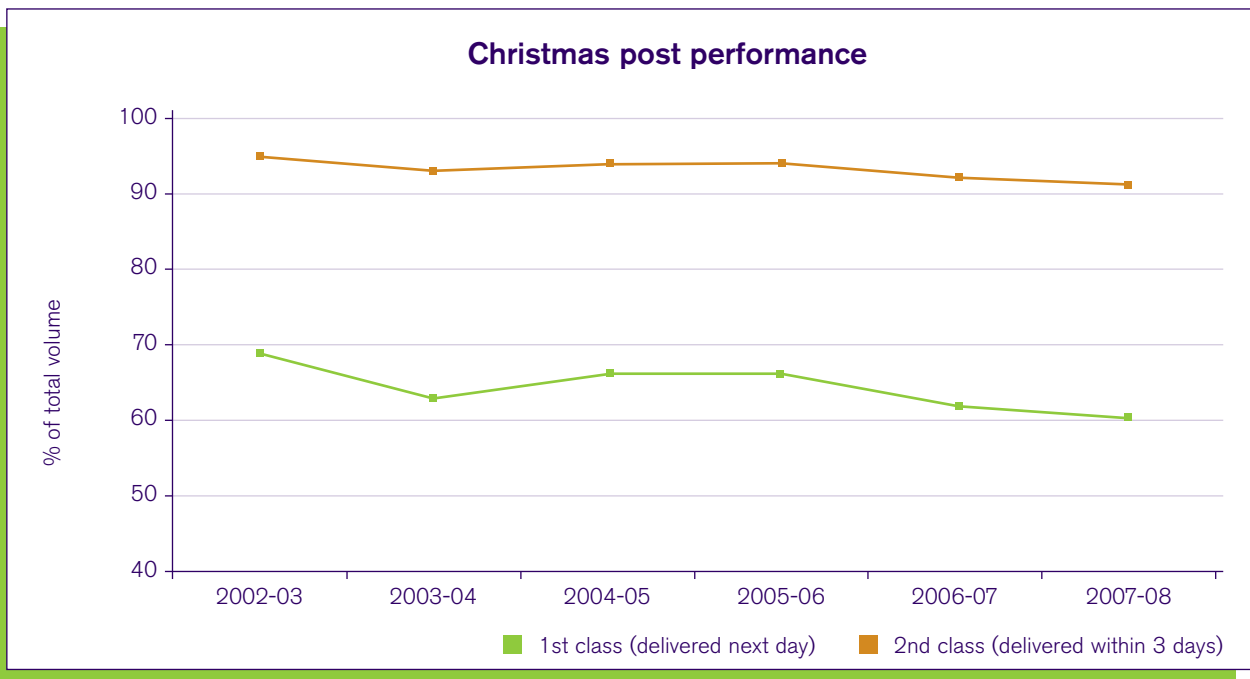
Christmas is the busiest posting time of the year. Royal Mail's average daily volume of post carried rises from 80 million items a day to around 120 million. Given this considerable increase it is understandable that Royal Mail's delivery performance during this period is slower, and is not included in Royal Mail's end of year quality of service figures.

The scale of the deterioration is, however, disappointing. As the graphs below show, the general trend for Christmas postal performance is downwards.

Royal Mail needs to address this problem swiftly. Online Christmas shopping is increasing – Royal Mail estimated that 55 million online items were delivered for Christmas 2007. It should be a priority for Royal Mail to drive up its performance, to ensure both senders and recipients are satisfied with their post at Christmas.



Because of the massive drop in performance quality for 1st class post, and the relatively minor dip for 2nd class, Postwatch recommends that customers use the latter service during December. Post early and use 2nd class.





Competition

Competition should improve choice, price and quality of service.

The UK postal market was fully liberalised in January 2006. Postwatch wants competition to continue developing, to help create a more dynamic mail market, with greater innovation and choice, and better informed, more empowered customers. As competition develops, it is imperative that the universal postal service is safeguarded.

Market development

19 postal companies, including Royal Mail, currently hold licences granted by Postcomm.

Competition has developed fastest in 'upstream' activities – the collecting and sorting of mail. Companies then feed this mail into Royal Mail's delivery network, paying an access price to do so.

As the table below shows, while competitors to Royal Mail have steadily gained greater market share since liberalisation, overall mail volumes have decreased.

	2005-06	2006-07
Total mail volumes (billion)	22.4	21.9
Royal Mail end-to-end items (billion)	19.7	17.9
Items carried under access agreement (billion)	1.16	2.4

Larger businesses benefiting

The UK addressed mail market was worth £6.6 billion in 2007. Businesses send around 87 per cent of all addressed mail items. Postcomm's most recent survey of business customers highlighted competition's benefits:

- 54 per cent of respondents stated that competition had improved choice.
- 39 per cent believe competition had improved Royal Mail's quality of service.
- 15 per cent believe competition had resulted in significantly lower prices.

Large mailers have, understandably, been the first to directly benefit from competition. Nearly 20 per cent of large mailers have stated they intend to move mail away from Royal Mail in the next twelve months. Postwatch wants to see competition develop so that it also benefits smaller businesses. Many small businesses remain reliant on physical mail, and whilst volumes may be relatively small, they represent an important part of the mail market.

Remaining barriers

For competition to develop, several important factors need addressing, including:

VAT. As the universal service postal provider, Royal Mail is exempt from charging VAT on postal services. Other licensed postal companies are liable to charge the standard rate of 17.5 per cent. The fundamental imbalance this causes the market cannot be overstated, and needs to be addressed.

Royal Mail efficiency. Virtually all post in the UK is delivered by Royal Mail, regardless of which postal company collects and sorts the mail. An efficient Royal Mail is therefore necessary for competition to flourish. Royal Mail has acknowledged the company needs to modernise. However, it is not apparent that Royal Mail has succeeded in either transforming its business or in substantially reducing its operational costs. With settled industrial relations, and the Government funding package secured, Royal Mail must embark quickly on its modernisation programme, investing in efficient technology and using it well. For the good of itself and the mail industry, Royal Mail must introduce innovations for customers which make mail an attractive medium to use.

Government review of the postal market

On 17 December 2007, the Government, in line with its manifesto commitment, launched a review of the UK's postal services.

The terms of reference for the review are to:

- assess the impact to date of liberalisation of the UK postal services market, including on the Royal Mail, alternative carriers and consumers;
- explore trends in future market development and the likely impact of these on Royal Mail, alternative carriers and consumers; and
- consider how to maintain the universal service obligation in the light of the trends and market developments identified.

Debate about the universal service and concern over mail volumes are major issues for the industry and customers. It is expected that the review will be completed during 2008. Postwatch's submission at the initial information gathering stage can be found on our website.



Licensed postal companies

The following 19 companies were licensed by Postcomm at April 2008.

Postal company	Licensed services	Contact details
Citipost AMP Limited	Business to business; catalogue; directory; publications and postal fulfilment and delivery UK wide	Tel: 01753 722 000 www.citipost.com
City Link Post	Mail services and collections	Tel: 024 7630 8359 http://target.city-link.co.uk
CMS	Business to business delivery; sortation	Tel: 020 7732 2000 www.cmsnetwork.com
DHS Express DHL Global Mail (UK) Limited	Bulk mail sorting and delivery throughout the UK; business to business collection and delivery services	Tel: 0845 600 7678 www.dhlglobalmail.co.uk
Document Outsourcing Limited	Direct mail fulfilment	Tel: 01698 847979 www.documentoutsourcing.com
DX Network Services Limited	Document exchange service; business mail sorting and delivery	Tel: 08457 585 325 www.thedx.co.uk
FEDEX UK Limited	Express delivery and collection services	Tel: 01782 563322 www.anc.co.uk
Intercity Communications Limited	Collection and delivery of mail for financial institutions and professional partners; overnight courier service	Tel: 020 8981 2828 www.icityc.co.uk
LDS Cambridge Limited	Leaflet distribution specialists Cambridge area	Tel: 01223 571109 www.ldscambridge.com
Lynx Mail	Express delivery and collection services	Tel: 024 7637 3737 www.lynx.co.uk
Racer Consultancy Management Services	Bulk mail sorting and distribution; next day services	Tel: 020 8893 8833 www.racer.co.uk
Royal Mail	Provides a universal postal service across the UK	Tel: 08457 740 740 www.royalmail.com
Secure Mail Services	Sorting and delivery services throughout the UK	Tel: 0870 264 2806 www.securemail.co.uk
Secured Mail Limited	A UK wide bulk mail operator	Tel: 0870 41 41 600 www.securedmail.co.uk
The Mailing House Group	Direct mail fulfilment	Tel: 08700 10 2000 www.themailinghouse.co.uk
TNT Post UK Limited	Consolidation and delivery of bulk mail services	Tel: 01628 771 232 www.tntpost.co.uk
UK Mail	2-3 day services for mail sorting, collection and delivery	Tel: 0845 230 5050 www.ukmail.biz
Zip Mail Limited	Collect and deliver mail throughout the UK	Tel: 020 7405 7547 www.zip-mail.co.uk



Pricing

The year saw an unsuccessful bid by Royal Mail to further change its pricing structure, along with more stamp price rises for customers.

Stamp price increases

Following Postcomm's review of Royal Mail's price control, in June 2007, Royal Mail were allowed a further price increase for 2nd class stamps, above and beyond the initially agreed amount in the period to 2010. Postcomm proposed a rise to 29 pence, rather than 26 pence.

Postcomm's rationale for allowing the further price rise was to help align Royal Mail's prices to some of its loss-making products to ensure they are more cost-reflective. At the same time, Postcomm stated that Royal Mail had failed to

meet efficiency targets and significantly reduce costs. Customers were therefore being asked to foot the bill for these failings.

Postwatch objected to the proposal, and were disappointed when the regulator decided to allow Royal Mail to proceed. Above-inflation price rises, and revisiting a price control agreed little more than a year before do not motivate Royal Mail to make efficiency gains.

The following graph shows stamp price increases in recent years. Between 2000 and 2004, the price of a 1st Class stamp increased by less than five per cent. Since that time, it has increased by over 22 per cent.



PiP

Royal Mail introduced 'Pricing in Proportion' (PiP) in August 2006. PiP changed the way people pay for post to take account of size and thickness, as well as weight.

One of the new system's first major tests was Christmas 2007 – the peak posting period when, unlike in the previous year, customers who received mail with insufficient postage risked paying a surcharge.

It is understandable that Royal Mail should want to recover its costs for handling and delivering mail. However, media interest and public reaction to Royal Mail surcharges illustrated that many customers were still familiarising themselves with how Pricing in Proportion affected them. We urged Royal Mail to take a common sense approach, and surcharge only where the sender blatantly under-stamped the mail.

Additionally, we were disappointed that Royal Mail did not take further steps to explain PiP to customers in advance of Christmas.

We will follow up this issue with research that examines the customer experience of sending items under the pricing structure.

Zonal pricing

We welcomed Postcomm's decision in December 2007 to reject Royal Mail's application to charge large mailers different prices depending on where in the UK their mail is delivered – so called 'zonal pricing'.

Postwatch is not opposed to cost-reflective and zonal pricing in principle. However, Royal Mail's proposals were overly complex, ill-timed, and would have had a negative impact on rural dwellers, the universal postal service, mail volumes and competition.

A report prepared for Postwatch by consultants LECG confirmed the proposal's shortcomings.

Fundamentally, Royal Mail failed to make the case that there would be customer benefit in such a change. Customers were, understandably, overwhelmingly opposed. We expect Royal Mail will revisit this issue. It is crucial that careful scrutiny is given to any amended proposals brought forward.





Collections and deliveries

Reliable, consistent collections and deliveries are fundamental requirements of a postal service. Ensuring these happen is one of our priorities.

Collections

Postwatch's regional presence allows us to monitor local changes to collections and deliveries, and raise concerns where we feel changes are not in the customer interest.

Over the past few years, our regions have collected data on instances where Royal Mail has brought forward the final collection time at postboxes, and pressed Postcomm to address this issue. During the year the regulator consulted on this, aiming to strike a balance between customer protection on collections and the need for Royal Mail to operate efficiently.

It is important customers can respond to correspondence on the same day as receiving it. Postwatch, therefore, recommended a minimum duration of four hours between delivery and collection. Royal Mail argued that such a change would cost in excess of £280 million. Postcomm decided that Royal Mail should seek to ensure, wherever practicable, that there are no final collection times before midday. Royal Mail agreed to review the 7,419 collection points (6 per cent of the total) that had pre-midday final collection times, with a view to putting back this collection to as close to midday as possible.

Postwatch welcomed this. However, customers need more protection. Postcomm should

ensure Royal Mail commits to the following: that the number of posting access points remains the same; that collection times in urban areas are not brought forward; and that a Code of Practice is implemented to safeguard the overall access provision for post boxes, including those located at post offices.

Sunday and Bank Holiday collections

In July 2007, Royal Mail applied to Postcomm to stop collecting mail from post boxes and businesses on Sundays and Bank Holidays. Sunday collection volumes represented 0.74 per cent of total volumes, yet the cost of handling these items was four times more than items posted Monday to Saturday.

Royal Mail had previously consulted Postwatch on this. This prompted us to commission Ipsos MORI to conduct research on the likely customer impact. The results – which included 68 per cent of respondents stating they very seldom or never posted on a Sunday to catch a Sunday collection – along with Royal Mail's argument on costs, and the fact that Sunday and Bank Holiday collections are not requirements for the universal service, led to us accepting that changes could proceed, providing Royal Mail communicated the changes, and kept the issue under review.



Collection plates

Cessation of Sunday and Bank Holiday collections led to Royal Mail needing to make changes to post box displays. Royal Mail placed stickers (see photograph) on the 18,000 post boxes affected by the change, which informed customers of the changes. We were concerned that this was a short-term measure, and did not satisfy the need for customers to know, long-term, that these changes had taken place.

Additionally, our acceptance of the changes was in part on the condition that collection plates on post boxes would be permanently amended. A survey carried out by our regional offices in November 2007 revealed that, of the 770 post boxes visited, none displayed an amended plate. We undertook a second survey in March 2008, with 653 post boxes visited. 86 per cent of post boxes visited displayed new collection plates. Progress – but disappointing that it was not 100 per cent.

We raised our concerns with both Postcomm and Royal Mail, and continued to press them to act in the customer interest.

Delivery exceptions

During the year, Postwatch Scotland studied whether Royal Mail had correctly designated particular isolated addresses as delivery exceptions.

In 2006, there were 2,761 delivery points in the UK designated by Royal Mail as exceptions to the universal service for delivery, 1,278 of which were in Scotland – and 1,192 of those in Scotland were exceptions because of difficulty of access. Royal Mail classifies an address as a delivery exception because of access difficulties if it fails to meet their ‘15 minute rule’ – whether the round trip for delivery to the door can be made within 15 minutes from the nearest public road.

In summer 2007, Postwatch Scotland undertook visits to 83 different addresses across seven postcode areas. Of these addresses, we found that 46-55 per cent appeared to be incorrectly designated by Royal Mail, and should not have been delivery exceptions.

Following this, we asked Royal Mail to review all addresses it designated as exceptions because of difficulty of access. Additionally, we pressed Royal Mail to reinstate daily deliveries to the door for those addresses that do not meet the explicit criteria for exceptions set by Postcomm.



The post office closure programme

In May 2007, the Government announced its decision that up to 2,500 post offices would close, with 500 'outreach' services being established. Post Office Ltd began implementing this decision in October 2007.

Change is needed

Postwatch accepts the rationale for reducing the size of the post office network. Customer numbers are falling, while financial losses increase – there was simply not enough business to support a network of 14,000 post offices.

There were, however, aspects of the Government's decision that Postwatch considered flawed. Primarily, the implementation timetable was unnecessarily short, with only six weeks local consultation for each area plan Post Office Ltd brought forward. Nonetheless, we recognised the programme would proceed and we wanted to play an active role in monitoring it, to ensure customers' needs were being taken into account when important decisions on closures were being made.

Programme overview

The key details of the closure programme were:

- Up to 2,500 compensated closures would take place on a geographically proportionate basis throughout the UK, affecting both rural and urban areas.
- The Government introduced new minimum access criteria which Post Office Ltd must adhere to, which aim to help maintain a national network of post offices.
- Post Office Ltd divided the UK into roughly 40 area plans, all of which would be subject to six weeks public consultation. The first of these started in October 2007, with the last one due to start in August 2008.
- Postwatch receives Post Office Ltd's proposals eleven weeks in advance of public consultation to allow for greater scrutiny and feedback. This has proved a valuable period, with Post Office Ltd being collaborative in their approach to developing their proposals and taking our feedback on board.
- A review process between Postwatch and Post Office Ltd was put in place for disputed cases.
- Unlike the previous closure programme, subpostmaster-preference was not the determining factor in which post offices would close. Instead, the distance access criteria and relevant local factors – such as community demographics, and public transport arrangements – would be key to determining closure locations.

Objectives

Postwatch objectives for a successful programme focussed on the proposed changes, how these are communicated, and Post Office Ltd being responsive to feedback. Our aim was that:

- Change is implemented in such a way that it minimises customer disruption and inconvenience;
- Customers and representatives should be fully informed about the proposed changes and have the opportunity to contribute their views;
- Post Office Ltd should demonstrably take local needs and views into account;
- The post-programme network should continue to meet prescribed Government access criteria, and results in a more financially sustainable post office network.

The table below gives a statistical overview of the programme at April 2008.

Public consultations	24
Closure proposals	1,159*
Proposals withdrawn after public consultation	28
Outreaches proposed	216**

* Compensated and non-compensated closures.

** Compensated and non-compensated changes.

Local consultation

The local public consultations have been valuable for gathering input from customers and their representatives. Postwatch worked to encourage customers to participate in the consultation process. Although petitions illustrate local strength of feeling, they do not necessarily demonstrate reasons for a closure proposal not to go ahead. We emphasised the need for respondents to engage on the specific local issues.

Post Office Ltd's communication activities were undoubtedly a considerable improvement on those for the previous closure programme. We worked with them on communicating change more effectively with customers and stakeholders, particularly the key message that public consultations were not about the principle of closing post offices, but on the location of closures.

Outreach services

An important part of the programme was 500 outreach services being established throughout the UK. These are typically part-time services run from a suitable location such as a village hall, or a mobile service operated by a





subpostmaster from a nearby town. We welcome these new services. If post offices are to continue serving communities for the long-term, the network needs to innovate, both in the products offered and how these are delivered.

There were early difficulties with Post Office Ltd failing to provide sufficient details on these services at the start of public consultation. We raised our concerns – consultations are not about the principle of change, but on proposed local alterations. For consultations to be meaningful, customers needed to know proposal details – for example operational hours and location. We welcomed Post Office Ltd's efforts to address this shortcoming, and their commitment that from January 2008, all outreach proposals entering public consultation would include full proposed details.

We were disappointed, however, that Post Office Ltd is reluctant to propose any outreaches in urban locations. As the year ended we were continuing to press both Post Office Ltd and Government to, at best, trial urban outreaches.

Beyond closures

The closure programme is a regrettable short-term necessity which should help provide longer-term security for remaining post offices and their customers. Government funding – £150 million a year until at least 2011 – will also protect the network.

However, more needs to be done. The Government has stated that 7,500 offices are needed for the minimum access criteria to be met. Yet approximately 11,500 will remain after the closure programme finishes, and the Government has stated its commitment to this size of post office network. Access criteria alone, then, are not enough.

Post offices offer more than just access to postal services. They are used by customers for a wide range of products, and are often an important part of community life. A joined-up approach from Government (both local and central) in support of the network, more services offered that customers need and value, and early clarity on post-2011 arrangements are all needed for customers and Subpostmasters alike.

Helen Martin
10 Preston Road
London
NW4 4PL



Other post office work

The closure programme involves 2,500 post offices shutting. Once these closures have taken place, the network will have roughly 5,000 fewer branches than ten years previously.

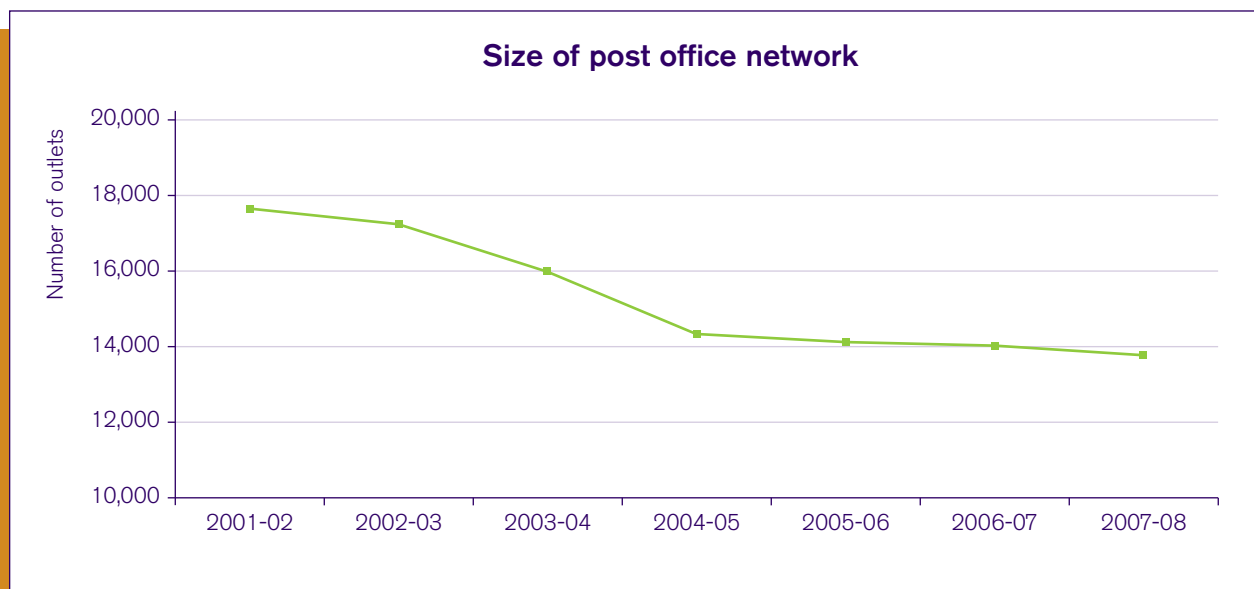
Network size

The network reduced by 652 post offices during the year. 523 of these shut as part of the closure programme.

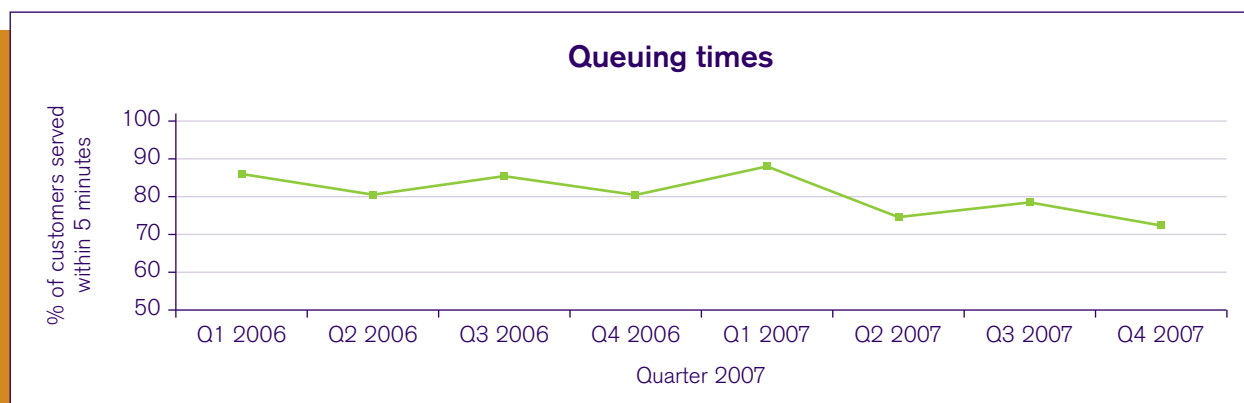
The graph below shows the reduction in the network since 2001-02.

Queuing

An important part of Postwatch's work is monitoring the effectiveness of Post Office Ltd's queue management, at local and national level. Post Office Ltd provides Postwatch with a monthly queue report that outlines average queue duration by post office type. This is supplemented by regional investigation at individual branches.



The graph below shows the percentage of customers who were served within five minutes of joining a post office queue, by quarter, throughout 2006 and 2007. Postwatch is concerned that the trend is for fewer customers to be served within this duration. The further decline in quarter four can largely be attributed to the peak Christmas posting period.



Crown post offices

Crown offices are Post Office Ltd's flagship branches. They are nonetheless under considerable financial pressure, with the 430-strong network making losses of around £70 million every year. Post Office Ltd estimates this would rise to £100 million within three years if no action was taken to address their problems.

This is clearly not sustainable, and Postwatch supports action that helps ensure high streets and town centres continue to have post offices, while tackling the crown office network's current difficulties. We therefore welcomed Post Office Ltd's announcement in April 2007 that it would franchise 70 crown offices into WHSmith stores. By March 2008, 51 of these conversions had taken place.

Postwatch reviews every franchise proposal to look carefully at the accessibility of the proposed premises and the level of service to be provided. Our regional structure enables us to press for Post Office Ltd to make improvements to its proposals where necessary.

In London, for example, during the year we campaigned against Post Office Ltd's proposal

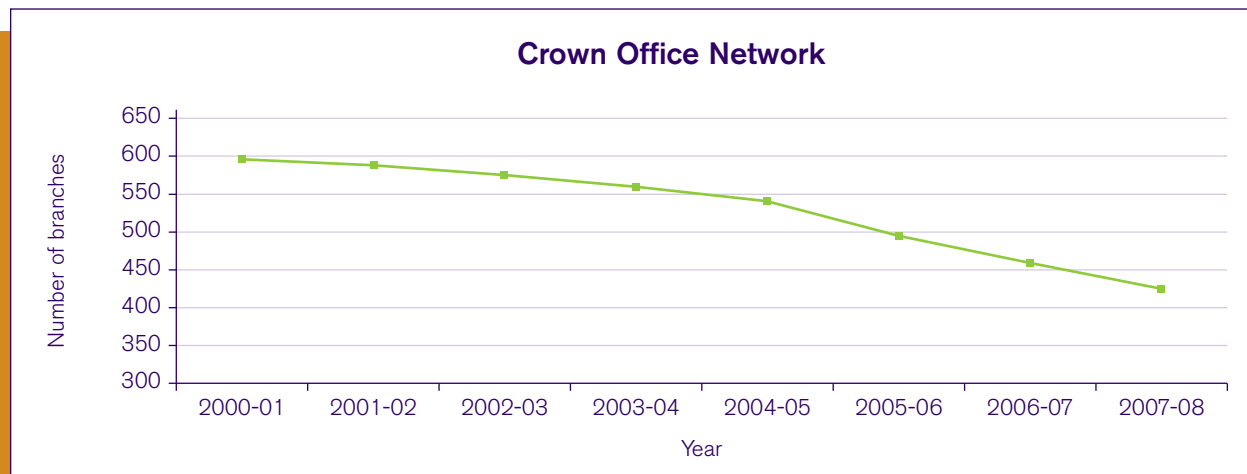
to close Essex Road post office. We were successful in persuading Post Office Ltd to retain a service in the area – either as a crown or franchise office.

Monitoring

Postwatch also monitors customer service after a franchise takes place, through both local visits and national research. Research undertaken for Postwatch by Ipsos MORI during the year suggested that the customer service in franchise offices, including WHSmith branches, was generally good. The duration spent queuing, for example, tends to be significantly longer in crown offices than in franchises.

We also pressed Post Office Ltd to agree to additional accessibility measures where post office services are located in the basement or on the first floor. For example, alternative ground floor service points for customers who may not be able to access other floors, and maximum call-out times in the event of lift breakdown. Our regional presence allows us to check that these contingency arrangements are in place.

The following graph gives details of the reduction in crown office branches over the past seven years.

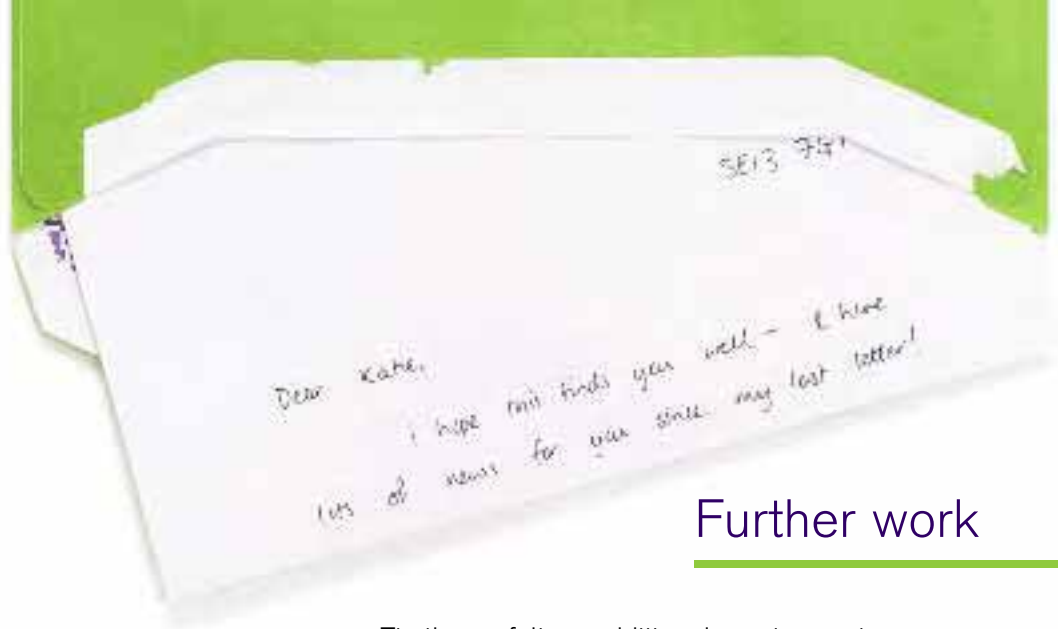


Other work

In addition, Postwatch also undertakes a range of other monitoring and investigative work that aims to ensure customers receive a satisfactory service at post offices. This includes:

- Regional and national monitoring of ongoing changes to the post office network, under the agreed Code Of Practice for closures, relocations, and franchise conversions.
- Through visits, research, and working with stakeholders, investigating reported poor service at post offices.
- Continuing scrutiny and lobbying on products and services, for example customer service quality in relation to Pricing in Proportion; advice given at post offices for Special Delivery; and the successor to the Post Office card account.





Further work

After Postwatch

Postwatch, energywatch and the National Consumer Council will be abolished in 2008. From October 2008, a successor organisation will exist, providing a more powerful and streamlined consumer advocate across a range of sectors and industries. There will also be Scottish and Welsh organisations, and a Postal Services Committee in Northern Ireland, which will work closely with the Northern Ireland Consumer Council.

Postwatch has worked with energywatch and the National Consumer Council, as well as with Government, Postcomm and Royal Mail, on these new arrangements. Our guiding principle is that the new organisation offers an opportunity to benefit customers, and that the transition must happen in a way that ensures continuity in advocacy. This is particularly pertinent for the post office closure programme, which will be ongoing at the time of the transition.

Compensation

The Government has placed a statutory duty on Postcomm to put in place regulations on complaint handling standards that would apply to all licensed postal companies. Postcomm started consulting on this in January 2008.

Postwatch supported Postcomm's view that consumers would be best served by a single postal redress scheme. We had, however, several fundamental concerns about Postcomm's proposals.

Firstly, we felt an additional requirement was needed, which would require postal companies to have proper and effective internal complaint handling procedures. Additionally, we considered it unsatisfactory that Postcomm's proposals made no provision that a redress scheme should be able to take complaints from customers who do not speak English as a first language. Postwatch also wants to see a redress scheme with procedures that enable identification of systematic failures in a postal company's service delivery and performance. Postcomm was considering our response as the year ended.

International work

Postwatch supports the liberalisation of the European postal market. We work with partners throughout Europe to ensure the consumer voice is heard in debates to introduce full market opening.

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

January 2008 marked a major step forward for postal customers, when the European Parliament approved a new postal directive, giving final political approval to opening EU member states' postal markets to competition from the start of 2011 at the latest.



Research

To gather evidence and help formulate our policies, Postwatch organises, commissions and conducts research on a wide range of postal issues.

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

It is important that we leave a legacy to help inform future work on postal issues. With that in mind, during the year we commissioned several major studies that examined customer needs, both now and in the future.

The universal service

The universal service obligation placed on Royal Mail by Postcomm is a fundamental necessity for UK postal customers. As customer needs and habits change, however, it is right that Royal Mail's obligations are kept under review, and their nature and extent are responsive to these changes. To that end, during the year Postwatch commissioned research on this issue.

The work, undertaken by Accent, Rand and CEBR, involved quantitative and qualitative research, as well as economic analysis, and considered a wide range of pertinent issues, including whether the universal service fulfils customer needs and expectation, the sustainability of the universal service in light of market changes, and alternative funding mechanisms.

Findings included: current levels of satisfaction with postal services are high; strong opposition to any move away from uniform pricing; a general welcoming of competition among businesses but less so by household customers; and that customers would benefit from some enhancements taking place in certain areas of the universal service – particularly with regard to speed of delivery and reliability. We hope this study will be a useful contribution to the ongoing debate about the universal postal service.

SME research

The UK's four million small and medium-sized enterprises (SME) play an important role in the economy. Post is often important for SMEs, yet they have been largely left behind in terms of developments in the postal market over the past five years. Competition,

for example, has not afforded them the choice available to larger businesses due to the minimum volume requirements of licensed operators.

Postwatch commissioned research which aimed to gain a greater understanding of the way SMEs use the postal service, and how they see this changing in the future. To that end, RS Consulting undertook a survey of over 1,000 sole traders and small businesses.

A welcome general finding was that SMEs are generally satisfied with their postal service. The research also suggested there was scope for competition to play a greater role in SMEs' posting. For example, 36 per cent of SMEs have mailings of more than 250 items, with an average of 28 mailings a year. Yet only 2 per cent of SMEs make use of bulk mail products. The research also highlighted fundamental needs. A reliable, consistent delivery service was seen as crucial – more so, even, than a delivery taking place early in the morning.

The research highlights small business requirements and the opportunity for the postal market.

Post office consultations

Postwatch wanted early analysis of customer awareness and attitudes towards post office closure consultations. We commissioned Ipsos MORI to undertake a study concentrating on five areas that were undergoing, or had just completed, the public consultation process.

Of the 602 local residents contacted, over 200 were not aware of any planned closures, and around 500 were not aware of the consultation. Once made aware, over 40 per cent stated they intended to participate, with signing a petition and contacting local MP or councillor being the most popular ways of doing so.

The findings helped us to assess the effectiveness of the consultation process and the associated communications materials and strategy, and informed our work with Post Office Ltd on these issues.



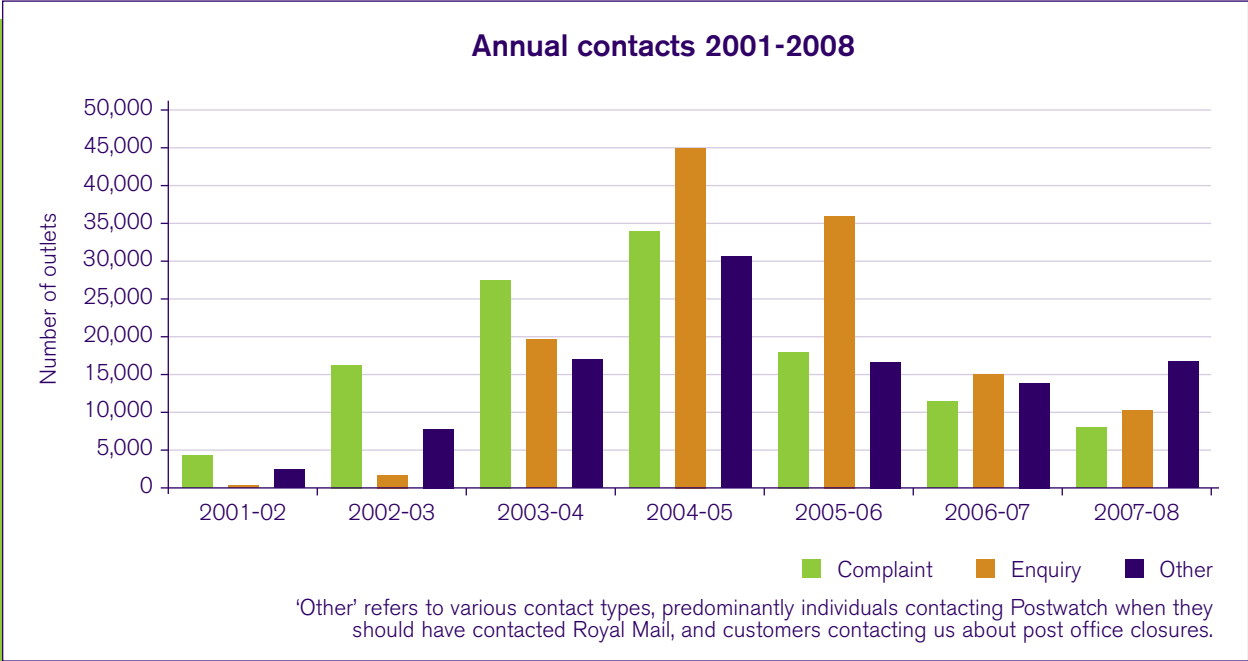
Complaints

Postal companies responding to complainants should inform them about Postwatch and how to contact us. Customers who have a complaint about their postal service, and who have already complained to the appropriate company, can contact us for help.

Call centre

We have a dedicated call centre in Belfast that handles customer complaints and enquiries. During 2007-08, our call centre received a total of 82,281 calls – an average of 1,582 per week. 79 per cent of calls were answered within 15 seconds.

This overall volume of customer contacts was a reduction on the previous year. In 2007-08, we received 8,452 complaints and 10,320 enquiries. The graph below shows the long-term trend for the number of enquiries and complaints handled.



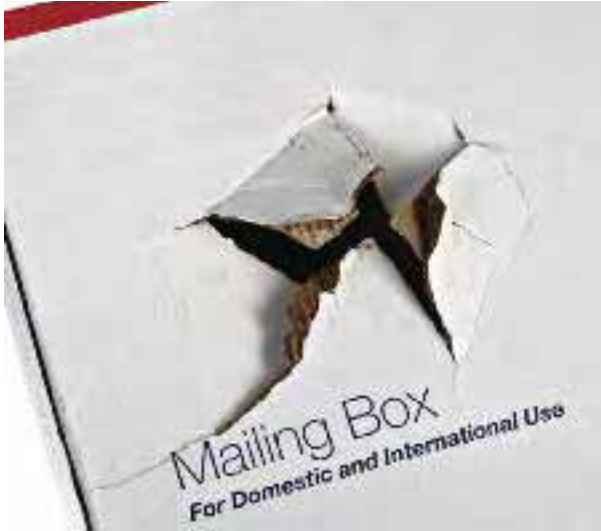
94 per cent of the complaints we received in 2007-08 were concerning Royal Mail, with 4 per cent concerning competitors to Royal Mail and a further 2 per cent relating to post offices. 89 per cent of complaints came from domestic customers, and the remainder were made by businesses and organisations.

The 'recharge' agreement we reached with Royal Mail in 2005 was important in improving Royal Mail's contact centre operations. As an incentive to treat complainants properly, and to match resources to complaint volumes, this agreement involved Royal Mail agreeing to fund this area of Postwatch activity in proportion to the number of complaints we received. This helped motivate Royal Mail to improve its own complaint handling work.

Complaint types

Whilst overall volumes of complainant contact have varied over the past seven years, the most common types of complaint have remained consistent. The following graph shows the top five complaints by type.





Why do customers complain to Postwatch?

Customers complain to postal operators because they are not satisfied with some aspect of the service they have received. They then contact Postwatch if they remain dissatisfied after making the initial complaint. The following table gives the main reasons why customers take this next step of contacting Postwatch.

Classification	%
Inadequate/inaccurate response	65
Inadequate redress	10
Failure to respond	15
Procedures	4
Staff attitude	3
Other	3

What do we achieve for customers?

Customers often simply want an apology or an explanation from the postal operator.

In other instances, however, customers feel they are entitled to receive compensation or a goodwill payment. The table below gives details of the payment totals we have secured for customers in each of the past seven years.

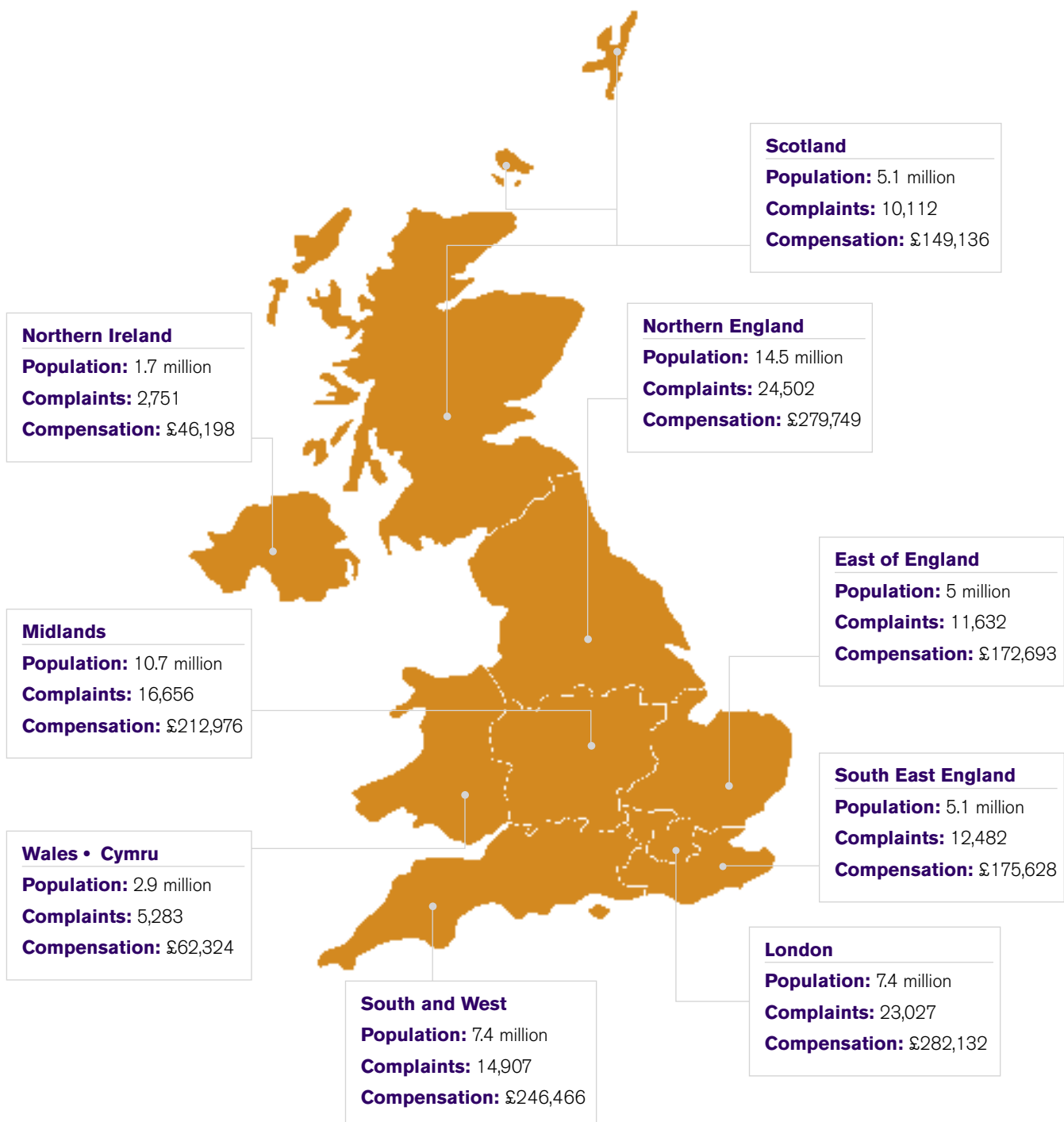
Year	Compensation/ Goodwill Received (£)
2001-02	112,399
2002-03	244,571
2003-04	287,009
2004-05	315,922
2005-06	348,292
2006-07	192,331
2007-08	131,325
Total	£1,631,849

79 per cent of the total was paid to domestic customers; the remainder to businesses and organisations. 92 per cent of the total was paid by Royal Mail. The average amount we secured per complaint was £13.38.

Regional work

Our regional presence ensures that, throughout the UK, postal customers' interests and needs have a strong voice, and that awareness and understanding of local and regional issues is uppermost in our minds when working on behalf of customers.

The map below shows Postwatch regions, estimated population, the number of complaint cases and compensation secured by Postwatch for customers up to March 2008.



Postcodes for Postwatch regions

Postwatch East

CB CM CO IP LU MK NR PE SG

Postwatch Greater London

BR CR E EC EN HA IG KT N NW
SE SM SW TW UB W WC

Postwatch Midlands

B CV DE DY GL HR LE NG NN OX
ST SY TF WR WS WV

Postwatch North

BB BD BL CA CH CW DH DL DN FY
HD HG HU HX L LA LN LS M NE
OL PR S SK SR TS WA WF WN YO

Postwatch Northern Ireland

BT

Postwatch Scotland

AB DD DG EH FK G HS IV KA KW
KY ML PA PH TD ZE

Postwatch South East

AL BN CT DA GU HP ME RH RM SL
SS TN WD

Postwatch South and West

BA BH BS DT EX PL PO RG SN SO
SP TA TQ TR

Postwatch Wales

CF CH4 CH5-CH8 HR3 HR5 LD LL
NP SA SY10 SY15 SY25

Postcode area performance

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

Postcode area	Percentage of First Class stamped and metered mail delivered the next working day					Postwatch region
	2003-04	2004-05	2005-06	2006-007	2007-08	
Aberdeen AB	92.4	92.6	95.1	94.9	85.7	Scotland
Bath BA	88.8	90.2	92.6	94.6	85.9	South and West
Birmingham B	89.5	92.2	93.9	93.7	84.0	Midlands
Blackburn and Burnley BB	91.5	92.0	94.2	93.1	85.1	North
Bolton BL	93.9	92.3	95.2	92.7	84.0	North
Borders TD	93.4	92.5	94.1	93.4	84.9	Scotland
Bournemouth BH	91.6	92.3	95.6	93.5	86.3	South and West
Bradford BD	93.2	92.3	95.7	95.7	87.2	North
Brighton BN	92.3	91.3	95.2	93.9	84.6	South East
Bristol BS	90.3	90.8	92.4	94.2	85.8	South and West
Bromley BR	89.4	92.1	95.0	95.5	88.1	Greater London
Cambridge CB	90.1	90.4	94.5	93.8	87.9	East
Canterbury CT	92.3	92.8	95.6	95.4	88.2	South East
Cardiff CF	89.1	90.7	93.5	93.8	85.5	Wales
Carlisle CA	91.5	92.3	95.7	93.6	86.1	North
Chelmsford CM	85.8	91.0	93.8	94.0	81.0	East
Chester and Deeside CH	92.7	91.7	94.8	93.8	84.1	North/Wales
City of London EC	88.8	90.9	93.4	95.1	86.7	Greater London
Colchester CO	87.8	92.5	94.4	94.5	79.6	East
Coventry and Warwickshire CV	88.7	90.3	94.1	93.6	82.5	Midlands
Crewe CW	91.4	94.1	94.6	95.2	86.5	North
Croydon CR	89.8	90.8	94.3	95.0	86.3	Greater London
Darlington DL	91.6	92.2	94.4	94.1	85.7	North
Dartford DA	85.3	89.7	95.3	94.9	87.3	South East
Derby DE	92.6	92.4	94.8	96.1	86.0	Midlands
Doncaster DN	93.3	90.8	95.2	94.3	85.7	North
Dorchester DT	90.5	92.8	93.7	93.4	85.3	South and West
Dudley DY	88.4	90.9	94.2	94.5	83.4	Midlands
Dumfries DG	93.6	92.6	95.5	95.6	86.7	Scotland
Dundee DD	91.5	92.2	93.8	92.0	80.8	Scotland
Durham DH	92.0	91.9	93.5	94.4	86.5	North
Edinburgh EH	90.9	91.4	92.6	93.8	83.2	Scotland
Enfield EN	88.6	92.9	94.6	93.9	86.2	Greater London
Exeter EX	90.8	90.1	93.7	91.2	86.1	South and West

Postcode area	Percentage of First Class stamped and metered mail delivered the next working day					Postwatch region
	2003-04	2004-05	2005-06	2006-007	2007-08	
Falkirk FK	90.6	89.7	94.2	92.9	82.6	Scotland
Fylde FY	92.0	92.5	94.0	93.9	87.2	North
Glasgow G	90.8	88.8	93.6	93.7	84.7	Scotland
Gloucester GL	91.8	92.7	93.2	93.7	84.6	Midlands
Guildford GU	91.9	91.1	94.8	93.9	85.6	South East
Halifax HX	91.0	91.1	93.4	94.9	86.1	North
Harrogate HG	91.8	91.1	93.3	93.4	81.9	North
Harrow HA	84.8	91.0	94.0	95.2	88.0	Greater London
Hebrides HS *	82.2	82.8	90.2	83.9	68.4	Scotland
Hemel Hempstead HP	90.3	92.5	94.1	94.7	87.1	South East
Hereford HR	91.6	93.5	94.1	94.3	84.6	Midlands/Wales
Huddersfield HD	94.8	91.7	94.8	95.7	85.0	North
Hull HU	92.5	92.1	95.8	95.4	85.8	North
Ilford IG	86.4	90.3	92.5	95.3	83.7	Greater London
Inverness IV	90.6	90.4	93.8	93.0	85.7	Scotland
Ipswich IP	90.6	92.4	95.4	95.7	85.6	East
Kilmarnock KA	92.7	91.6	94.8	94.4	85.6	Scotland
Kingston upon Thames KT	91.7	93.3	95.4	95.6	89.1	Greater London
Kirkcaldy KY	92.7	92.2	94.7	94.1	84.6	Scotland
Kirkwall KW *	85.8	87.8	90.4	86.3	82.4	Scotland
Lancaster LA	91.9	93.1	94.6	94.1	84.7	North
Leeds LS	92.2	92.6	94.7	95.0	84.2	North
Leicester LE	89.6	91.9	95.2	93.4	87.1	Midlands
Lerwick ZE *	87.7	87.2	89.9	40.2	34.3	Scotland
Lincoln LN	94.3	92.8	95.9	94.3	84.8	North
Liverpool L	91.5	89.8	93.4	93.4	81.7	North
Llandrindod Wells LD	90.2	93.4	93.4	92.9	86.4	Wales
London East E	87.5	86.5	89.4	93.5	83.1	Greater London
London North N	86.4	90.2	94.1	93.3	81.3	Greater London
London North West NW	85.6	90.2	93.7	93.4	88.2	Greater London
London South East SE	84.4	90.2	93.4	94.1	83.2	Greater London
London South West SW	82.1	91.2	92.2	93.8	79.9	Greater London
London West W	84.6	90.7	94.6	95.3	87.2	Greater London
London West Central WC	85.6	89.0	93.0	93.8	88.0	Greater London
Luton LU	89.3	91.1	94.4	94.9	88.5	East
Maidstone ME	90.6	92.4	93.6	94.7	86.9	South East
Manchester M	91.8	91.2	93.3	95.0	85.3	North
Milton Keynes MK	88.9	92.2	94.4	95.1	85.7	East
Motherwell ML	93.0	92.6	93.5	93.8	83.3	Scotland
Newcastle NE	90.5	91.2	94.6	94.5	85.3	North
Newport NP	89.7	89.7	93.1	94.1	85.4	Wales
North Wales LL	91.7	92.8	95.0	93.8	87.7	Wales
Northamptonshire NN	74.3	90.0	91.8	94.5	84.9	Midlands

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

Postcode area	Percentage of First Class stamped and metered mail delivered the next working day					Postwatch region
	2003-04	2004-05	2005-06	2006-007	2007-08	
Northern Ireland BT	92.7	90.7	91.1	92.9	86.1	Northern Ireland
Norwich NR	87.1	88.8	93.7	94.3	86.3	East
Nottingham NG	92.8	93.4	94.9	94.3	84.1	Midlands
Oldham OL	91.8	90.4	93.8	93.9	85.8	North
Oxford OX	87.5	85.7	93.6	93.9	80.7	Midlands
Paisley PA	91.9	91.9	94.6	91.9	84.5	Scotland
Perth PH	91.8	92.4	93.9	92.7	83.3	Scotland
Peterborough PE	89.6	89.2	93.4	93.0	86.9	East
Plymouth PL	88.2	91.2	93.8	92.2	85.5	South and West
Portsmouth PO	90.7	91.2	93.7	94.6	86.1	South and West
Preston PR	92.5	92.4	93.9	93.7	85.6	North
Reading RG	90.4	92.6	94.3	93.5	85.6	South and West
Redhill RH	89.1	92.0	94.7	95.1	86.8	South East
Romford RM	87.1	91.4	91.7	93.3	84.9	South East
Salisbury SP	91.7	92.2	94.7	93.7	85.3	South and West
Sheffield S	94.2	94.0	95.7	93.8	83.9	North
Shrewsbury and Mid Wales SY	88.5	92.4	95.5	94.4	85.6	Midlands/Wales
Slough SL	90.7	90.7	93.1	95.5	87.6	South East
Southampton SO	91.7	92.5	94.5	93.5	84.9	South and West
Southend-on-Sea SS	87.9	91.0	95.2	95.7	84.0	East
St Albans AL	90.2	94.0	94.6	95.6	88.4	South East
Stevenage SG	89.8	90.5	95.4	95.6	88.0	East
Stockport SK	90.3	91.2	93.8	94.2	84.2	North
Stoke-on-Trent ST	87.5	90.1	92.8	92.3	79.4	Midlands
Sunderland SR	93.9	94.2	96.1	92.9	85.3	North
Sutton SM	91.0	92.3	95.4	95.7	85.0	Greater London
Swansea SA	89.3	90.6	94.5	94.9	85.7	Wales
Swindon SN	91.5	91.6	94.6	95.3	86.4	South and West
Taunton TA	91.9	90.6	93.3	93.5	84.9	South and West
Teesside TS	91.3	90.1	93.8	93.5	85.9	North
Telford TF	89.0	91.0	95.1	95.1	87.2	Midlands
Tonbridge TN	91.9	90.8	95.8	93.6	87.8	South East
Torquay TQ	88.0	89.7	93.7	91.4	86.7	South and West
Truro TR	91.3	93.7	95.0	93.9	87.7	South and West
Twickenham TW	91.5	92.4	94.7	94.5	89.9	Greater London
Uxbridge UB	87.3	89.4	93.5	94.7	87.6	Greater London
Wakefield WF	91.8	93.6	93.9	94.8	86.8	North
Walsall WS	89.0	92.5	93.5	94.3	84.9	Midlands
Warrington WA	90.6	92.3	94.8	93.4	86.1	North
Watford WD	89.0	93.5	96.2	94.0	85.2	South East
Wigan WN	92.3	94.4	94.2	92.2	83.2	North
Wolverhampton WV	89.0	91.6	93.2	93.5	83.2	Midlands
Worcester WR	89.7	91.6	94.9	93.7	84.9	Midlands
York YO	90.3	93.4	94.3	94.6	85.3	North

Who's who



1 Millie Banerjee CBE
Chair
Appointed:
1 December 2005

9 Najma Hafeez
Chair Midlands
Appointed:
1 January 2007

2 Howard Webber
Chief Executive
Appointed:
25 October 2006

10 Eifion Pritchard QPM
Chair Wales
Appointed:
1 January 2001

3 Professor Alan Alexander FRSE
Chair Scotland
Appointed:
1 January 2007

11 Dr Charles Winstanley TD, JP, DL
Chair East of England
Appointed:
1 December 2002

4 Christina Baron
Chair South and West
Appointed:
1 January 2007

12 Helen Charlton
Council member
Appointed:
1 January 2004

5 Sheila Button
Chair South East
Appointed:
10 April 2006

13 Professor David Croisdale-Appleby JP
Council member
Appointed:
10 April 2006

6 Roger Darlington
Chair Greater London
Appointed:
10 April 2006

14 Elizabeth Hodder
Council member
Appointed:
10 April 2006

7 Judith Donovan CBE
Chair North of England
Appointed:
1 January 2001

15 Nigel Walmsley
Council member
Appointed:
10 April 2006

8 Dr Maureen Edmondson OBE
Chair Northern Ireland
Appointed:
10 April 2006



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6	10	14		
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POST
OFFICE



Financial statements

for the year 1 April 2007 to 31 March 2008

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Accounting Officer's report

1. Format of annual accounts

These Accounts have been prepared in a form directed by the Secretary of State for Business Enterprise and Regulatory Reform with the approval of the Treasury and to lay these Accounts and Reports before each of the Houses of Parliament in accordance with paragraphs 15-17 of Schedule 2 of the Postal Services Act 2000.

2 Statutory background

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

3. History of the Council

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

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

Council members during the year are (see page 38 for further details):

- Millie Banerjee (Chair) CBE
- Professor David Croisdale-Appleby JP – Deputy Chair
- Judith Donovan CBE – Deputy Chair
- Professor Alan Alexander FRSE
- Christina Baron
- Dr David Bland OBE – until 31 August 2007
- Sheila Button
- Helen Charlton
- Roger Darlington
- Dr Maureen Edmondson OBE
- Najma Hafeez
- Elizabeth Hodder
- Eifion Pritchard QPM
- Nigel Walmsley
- Dr Charles Winstanley TD, JP, DL

Management Board members during the year are (see page 48 for further details):

- Howard Webber – Accounting Officer and Chief Executive
- Dr Ian Leigh – Managing Director
- Ian Fisher – Senior Director
- Andy Frewin – Senior Director

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

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

4. Operating review

Details of purpose, operations and performance are covered on pages 2 to 38.

5. Research and development

These are covered on pages 28 to 29.

6. Policy for risk management

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

7. Risk to future performance

The Consumers, Estate Agents and Redress Act 2007, is designed to create a new cross sector consumer representation body which will take over the role of consumer representation for postal services consumers. Accordingly, Postwatch is due to be abolished on 30 September 2008, with the new organisation taking on the role of representing postal consumers from 1 October 2008.

During the run down to closure there is the potential for an increase in the risks associated with Postwatch's ability to fulfil its role of postal services watchdog. Postwatch has identified several such risks and will take mitigating action within its power. It will work closely with BERR, the new successor consumer representation body (new NCC) and other stakeholders to ensure that disruption to Postwatch's customers is minimised. During this period Postwatch will continue to monitor postal services, taking appropriate action and informing Ministers and other stakeholders as appropriate.

The post office network closure programme will continue past the 30 September with formal responsibility to see the programme through to conclusion transferring to the new NCC. There is, however, a Ministerial commitment that the staff and Council Members who began oversight of the closure programme will see it through to the end. Accordingly, adequate funding has been agreed and the necessary resources, including staff to undertake completion after 30 September will be made available to the new NCC so that the work does not impinge significantly on the new NCC's core duties. It is anticipated that the final wind up and sign off of the programme will extend to the start of 2009. The key risks associated with this relate to maintaining sufficient staff and infrastructure following Postwatch's closure.

8. Post balance sheet events

As mentioned above Postwatch will close on 30 September 2008. It is not possible, at this point, to estimate accurately the cost of this closure. This will depend partly on how many Postwatch staff are employed by the new NCC. Staff have transferred to the new NCC on 1 July 2008, in accordance with the transfer of undertakings legislation so that job matching and redundancy consultation can begin in time for this consultation to be concluded by 1 October 2008. There are significant property lease agreements which are expected to be transferred within government, subject to the landlord's agreement.

The financial statements will be authorised on the date the audit certificate is signed.

9. Better Payment Practice Code

Postwatch agrees to pay its suppliers in accordance with the Better Payment Practice Code unless other payment terms are agreed. The key principles are to settle the terms of payment with suppliers when agreeing the transaction; to settle disputes on invoices without delays; to ensure that suppliers are made aware of the terms of payment and to abide by the terms of payment. Excluding disputed items, 97 per cent of suppliers' invoices were paid within thirty days of the suppliers' invoice date (2006-2007 was 97 per cent). No interest was paid under the Late Payment of Commercial Debts (Interest) Act 1998.

10. Pension liabilities

See note 1.9 (Notes to the Financial statements) and the Remuneration report.

11. Auditors

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

- As far as I am aware there is no relevant audit information of which the Postwatch's auditors are unaware, and
- I have taken all the steps which I should have taken to make myself aware of any relevant audit information and to establish that Postwatch's auditors are aware of this information.

The audit fee for providing audit services was £38,500. There was no other auditor remuneration (actual or notional).

The primary role of Internal Audit (AHL Limited) is to provide me as Accounting Officer and the Audit Committee, with an objective evaluation of, and opinions on, the effectiveness of Postwatch arrangements for risk management, control and governance. An annual plan was endorsed by the Audit Committee for 2007-2008. Recommendations arising from audits undertaken have been endorsed by the Audit Committee and are being addressed by Postwatch management and implemented within the existing system of internal control. The implementation of recommendations is monitored by Internal Audit and reported to the Audit Committee.



Howard Webber

Chief Executive and Accounting Officer

7 July 2008

Management commentary

1. Principal activities and key performance indicators of Postwatch

Postwatch's aim is to protect, promote and develop the interests of all customers of postal services in the United Kingdom. Details of its activities and how it undertakes them are contained on pages 2 to 38. Details of its objectives and strategies for achieving them are contained in its Corporate Plan for 2005-2008.

Its key performance indicators are:

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

Details of operations, purpose and performance are covered in detail on pages 2 to 38.

2. Financial review

The net result for 2007-2008 was an expenditure of £8,532k (2006-2007 = £8,893k) compared to a budget of £9,830k (2006-2007 = £10,077k), an underspend of £1,298k (2006-2007 = £1,184k underspend). The current year's underspend has been achieved across all areas and represents both a higher level of continuing savings from the previous year's restructuring than anticipated together with the continuing focus on driving costs down.

Net capital expenditure was £161k compared to a budget of £278k.

Expenditure on the Post Office Network Closure Programme, included in the above, is £983k (budget = £1,267k) together with a capital spend of £64k (budget = £48k), totalling £1,047k (budget = £1,315k). These figures include £20k for depreciation and other non-cash costs.

Cash flow improved by almost £400k during the year. The improvement is the net result of the underspend reduced for the amount of budgeted funding not drawn down from our sponsors (BERR), amounting to £878k.

Postwatch has commitments for the following year for operating leases for property and equipment of £754k (see note 13 to the accounts). Postwatch also has obligations under finance leases of £439k, of which £357k represents the capital element with £82k the interest component.

3. Future developments

See notes 7 and 8 in the Accounting Officer's Report. Postwatch will cease to exist on the 30 September 2008 with responsibility for postal consumer representation passing to a newly formed organisation, the new NCC, on 1 October 2008.

The effects on our current staff cannot be quantified as some may be required to transfer to the new body but at this stage we are unable to say how many, if any, will be required to transfer and how many will lose their jobs.

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

4. Risk to future performance

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

5. Employment issues

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

- Pay and Grading System
- Staff Performance Management System
- Staff Appraisal System
- Recruitment Policy
- Developed Human Resource Policies and Practices

and by adhering to:

- Section 75 Northern Ireland Act¹

6. Disabled employees

We comply with the requirements of the Disability Discrimination Act. We provide disabled members of staff with open access to specialist training, counselling or advisory services in order to assist their personal and work-orientated development as a matter of course.

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

7. Provision of information to employees

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

8. Equal opportunities

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

9. Going concern

Postwatch's accounts have been prepared on the basis of a going concern on the basis that Postwatch will merge with other bodies to form the new NCC on 1 October 2008. All assets and liabilities will transfer to the new NCC on 1 October 2008.

10. Social and Community

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

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

11. Environment

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

Remuneration report

Executive Directors' Remuneration Policy

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

This report covers the remuneration of the executive directors.

Remuneration Committee membership and advisors

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

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

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

Service contracts

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

Remuneration

The remainder of this report has been audited.

The remuneration packages comprise:

Base salary

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

Performance related annual bonuses

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

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

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

2007-2008	1	2	3	4	5	6	7	8
Position Name	Salary and other earnings, including performance pay (£k)	Real increase in pension (£k)	Real increase in lump sum (£k)	Pension at age 60 at 31.03.08 (£k)	Lump sum at age 60 at 31.03.08 (£k)	CETV at 31.03.07 (£k)	CETV at 31.03.08 (£k)	Real increase in CETV after adjustment for inflation and charges in market investment factors (£k)
Chair Millie Banerjee (2006-2007)	45-50 (45-50)	-	-	-	-	-	-	-
Chief Executive Howard Webber ¹ (2006-2007)	95-100 (35-40)	2.8	0.0	41.3	0.0	593.4	728.8	46.4
Senior Director Ian Fisher (2006-2007)	85-90 (80-85)	0.7	2.0	38.0	114.0	724.5	841.3	13.5
Senior Director Andy Frewin (2006-2007)	85-90 (75-80)	0.6	1.8	31.5	94.5	493.5	582.9	9.7
Managing Director Dr Ian Leigh ² (2006-2007)	85-90 (85-90)	1.1	-1.2	35.5	80.6	584.6	687.8	14.2

The opening Cash Equivalent Transfer Value (CETV) figures as at 31 March 2007 have been amended from those reported in last year's published accounts due to minor errors in the calculations.

The members of the Management Board were Howard Webber, Ian Fisher, Andy Frewin and Dr Ian Leigh.

1 Howard Webber from 25 October 2006.

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

Benefits in kind

Neither the Chair nor any member of the Management Board received any benefits in kind.

Salary

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

Pension

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 changes in the Retail Prices Index (RPI). Members joining from October 2002 may 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 and classic plus and nuvos. Benefits in classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a hybrid with benefits in respect of service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 calculated as in premium. In nuvos a member builds up a pension based on his pensionable earnings during his 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 his pensionable earnings in that scheme year and the accrued pension is uprated in line with RPI. 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 classic, premium and classic plus and 65 for members of nuvos.

Further details about the CSP arrangements can be found at the website 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 CSP arrangements. They also include any additional pension benefit accrued to the member as a result of his purchasing additional pension benefits at his own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Real increases in CETV

This reflects the increase in CETV effectively 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.



Howard Webber

Chief Executive and Accounting Officer

7 July 2008

Statement of Accounting Officer's responsibilities

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

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

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

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

Statement on internal control

Scope of responsibility

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

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

The purpose of the system of internal control

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

The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Postwatch's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in Postwatch during the year ended 31 March 2008 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk

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

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

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

The risk and control framework

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

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

Review of effectiveness

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

- The Management Board regularly reviews the effectiveness of the system through its risk and control reviews, reviews of internal and external audit reports and through weaknesses identified or brought to its attention as part of the management process.
- The Audit Committee, which has met 4 times in the last year, reviews the effectiveness of the system through its review of internal and external audit and other reports and also through its own initiatives. The Audit Committee Chairman in turn reports on issues of control to the National Council.
- Internal Audit agrees its forward workplan with the Audit Committee and reports back to the Audit Committee with its findings.

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

Postwatch Audit Committee

The Postwatch Audit Committee was established six years ago. The members of the Audit Committee are appointed from the National Council and are currently three Regional Chairmen and one National Member. I am invited to attend and we invite our external auditors, the National Audit Office (NAO), our Internal Auditors and our Head of Finance to attend each meeting. During this financial period we have held four Audit Committee Meetings.

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

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

Other Committees

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

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

Significant internal control problems

There were no significant control problems during the year.

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



Howard Webber

Chief Executive and Accounting Officer

7 July 2008

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

I certify that I have audited the financial statements of the Consumer Council for Postal Services for the year ended 31 March 2008 under the Postal Services Act 2000. These comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and the Statement of Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

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

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

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

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

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

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

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

Basis of audit opinions

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

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

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Postal Services Act 2000 and directions made thereunder by the Secretary of State for Business, Enterprise and Regulatory Reform, of the state of the Consumer Council for Postal Services' affairs as at 31 March 2008 and of its deficit for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Postal Services Act 2000 and the Secretary of State for the Department of Business, Enterprise and Regulatory Reform's directions made thereunder; and
- the information, which comprises the Accounting Officer's Report and Management commentary included within the Annual Report, is consistent with the financial statements.

Opinion on Regularity

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

Report

I have no observations to make on these financial statements.

T J Burr

Comptroller and Auditor General

National Audit Office
151 Buckingham Palace Road
Victoria
London SW1W 9SS

July 2008

The maintenance and integrity of the Postwatch website is the responsibility of the Accounting Officer; the work carried out by the auditors does not involve consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Income and expenditure account

12 months ended 31 March 2008

	Note	2007-2008 £'000	2006-2007 £'000
Income			
Receipt of legal costs awarded	2a	–	(220)
Rental income	2b	(110)	(69)
Total income		(110)	(289)
Administration costs			
Staff costs	3	4,426	3,920
Other administrative costs	4a	4,220	4,698
Restructuring costs	4b	–	532
Total operating expenditure		8,646	9,150
Net operating cost		8,536	8,861
Interest receivable	5	(79)	(37)
Notional cost of capital	6	42	31
Finance charges payable on leases		33	38
Net operating cost after exceptional items		8,532	8,893
		8,532	8,893
Deduct notional cost of capital		(42)	(31)
CHARGE TO INCOME AND EXPENDITURE RESERVE		8,490	8,862

All amounts relate to continuing operations.

Statement of recognised gains and losses

	2007-2008 £'000	2006-2007 £'000
Net gain on revaluation of tangible fixed assets	40	62

The Accounting policies and notes on pages 60 to 73 form part of these financial statements.

Balance sheet

As at 31 March 2008

	<i>Note</i>	<i>As at 31 March 2008 £'000</i>	<i>As at 31 March 2007 £'000</i>
Fixed assets			
Intangible assets	7	86	145
Tangible assets	8	328	820
TOTAL		414	965
Current assets			
Debtors	9	263	311
Cash at bank and in hand		1,398	1,001
TOTAL		1,661	1,312
Creditors: amount payable within one year	10	637	483
Net current assets		1,024	829
Total assets less current liabilities		1,438	1,794
Creditors: amount payable after more than one year	10	347	429
Provisions for liabilities and charges	11	48	24
TOTAL ASSETS LESS TOTAL LIABILITIES		1,043	1,341
Represented by:			
General reserve	16	993	1,227
Revaluation reserve	15	50	114
		1,043	1,341

Approved



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

7 July 2008

The Accounting policies and notes on pages 60 to 73 form part of these financial statements.

Cash flow statement

12 months ended 31 March 2008

	<i>Note</i>	<i>2007-2008</i>	<i>2006-2007</i>
		<i>£'000</i>	<i>£'000</i>
Net cash (outflow) from operating activities	17a	(7,640)	(8,653)
Financing	17b	8,152	9,681
Net cost of financing	17c	46	(1)
Financing – capital element of finance lease payments		(66)	(62)
Capital expenditure	17d	(95)	(108)
INCREASE IN CASH IN THE PERIOD	17e	397	857

The Accounting policies and notes on pages 60 to 73 form part of these financial statements.

Accounting policies and notes to the financial statements

1. Accounting policies

1.1 *Statement of accounting policies*

The Financial Statements have been prepared in accordance with the 2007-2008 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies in the guidance follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. Where guidance permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of Postwatch for the purpose of giving a true and fair view has been selected. The particular accounting policies adopted by Postwatch are described below. They have been applied consistently in dealing with items considered to be material in relation to the accounts. The Financial Statements are in accordance with the Accounts Direction issued by the Secretary of State on 3 May 2002 with the approval of HM Treasury.

1.2 *Accounting conventions*

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

1.3 *Fixed assets and depreciation*

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

Furniture and fittings	– 5 years
Computer equipment	– 3 years
Software licences	– 3 years

Leasehold improvements – As Postwatch ceases to exist on 30 September 2008 and due to the leasehold improvements being specific to Postwatch requirements, the leasehold properties being surplus to the successor organisation's needs, and having no, or minimal, resale value on marketing the unexpired lease terms, depreciation has been advanced to write the assets down to nil over the current and following part year to 30 September.

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

1.4 *Government grants*

Grant-in-Aid is receivable by the Council in order to discharge its functions under the Postal Services Act 2000. Grant-in-Aid is treated as financing and is taken directly to the General Reserve.

1.5 *Value Added Tax*

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

1.6 Operating and finance leases

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

1.7 Capital charge

The charge, reflecting the cost of capital utilised by Postwatch is included in operating costs. The charge is calculated at the real rate set by HM Treasury (3.5 per cent for 2007-2008) on the average carrying amount of all assets less liabilities.

1.8 Research

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

1.9 Pensions

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

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

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

2a. Receipt of legal costs

	2007-2008 £'000	2006-2007 £'000
Receipt of legal costs awarded	–	220
	–	220

During 2006-2007 Postwatch received £220k costs for a judicial review handed down in its favour in 2005-2006.

2b. Rental income

	2007-2008 £'000	2006-2007 £'000
Rental income from sub-let of property	110	69
	110	69

3. Staff and Council costs

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

Total staff costs including the Chief Executive were:

	2007-2008 £'000	2006-2007 £'000
Wages and salaries	3,546	3,464
Social security costs	280	280
Pension contributions	551	491
Casual/agency	49	5
	4,426	4,240

Average monthly number of employees during the year

	2007-2008 No.	2006-2007 No.
Policy	11	11
Operations	16	18
External relations (consumer advisors)	34	42
Regions	20	21
Post Office network	16	–
Executive	2	2
Casual/agency	2	–
	101	94

Staffing costs and numbers increased as a result of the Post Office Network Closure Programme that started in the early part of 2007-2008.

Average monthly number of Council members during the year

	2007-2008	2006-2007
	No.	No.
Chairman	1	1
Regional Chairmen	9	9
National Council members	4	6
	14	16

Council members' costs

	2007-2008	2006-2007
	£'000	£'000
M Banerjee CBE	48	50
M Ali (until 31 December 2006)*	–	6
Dr T Begg OBE, JP (until 31 December 2006)	–	25
J Donovan CBE	31	30
C Howeson (until 31 December 2006)	–	25
E Pritchard, QPM	26	26
R Ward (until 31 December 2006)	–	25
Dr D Bland OBE	14	33
Dr C Winstanley, TD, JP, DL	27	27
Helen Charlton*	9	5
Dr M Edmondson OBE (from 10 April 2006)	26	21
R Darlington (from 10 April 2006)	26	22
N Hafeez (from 1 January 2007)	26	5
Professor A Alexander FRSE (from 1 January 2007)	26	5
C Baron (from 1 January 2007)	26	5
S Button* (from 10 April 2006)	18	11
N Walmsley* (from 10 April 2006)	8	5
E Hodder* (from 10 April 2006)	6	4
Professor D Croisdale-Appleby*, JP (from 10 April 2006)	6	7
Total for the year to 31 March	323	337

* These Council members are remunerated on the basis of daily rates and not salaries. S Button became salaried on 15 October 2007.

Council members are appointed by the Secretary of State for Business, Enterprise and Regulatory Reform. Their appointment is generally for an initial period of three years, subject to a review of performance after one year, with the possibility of an extension for a further three years thereafter. Those appointed on 1 January 2007 were for a maximum of two years.

Pension schemes

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

Superannuation benefits are provided under the Principal Civil Service Pension Scheme (PCSPPS). The Council's employees are members of the PCSPPS. The scheme is non contributory for employees, apart from widows' and widowers' benefits and additional contributions to the Classic Plus and Premium schemes. Employer contributions of £545,662 were payable to the PCSPPS for the year 2007-2008 (2006-2007 was £488,506), individual contribution rates vary depending on the level of superannuable pay, as stated below:

Earnings	Contribution
Up to £19,000	17.1%
£19,001 to £39,000	19.5%
£39,001 to £66,500	23.2%
£66,501+	25.5%

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

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer's contributions of £5,610 (2006-2007 was £2,916) were paid to one or more stakeholder pension providers. Employer's contributions are age related and range between 3 and 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition employee contributions of £1,474 (0.8 per cent of pensionable pay, 2006-2007 £685 = 0.8 per cent) were due to the PCSPPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees. Contributions due to the partnership pension providers at the balance sheet date were £430 (2006-2007 was £106).

4a. Other administrative costs

	2007-2008	2006-2007
	£'000	£'000
Council and secretarial expenses	111	556
Networking, travel and subsistence	354	280
Office costs, including postage, computer, copying and telephones	515	620
Printing and publishing	64	71
Research	495	352
Training	93	38
Publicity	119	123
Professional fees	659	849
**Rent, rates and associated services	824	934
Miscellaneous	17	24
Depreciation and amortisation	511	357
Depreciation of finance assets	169	59
Loss/(profit) on disposal of fixed assets	(1)	–
*Auditors' remuneration	39	31
Internal conference costs	33	24
External conference costs	52	40
**Equipment hire	125	282
Office machinery maintenance	34	46
Loss on revaluation of fixed assets	7	12
	4,220	4,698

* Auditors' remuneration related only to statutory audit work.

** Operating lease payments charged to administrative costs:

- on plant and machinery is £125,000 (2006-2007 = £282,000)
- on buildings is £647,000 (2006-2007 = £710,000)

4b. Restructuring costs

	2007-2008	2006-2007
	£'000	£'000
Redundancy payments	–	320
Write off of leasehold assets on cancelled leases	–	212
	–	532

5. Interest receivable and payable

	2007-2008 £'000	2006-2007 £'000
Receivable from the bank for funds on short-term deposit (net)	79	37

6. Capital charge

	2007-2008 £'000	2006-2007 £'000
At 3.5% (2007 = 3.5%) on the average of total assets less total liabilities for the year	42	31

7. Intangible fixed assets

	<i>Software & licences</i> 2007-2008 £'000
At 1 April 2007	742
*Reclassified from computer equipment	119
Additions	65
Revaluation gain	50
At 31 March 2008	976

Amortisation

At 1 April 2007	597
*Reclassified from computer equipment	119
Provided during the year	136
Revaluation gain	38
At 31 March 2008	890

Net book value

At 31 March 2008	86
At 31 March 2007	145

* Some software which had been purchased during 2003 and earlier had previously been included with computer equipment. These items which have been fully depreciated have been reclassified as Software & licences.

8. Tangible fixed assets

	<i>Leasehold improvements £'000</i>	<i>Furniture and fittings £'000</i>	<i>Computer equipment £'000</i>	<i>Total cost £'000</i>
Cost or valuation				
At 1 April 2007	869	688	520	2,077
*Reclassified to Software & licences	–	–	(119)	(119)
Additions	–	–	36	36
Disposals	–	(15)	(3)	(18)
Revaluation gain/(loss)	36	19	(17)	38
At 31 March 2008	905	692	417	2,014
Depreciation				
At 1 April 2007	266	593	398	1,257
*Reclassified to Software & licences	–	–	(119)	(119)
Provided during the year	419	44	81	544
Disposals	–	(10)	(3)	(13)
Revaluation gain/(loss)	11	16	(10)	17
At 31 March 2008	696	643	347	1,686
* Some software which had been purchased during 2003 and earlier had previously been included with computer equipment. These items which have been fully depreciated have been reclassified as Software & licences.				
Net Book Value				
At 31 March 2008	209	49	70	328
At 31 March 2007	603	95	122	820
Asset financing				
Owned	137	49	48	234
Finance leased	72	–	22	94
Net book value as at 31 March 2008	209	49	70	328

9. Debtors

	<i>As at</i> 31 March 2008 £'000	<i>As at</i> 31 March 2007 £'000
Amounts falling due within one year:		
Prepayments and accrued income	239	299
Other debtors	24	12
	263	311

All amounts receivable are with non government bodies (same for 2006-2007).

10. Creditors

	<i>As at</i> 31 March 2008 £'000	<i>As at</i> 31 March 2007 £'000
Amounts falling due within one year:		
Trade creditors	78	37
Accruals	347	254
Other taxation and social security	104	82
Deferred income	9	43
Lease payments due	74	67
Income pre paid	25	–
	637	483
Balances with central government departments	114	82
Balances with non-government bodies	523	401
	637	483
Amounts falling due after more than one year:		
Deferred income	64	73
Lease payments due	283	356
	347	429

All amounts falling due after more than one year are with non government bodies (same for 2006-2007).

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

11. Provisions for liabilities and charges

	<i>Leasehold obligations</i> £'000
Balance at 1 April 2007	24
Provided for in year	24
<hr/>	
Balance at 31 March 2008	48

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

12. Related party transactions

Postwatch is a non-departmental public body sponsored by the Department for Business, Enterprise and Regulatory Reform (BERR). BERR is regarded as a related party, as are other entities sponsored by BERR.

During the year Postwatch purchased IT Helpdesk and other IT services amounting to £55,351 from Energywatch (an NDPB sponsored by BERR). The balance outstanding at the year end was nil.

During the year, no Council member, key manager or other related party has undertaken any material transactions with Postwatch during the year, other than noted above.

13. Obligations under operating leases

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

	<i>As at</i> <i>31 March</i> <i>2008</i> £'000	<i>As at</i> <i>31 March</i> <i>2007</i> £'000
On property leases expiring:		
After more than five years	658	660
Between one and five years	36	42
Less than one year	–	10
On office equipment leases expiring:		
Between one and five years	1	116
Less than one year	59	2
<hr/>		
Total annual obligations under operating leases	754	830

14. Obligations under finance leases

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

	<i>As at</i> <i>31 March</i> <i>2008</i> <i>£'000</i>	<i>As at</i> <i>31 March</i> <i>2007</i> <i>£'000</i>
Less than one year	101	100
Between one and five years	312	334
Due thereafter	26	104
Total	439	538
Less interest element	(82)	(115)
Capital due	357	423

15. Revaluation reserve

	<i>As at</i> <i>31 March</i> <i>2008</i> <i>£'000</i>	<i>As at</i> <i>31 March</i> <i>2007</i> <i>£'000</i>
Balance brought forward	114	111
Arising on revaluations during the year	40	62
Transferred to general reserve	(104)	(59)
Balance carried forward	50	114

16. General reserve

	<i>As at</i> <i>31 March</i> <i>2008</i> <i>£'000</i>	<i>As at</i> <i>31 March</i> <i>2007</i> <i>£'000</i>
Balance brought forward	1,227	349
Grant-in-aid – current year	8,152	9,378
Grant-in-aid – payment for last year	–	303
Current year net cost	(8,490)	(8,862)
Transferred from revaluation reserve	104	59
Balance carried forward	993	1,227

Grant in Aid is provided to finance both revenue and capital expenditure. The amount included for capital purposes was £278k (£175k, 2006-2007).

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

17. Cash flow notes

	<i>As at</i> <i>31 March</i> <i>2008</i> <i>£'000</i>	<i>As at</i> <i>31 March</i> <i>2007</i> <i>£'000</i>
a) Reconciliation of operating profit to operating cash flows		
Operating cost	(8,536)	(8,861)
Depreciation charge	680	416
Decrease in debtors	48	41
Increase/(decrease) in creditors	138	(447)
Increase/(decrease) in provisions	24	(26)
Revaluation loss	7	12
Loss on disposal of fixed assets	(1)	–
Write off of assets	–	212
Net cash (outflow) from operating activities	(7,640)	(8,653)
b) Financing		
Grant-in-aid received to fund current year activities	8,152	9,378
Grant-in-aid to fund 2004-2005 deficit	–	303
	8,152	9,681
c) Net cost of financing		
Interest paid less interest received	79	37
Finance lease interest payments	(33)	(38)
	46	(1)
d) Capital expenditure		
Payments for intangible fixed assets	(65)	(3)
Payments for tangible fixed assets	(36)	(105)
Proceeds from sale of assets	6	–
	(95)	(108)
e) Reconciliation of net cash flow to movement in net funds		
Movement in net funds in the period	397	857
Net funds brought forward	1,001	144
NET FUNDS CARRIED FORWARD	1,398	1,001

18. Financial instruments

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

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

19. Contingent liabilities

A contingent liability exists in respect of the merger of Postwatch into the new NCC in regards to staff requirements as not all staff, and possibly very few or none may be required by the new NCC. It is not possible at this stage to say how many, if any, will be required to transfer and how many will lose their jobs. In addition, we have properties which will pass to the new NCC. We do not know how they will be utilised.

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

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

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