Presented pursuant to the GRA Act 2000, c.20. s.6

Postal Services Commission

Resource Accounts 2005–06

LONDON: The Stationery Office
HC 1421

10 July 2006
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(For the year ended 31 March 2006)

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Annual Report

Introduction

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

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

This document contains the Accounts of Postcomm for the period 1 April 2005 to 31 March 2006. It should be read in conjunction with the Postcomm Annual Report for 2005-06, which is published separately.

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

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

- seek to ensure the provision of a universal postal service at a uniform tariff;
- further the interests of users of postal services;
- promote effective competition in postal services;
- license mail operators, including Royal Mail Group plc;
- control Royal Mail Group plc prices and its quality of service where there is no effective competition; and
- advise Government on developments in the Post Office network.

Management Commentary

Income

In 2005-06 operating income of £10.236m was received, mainly from the Royal Mail Group. Details of income received can be found in Note 8 to the Resource Accounts. An additional £11.379m was collected from the Royal Mail Group on behalf of DTI in respect of the costs of Postwatch and subsequently transferred to DTI.

Postcomm operates a full costs recovery regime to comply with the Treasury Fees and Charges guide. An amount of £0.237m was over-recovered from the Royal Mail Group and this will be offset against their licence fee charges in 2006-07.

Spending

Total operating costs amounted to £9.693m. Three areas of expenditure absorbed 79 per cent of the total: staff costs (37 per cent), consultants (38 per cent) and accommodation (4 per cent).

Capital expenditure in the year totalled £0.645m in respect of refurbishment of additional office space, replacement IT equipment and new software.

Output

Postcomm's financial performance in pursuit of its objectives is detailed in the Statement of Net Operating Costs by Departmental Aim and Objectives.

Finance

Postcomm's budget is approved by Parliament following a consultation process with industry and other interested parties. For 2005-06 Parliament approved a resource budget of £10.160m and a capital budget of £0.150m. During the year Postcomm sought additional capital resources (£0.500m) from Parliament in the form of a Winter Supplementary Estimate, to facilitate parliamentary approval of the funding provided by Royal Mail for refurbishment of additional office space.

In April 2005 £2.0m was drawn from the Contingency Fund, £1.0m was drawn in June 2005 and a further £1.0m was drawn in July 2005 to provide short term liquidity until the receipt of licence fees. They were fully repaid in September 2005. In February 2006 £2.0m was drawn down in supply from the Consolidated Fund.

In February 2006 Postcomm proposed the following financial penalties on Royal Mail. A £2.16m financial penalty was proposed as Royal Mail was failing to take adequate steps to ensure that it does not gain an unfair commercial advantage over its competitors in the fast growing 'access to the last mile' market. A further financial penalty of £11.38m (subsequently revised to £9.62m) was proposed for Royal Mail's failure in 2004-05 to meet its obligations to protect the mail. In addition a penalty of £0.271m was proposed for poor performance in three London postcode areas. In April 2006 Postcomm confirmed the financial penalty of £0.271m for Royal Mail's poor performance across three London postcode areas. The penalty is due to be paid in June 2006. Before confirming the penalty, Postcomm took account of representations from Royal Mail and other parties. Postcomm is still considering representations in respect of the proposed financial penalties in respect of 'access to the last mile' market and obligations to protect the mail. Financial penalties received are surrendered to the Consolidated Fund.

Postcomm is funded in the main by licence fees paid by Royal Mail. The market was fully liberalised in January 2006 and as new operators obtain licences, they also contribute through their licence fees. Postcomm expenditure history and summary financial information for 2005-06 is summarised in the table below.

	2004-05 Actual outturn £000	2005-06 Budget outturn £000	2005-06 Actual outturn £000	2006-07 Budget outturn £000
Staff costs[1]	2,558	3,790	3,510	4,074
Agency staff	266	40	109	80
Other running costs[2]	2,040	1,846	1,947	1,834
Outside consultants, lawyers, etc.[3]	3,839	4,044	3,663	3,342
Sub-total	**8,703**	**9,720**	**9,229**	**9,330**
Depreciation, etc.[4]	346	400	484	805
Cost of capital	(23)	40	(20)	25
Total	**9,026**	**10,160**	**9,693**	**10,160**
Capital expenditure	250	650	645	150

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

1 This relates only to those staff on the payroll and excludes the cost of agency staff to provide cover for holidays, sickness or vacancies.

2 This is the costs of the building, IT support, telephones, etc.

3 This is the cost of those external economists, lawyers, etc. used to supplement the in-house teams.

4 This relates to the non-cash cost of depreciation and permanent diminution of fixed assets.

The under spend on staff costs is the result of unfilled vacancies. As a result, the outturn for agency staff was higher than budget. The under spend on consultancy relates to work not being required on responding to an Access Code proposal by Royal Mail; and there were no access determinations this year. The over spend on other running costs is attributed to a provision set up to cover the costs of a judicial review brought by Postwatch, the consumer body. The effect of the provision and a reduction in year end creditors also had a consequential effect on the variance between the estimated and actual outturn net cash requirement.

Postcomm's policy is to increase its staff complement and place less reliance on consultants to ensure continuity of a skills and knowledge base.

The balance sheet at 31 March 2006 shows Taxpayer's Equity of £0.067m (31 March 2005 (£1.232m)). This reflects an increase of £1.299m from the previous year which is primarily due to a reduction in creditors.

Business Focus for the Future

A price control for Royal Mail has been put in place that allows it sufficient revenues to finance its universal service obligation for the next four years. Next year will also be the first complete year of a fully liberalised postal market in the UK, and Postcomm now has the licensing framework in place to anticipate the development of competition with confidence, though Postcomm will always need to be alert and ready to react to market developments.

The phased introduction of competition has already begun to introduce more choice and innovation in postal services. Postcomm is expecting to see customers benefit further from competition as more new operators enter the market and as Royal Mail's service continues to improve. Postcomm must ensure, however, that it maintain customers' confidence in the market through good communication and effective monitoring of processes and procedures relating to mail integrity and common operational procedures.

Postcomm will have to remain alert to the development of any potential barriers to competition or of any other problems with licence compliance such as anti-competitive behaviour. It needs to investigate any failings and take action as quickly as possible. Indeed, the work programme is quickly moving to one where Postcomm must be increasingly alert to market developments, and anticipate them.

Postcomm will also aim to communicate better with stakeholders, both in terms of collecting information and informing customers of choice available.

The Commission

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

Executive Members of the Commission who served during the year

Sarah Chambers, Chief Executive, was appointed in November 2004 for a period of four years.

Richard Moriarty, Deputy Chief Executive, was appointed in May 2006, for a period of two years.

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

Nigel Stapleton, Chairman, was appointed in January 2004 for a period of three years.

Robin Aaronson, Commissioner, was appointed in May 2000 for a period of five years. His appointment was extended from June 2005 for a further eighteen months.

Simone Bos, Commissioner, was appointed in March 2004 for a period of three years.

Tony Cooper, Commissioner, was appointed in May 2000 for a period of four years. His appointment was extended in June 2004 for a further three years.

Julia Kaufmann, Commissioner, was appointed in May 2000 for a period of five years. She left Postcomm in May 2005 upon expiry of her term of office.

Janet Lewis-Jones, Commissioner, was appointed in May 2000 for a period of three years. Her appointment was extended from April 2003 for a further three years. This has been further extended to October 2006.

Wanda Goldwag, Commissioner, was appointed in April 2005 for a period of three years.

The Chairman of the Commission was appointed by the Secretary of State of Trade and Industry on 15 January 2004 for a period of three years. His remuneration was set out in his contract and is subject to annual review in line with awards recommended by the Senior Salaries Review Body.

The Chief Executive and Accounting Officer of Postcomm is also a Commissioner and was appointed in accordance with the Civil Service Management Code on 29 November 2004. Her remuneration was set out in her contract and is subject to annual review in line with awards recommended by the Senior Salaries Review Body.

The non-executive Commissioners were appointed by the Secretary of State for Trade and Industry after consulting the Chairman. Their remuneration was set out in their contracts and is subject to annual review in line with the awards made by the Senior Salaries Review Body. A step increase in their remuneration was implemented from 1 April 2005 to £20,000 per annum to reflect an increase in commitment from 2 days to 4 days per month.

Details of Commissioners' interests may be found on the Postcomm website and also in Note 25 to the Resource Accounts.

Details of remuneration can be found in the Remuneration Report on page 10.

Governance

Postcomm has introduced a corporate structure with committees that have clear terms of reference. They provide the necessary structure to ensure that there is a strong framework of internal control throughout the organisation. The Secretary of State for Trade and Industry answers questions in Parliament on behalf of Postcomm.

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

The Programme Board's role is to provide leadership on programme and risk management in Postcomm. Further details of the Board's role is given in the Statement on Internal Control on page 14.

The Audit Committee was chaired by Tony Cooper in 2005-06. Other members were Janet Lewis-Jones and Simone Bos. Nigel Stapleton, Chairman of the Commission, attended by invitation as an observer. The Chief Executive, the Director of Resources, the external auditors (National Audit Office) and the internal auditors (AHL Limited) attend by invitation. The role of the Committee is to ensure the adequacy of the system of internal control, review of financial statements and management effectiveness. The Committee met three times in 2005-06.

The Pay and Advisory Committee's role relates to the pay and performance of senior Postcomm staff. Full details of the Committee's membership, role and senior staff salary and pension entitlements are given in the Remuneration Report on page 10.

Auditors

The Comptroller and Auditor General, who has been appointed under statute and reports to Parliament, has audited the resource accounts. The notional cost of providing audit services was £30,000. There was no auditor remuneration (actual or notional) for non-audit work.

The National Audit Office published two reports in March 2006; 'Re-opening the post: Postcomm and the quality of mail services'; and 'Improving the efficiency of postal services procurement in the public sector'.

The Accounting Officer has taken all the steps that she ought to have taken to make herself aware of any relevant audit information and to establish that Postcomm's auditors are aware of that information. So far as she is aware, there is no relevant information of which Postcomm auditors are unaware.

Postcomm's internal audit service provides an independent appraisal service for management by measuring and evaluating the adequacy, reliability and effectiveness of management and financial control systems. Internal audit makes recommendations based on the appraisal of each system reviewed. An annual assurance report is provided to the Accounting Officer. Postcomm has chosen to outsource the provision of internal audit service to ensure wholly independent and fully professional analysis and recommendations. Postcomm's provider up to 31 March 2006 was AHL Limited. Following a competitive tender exercise, Tribal Assurance Limited were appointed as internal auditors with effect from 1 April 2006.

Sustainability Report

Postcomm's Statutory Duties

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

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

Environmental Policy (Internal Postcomm Operations)

Postcomm is committed to:

- Reviewing its operations to identify any adverse environmental impacts;
- Reducing office energy and resource consumption by the promotion of effective and efficient reduction methods, and by other means as appropriate, that are consistent with best practice.

Postcomm has implemented the following energy saving initiatives:

  - Sensors are installed that automatically switch off all non-emergency lighting in unoccupied office areas; and
  - Recycling paper, cardboard, glass, cans and plastic results in an indirect reduction in power generation.

Pension Liabilities

The main pension scheme for employees is the Principal Civil Service Pension Scheme (PCSPS). The pension liabilities arising from Postcomm's membership of the PCSPS are not provided for in these accounts in accordance with Treasury instructions and are described in the Remuneration Report and Notes 1.10 and 9 to the financial statements.

Equal Opportunities

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

The organisation continues to expand to meet the many challenges it faces. Compared to the period April 2004 to March 2005 when Postcomm recruited twenty members of staff, eighteen members of staff were recruited to new and vacant posts between April 2005 and March 2006. As at 31 March 2006 Postcomm employed 62 people and 2 agency staff. The following table shows a breakdown by gender, ethnicity and disability.

	Men	Women	Minority Ethnic	Disability
Commissioners, Deputy Chief Executive and Directors	7	6	0	0
Other staff	21	28	10	3
Agency staff	0	2	0	0
Total 31 March 2006	**28**	**36**	**10**	**3**
Total 31 March 2005	23	34	8	3

Managing People

Postcomm wants to be an effective and efficient organisation, with highly committed and motivated staff, that is continually improving and regarded as "best in class". Postcomm wants to develop and continually learn from its decision making and operational behaviours. In particular Postcomm aims are:

i. to remain a small organisation compared to other regulators but to ensure Postcomm has excellent people and that they work well together and are supported in both their work and their personal development;

ii. to maintain a friendly, supportive and open culture, so that Postcomm gets the best ideas and solutions to problems offered from staff at all levels;

iii. to ensure that all Postcomm staff have the best business tools, technology, training and support in their functions; and

iv. to learn constantly from business experience, the postal market and stakeholders, so that Postcomm can react swiftly to protect customer needs and to formulate and execute the right policies to create a dynamic postal market in the UK.

Creditor Payment, Policy and Performance

Postcomm's policy is to comply with the Better Payment Practice Code. Postcomm's standard terms and conditions for the supply of goods or services specify payment within 30 days, or other agreed credit terms, of receipt of goods or services or valid invoice, whichever is the later. During 2005-06 Postcomm paid 99 per cent of undisputed invoices within these deadlines (2004-05 96 per cent).

Health and Safety

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

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

Sarah Chambers
Accounting Officer
3 July 2006

Remuneration Report

Pay and Advisory Committee

The Pay and Advisory Committee consists of members of the Commission who are appointed by resolution of the Commission. The Pay and Advisory Committee is chaired by Wanda Goldwag. The other member is Robin Aaronson. The Chairman and Chief Executive attend as observers and the Director of Resources provides a secretariat function.

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

Service contracts

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

Unless otherwise stated below, the officials covered by this report hold appointments, which are open-ended until they reach the normal retiring age of 60. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Colin Sharples was appointed on a three year contract commencing on 5 September 2005.

Andrew Starkey was appointed on a three year contract commencing on 18 July 2005.

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

Non-Executive Commissioners are on fixed term appointments. Appointments and remuneration are set by the Secretary of State for Trade and Industry after consulting the Chairman. Their remuneration is currently set at £20,000 per annum. They have no entitlement to performance related pay or pension entitlements.

Salary and pension entitlements

The Commission

Remuneration

	2005-06		2004-05	
	Salary, including performance pay	Benefits in kind (to nearest £100)	Salary, including performance pay	Benefits in kind (to nearest £100)
	£000		£000	
Nigel Stapleton *(Chairman)*	75 – 80	–	75 – 80	–
Sarah Chambers *(Chief Executive)*	105 – 110	–	30 – 35[4]	–
Robin Aaronson[1]	15 – 20	–	15 – 20	–
Simone Bos[1]	15 – 20	–	15 – 20	–
Tony Cooper[1]	15 – 20	–	15 – 20	–
Julia Kaufmann *(until 31/05/05)*[2]	0 – 5	–	15 – 20	–
Janet Lewis-Jones[1]	15 – 20	–	15 – 20	–
Wanda Goldwag *(from 11/04/05)*[3]	15 – 20	–	–	–

[1] actual amount received £20,000
[2] actual amount received £3,333
[3] actual amount received £19,667
[4] full year equivalent £90k – £95k

Executive Board

Remuneration

	2005-06		2004-05	
Name and Title	Salary, including performance pay	Benefits in kind (to nearest £100)	Salary, including performance pay	Benefits in kind (to nearest £100)
	£000		£000	
Denise Bagge *(Director, Network)*	70 – 75	–	55 – 60	–
Debbie Gillatt *(Director, Customers & Operators to 11/09/05)*[1]	Consent withheld	–	Consent withheld	–
Fran Gillon *(Director, Customer Protection from 23/06/05)*[2]	55 – 60	–	–	–
Richard Moriarty *(Director, Competition & Regulation)*	100 – 105	–	85 – 90	–
Colin Sharples *(Director, Resources from 05/09/05)*[3]	40 – 45	–	–	–
William Sprigge *(Chief Legal Adviser)*	95 – 100	–	90 – 95	–
Andrew Starkey *(Director, Market Infrastructure from 18/07/05)*[4]	55 – 60	–	–	–

[1] full year equivalent £65k – £70k
[2] full year equivalent £70k – £75k
[3] full year equivalent £65k – £70k
[4] full year equivalent £80k – £85k

Salary

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

Benefits in kind

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

The Commission

Pension Benefits

	Real increase in pension and lump sum at age 60	Total accrued pension at age 60 at 31/03/06 and related lump sum	CETV** at 31/03/06	CETV** at 31/03/05	Real increase in CETV**
	£000	£000	£000	£000	£000
Nigel Stapleton *(Chairman)*	0 – 2.5	0 – 5	53	26	19
Sarah Chambers *(Chief Executive)*	5 – 7.5 plus lump sum of 10 – 12.5	30 – 35 plus lump sum of 75 – 80	513	318	93
Robin Aaronson*	–	–	–	–	–
Simone Bos*	–	–	–	–	–
Tony Cooper*	–	–	–	–	–
Julia Kaufman *(until 31/05/05)**	–	–	–	–	–
Janet Lewis-Jones*	–	–	–	–	–
Wanda Goldwag *(from 11/04/05)**	–	–	–	–	–

* These Commissioners do not receive any pension benefits.
** CETV: Cash Equivalent Transfer Value

Executive Board

Pension Benefits

	Real increase in pension and lump sum at age 60	Total accrued pension at age 60 at 31/03/06 and related lump sum	CETV at 31/03/06	CETV at 31/03/05	Real increase in CETV
	£000	£000	£000	£000	£000
Denise Bagge *(Director, Network and Universal Service)*	2.5 – 5 plus lump sum of 7.5-10	15 – 20 plus lump sum of 50-55	275	172	47
Debbie Gillatt *(Director, Customers & Operators to 11/09/05)*	Consent withheld	–	–	–	–
Fran Gillon *(Director, Customer Protection from 23/06/05)*	0 – 2.5	20 – 25	295	202	23
Richard Moriarty *(Director, Competition & Regulation)*	0 – 2.5 plus lump sum of 2.5 – 5	10 – 15 plus lump sum of 30 – 35	111	63	15
Colin Sharples *(Director, Resources from 05/09/05)*	0 – 2.5	0 – 5	6	–	4
William Sprigge *(Legal Advisor)*	0 – 2.5 plus lump sum of 2.5 – 5	15 – 20 plus lump sum of 50 – 55	352	264	23
Andrew Starkey *(Director, Market Infrastructure from 18/07/05)*	0 – 2.5	0 – 2.5	14	–	17

Commissioners' Pensions

The Chairman's pension is by analogy with the Principal Civil Service Pension Scheme. Unlike the PCSPS a pension provision is included in the accounts (see Note 16). The Chief Executive is a civil servant and her arrangements are set out above. The remaining Commissioners do not receive any pension benefits.

Civil Service Pensions

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

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

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

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

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and from 2003-04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the CSP arrangements and for which the CS Vote has received a transfer payment commensurate with the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Please note that the factors use to calculate the CETV were revised on 1 April 2005 on the advice of the Scheme Actuary. The CETV figure for 31 March 2005 has been restated using the new factors so that it is calculated on the same basis as the CETV figure for 31 March 2006.

Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Sarah Chambers
Accounting Officer
3 July 2006

Statement of Accounting Officer's responsibilities

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

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

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

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

- observe all relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis
- make judgements and estimates on a reasonable basis
- state whether applicable accounting standards, as set out in the Government Financial Reporting Manual, have been followed, and disclose and explain any material departures in the accounts, and
- prepare the financial statements on a going concern basis.

The relevant responsibilities of the Accounting Officer (including her responsibility for the propriety and regularity of public finances for which an Accounting Officer is answerable, for the keeping of proper records and for safeguarding Postcomm's assets) are set out in the Accounting Officers' Memorandum, issued by the Treasury and published in Government Accounting.

Statement on Internal Control

1 Scope of Responsibility

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

Postcomm is a Non-Ministerial Government Department set up by the Postal Services Act 2000, under the sponsorship of the Department of Trade and Industry.

2 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 Postcomm'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 was in place in Postcomm for the year ended 31 March 2006 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

3 Capacity to Handle Risk

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

Postcomm's Programme Board provide decision-making and risk resolution for Postcomm as a whole, as it is responsible for all risks within Postcomm, not just those relating to projects and programmes. Postcomm's Risk Manager is charged with identifying good and bad practice and monitoring risk mitigation activities. The Risk Manager is responsible for the risk analysis and risk management processes across Postcomm and owns the corporate Risk Register.

All project managers within Postcomm received formal training on project management during 2005-06. Staff continued to receive informal training on risk by the Risk Manager as and when required. Postcomm's Management of Risk (MoR) Framework is held within its Intranet, which is accessible to all staff. The MoR Framework includes appropriate metrics designed to provide support to staff in the tasks involved to ensure consistency of results.

4 The Risk and Control Framework

Postcomm's Management of Risk Framework and risk processes are consistent with the best practices defined in the OGC Management of Risk (MoR): Guidance for Practitioners and with the contents of Government Accounting. The framework adopts the Strategic, Programmes, Projects and Operational Model that the OGC guidance contains and aligns this with Postcomm's Business Planning cycle.

Strategic risks and their assessment is the responsibility of the Programme Board. Programme and project risks and their assessment are the responsibility of individual project managers.

Operational risks and their assessment are the responsibility of the Director of Resources. The Risk Manager and the Programme Office assist in the facilitation of this process.

The Corporate Risk Register is reviewed in its entirety every 6 months by the Programme Board and Audit Committee. A risk dashboard is presented to the Programme Board on a monthly exception basis.

Risk reporting, based around a dashboard, has been implemented to provide additional assurance that risks are being actively managed. The risk dashboard is presented to the Programme Board and CEO and provides details of risks that have changed status in the previous month.

The Programme Office reports at the Audit Committee on key risks and any problems with the internal control framework. Following agreement by the Audit Committee in December 2005 on the revised reporting arrangements, critical risks are also included in the Chief Executive's monthly report to the Commission.

During 2005/06 the Programme Office continued to assist individual projects in the identification of risk. Project risk registers and Microsoft Project Plans were established for each new project and key workstream and these are reviewed on a monthly basis by the Programme Office in conjunction with project team members. Following these meetings project managers complete a monthly status report for the Programme Board. The aim of this status report is to monitor progress of a project, report on status and advise the Programme Board of potential risks to the achievement of deliverables. The Chief Executive and the Programme Manager, on a monthly basis, determine which projects should be highlighted to the Programme Board and the relevant project manager is invited to the Programme Board to provide an update.

The Corporate and Operational Risk Registers are held centrally by the Programme Office. All project risk registers are held on the Project Management System. The Risk Manager reviews project risks to identify links between projects where the impact of one or more risks could affect others. Serious project risks are escalated as and when necessary by the Risk Manager to the Chief Executive, Programme Board or the Executive Board, depending on the proximity and severity of the risk.

Ownership of the framework lies with the Chief Executive. Risk management is the operational responsibility of the Programme Board. The Head of Procurement and Programme Office is the Risk Manager and is responsible for the implementation, co-ordination and monitoring of the risk management process.

As a 'business as usual' process, risk identification, ownership and mitigation is distributed throughout the organisation, consistent with the types of risk and the relevant individual's capability to manage risk.

Risk appetites and tolerances are determined by the Programme Board and it is their responsibility to review this regularly. Risks below the Risk Tolerance line are those that can be tolerated or accepted by Postcomm. This is, in effect, the risk appetite of Postcomm.

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

5 Review of Effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control, which is informed by the work of the internal auditors, the Risk Manager, Commissioners and comments made by the external auditors in their management letter and other reports.

I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Executive Board and Audit Committee, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The Audit Committee has further developed its role during 2005-06 to enhance the assurance this provides. It reviewed the Management of Risk framework and Corporate Risk Register, to ensure that they are appropriate and that a sound system of internal control is in place, and advised the Accounting Officer of any perceived weaknesses in the risk framework.

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

The Commission, which meets 11 times a year, advises, supports and encourages Postcomm Senior Management to manage risk, by drawing on their previous experience. The Commission receives reports on a monthly basis as part of the Chief Executive's Report. The Commission is interested in the ongoing viability of projects, Postcomm's reputation, the viability of market opening and stakeholder perceptions.

During 2005-06 three audits were undertaken. Firstly, an audit was conducted of the risk management process within Postcomm by Internal Audit. The findings of this audit were reported to the Audit Committee in July 2005. Two further audits, corporate governance and key financial controls, were performed and the final reports were reported to the Audit Committee in June 2006. All three reports provided assurance that Postcomm had adopted good practice and that its corporate governance, risk management processes and financial controls were appropriate to its needs.

During 2005-06 further developments were made to the internal control environment:

- The Management of Risk framework was revised by the Risk Manager to refine reporting and escalation mechanisms and approved by the Audit Committee in December 2005.
- Further embedding by the Programme Office of the risk framework throughout the organisation, at each level, ensuring full coverage of corporate, project and operational risks.
- A revised Corporate Risk Register was produced as part of the 2006-07 business planning process and risks explicitly linked to corporate objectives.
- Internal Control Statements (ICS) produced and signed off quarterly by the Risk Manager for corporate risks.
- Dashboard reporting to the Programme Board on a monthly basis from January 2006.
- External review of the risk framework, producing a positive report.
- Project managers and key staff have been trained in MS Project.
- Further training for project managers on risk management.

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

Sarah Chambers
Accounting Officer
3 July 2006

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

I certify that I have audited the financial statements of the Postal Services Commission for the year ended 31 March 2006 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the Statement of Operating Costs by Departmental Aim and Objectives and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

The Accounting Officer is responsible for preparing the Annual Report and the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury 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 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 part of the financial statements and the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. 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. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, if the Department 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 pages 15 to 17 reflects the Department's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Department's 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 other information comprises 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 judgments made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Department's 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 Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Department's affairs as at 31 March 2006 and the net cash requirement, net resource outturn, resources applied to objectives, recognised gains and losses and cashflows 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 HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- 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.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General
5 July 2006

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

Statement of Parliamentary Supply

Summary of Resource Outturn 2005-06

	2005-06							2004-05
	Estimate			Outturn				
	Gross expenditure	*A in A*	*Net Total*	*Gross expenditure*	*A in A*	*Net Total*	*Net total outturn compared with estimate: saving/ (excess)*	*Prior-year outturn*
	£000	£000	£000	£000	£000	£000	£000	£000
Request for resources	10,160	(10,159)	1	9,693	(9,692)	1	–	1
Ensuring the provision of a universal service at a uniform tariff, protecting consumers and promoting competition (Note 2)								
Total resources	**10,160**	**(10,159)**	**1**	**9,693**	**(9,692)**	**1**	**–**	**1**
Non-operating cost A in A (Note 8)	–	–	–	–	–	–	–	–

Net Cash Requirement 2005-06

	Note	*Estimate*	*Outturn*	*Net total outturn compared with estimate: saving/ (excess)*	*Prior year outturn*
		£000	£000	£000	£000
Net cash requirement	4	2,041	1,228	813	–

Summary of income payable to the Consolidated Fund

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

		Forecast 2005-06		**Outturn 2005-06**	
		Income	*Receipts*	Income	*Receipts*
	Note	£000	*£000*	£000	*£000*
Cash surrenderable to the Consolidated Fund	5	500	*500*	1,316	*1,316*

Explanations of variances between Estimate and outturn are given in Note 2 and the Management Commentary.

The notes on pages 25 to 40 form part of these accounts.

Operating Cost Statement
for the year ended 31 March 2006

	Note	2005-06 £000	2005-06 £000	2004-05 £000	2004-05 £000
Administration costs					
Request for resources:					
Staff costs	9	3,619		2,824	
Other costs	10	6,074		6,202	
Gross administration costs			**9,693**		**9,026**
Income	8		(10,236)		(9,040)
Net operating income	3a		**(543)**		**(14)**

All income and expenditure are derived from continuing operations.

The income figure of £10.236m includes additional resources (£0.500m) provided by Royal Mail, for refurbishment of additional office space. The inclusion in Operating Income is in accordance with the accounting treatment set out in Postcomm's Winter Supplementary Estimate.

Statement of Total Recognised Gains and Losses for the year ended 31 March 2006

	2005-06 £000	2004-05 £000
Net operating income	543	14
Net gain on revaluation of tangible fixed assets	66	54
Loss relating to pension provision	(4)	(24)
Total recognised gain for the financial year	**605**	**44**

The notes on pages 25 to 40 form part of these accounts.

Balance Sheet
as at 31 March 2006

	Note	31 March 2006 £000	31 March 2006 £000	31 March 2005 £000	31 March 2005 £000
Fixed assets:					
Tangible assets	11	1,186		1,008	
Intangible assets	12	68		35	
			1,254		**1,043**
Current assets:					
Debtors	13	292		398	
Cash at bank and in hand	14	776		1,106	
		1,068		1,504	
Creditors (amounts falling due within one year)	15	(1,806)		(3,668)	
Net current liabilities			**(738)**		**(2,164)**
Total assets less current liabilities			**516**		**(1,121)**
Provisions for liabilities and charges	16		(304)		–
Total net assets/(liabilities) before pension liability			**212**		**(1,121)**
Pension liabilities	16		(145)		(111)
Total net assets/(liabilities)			**67**		**(1,232)**
Taxpayers' equity:					
General fund	17		(68)		(1,353)
Revaluation reserve	18		135		121
			67		**(1,232)**

Sarah Chambers
Accounting Officer
3 July 2006

The notes on pages 25 to 40 form part of these accounts.

Cash Flow Statement
for the year ended 31 March 2006

	Note	2005-06 £000	2004-05 £000
Net cash (outflow)/inflow from operating activities	19a	(26)	1,343
Capital expenditure and financial investment	19b,19c	(658)	(237)
Payments of amounts due to the Consolidated Fund		(1,646)	(696)
Financing	19d	2,000	–
Increase/(Decrease) in cash in the period	19e	(330)	410

The notes on pages 25 to 40 form part of these accounts.

Statement of Net Operating Costs by Departmental Aim and Objectives
for the year ended 31 March 2006 (£000s)

Objective	2005-06 Gross	2005-06 Income	2005-06 Net	2004-05 Gross	2004-05 Income	2004-05 Net
	£000	£000	£000	£000	£000	£000
Ensuring the provision of a universal service at a uniform tariff, protecting consumers and promoting competition	9,693	(10,236)	(543)	9,026	(9,040)	(14)
Net operating income	**9,693**	**(10,236)**	**(543)**	**9,026**	**(9,040)**	**(14)**

The notes on pages 25 to 40 form part of these accounts.

Notes to the departmental resource accounts

1. Statement of accounting policies

The financial statements have been prepared in accordance with the 2005-06 *Financial Reporting Manual (FReM)* issued by HM Treasury. The accounting policies contained in the FReM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. Where the FReM permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of Postcomm for the purpose of giving a true and fair view has been selected. The particular accounting policies adopted by Postcomm are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Accounting convention

These accounts have been prepared under the historical cost convention, modified to account for the revaluation of fixed assets at their value to the business by reference to their current costs.

1.2 Tangible fixed assets

Postcomm does not own any land or buildings.

Other tangible assets have been stated at current cost using indices published by the Office for National Statistics for the relevant category of asset.

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

1.3 Depreciation

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

Office equipment	5 years
Computer equipment	3 years
Furniture and fittings	10 years
Leasehold improvements	End of lease (March 2008)

Postcomm depreciates capitalised leasehold improvement costs over the life of the lease or to the point at which the leasehold ends, whichever is the sooner.

1.4 Intangible fixed assets

Purchased computer software licences are capitalised as intangible fixed assets where expenditure of £1,000 or more is incurred. These are stated at current cost using appropriate indices published by the Office for National Statistics. Software licences are amortised over the shorter of the term of the licence and the useful economic life.

1.5 Stocks

The full cost of stock purchases is charged in the year of purchase and is not material to the Account.

1.6 Operating income

Operating income is income that relates directly to the operating activities of Postcomm. It comprises principally the licence fee from Royal Mail Group plc totalling £9.232m (see Notes 6 and 8).

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

Miscellaneous operating income includes penalty fines, licence application fees and the Royal Mail contribution to capital.

1.7 Administration and programme expenditure

The Operating Cost Statement only contains administration costs. This follows the classification of expenditure and income set by HM Treasury.

1.8 Capital charge

A charge, reflecting the cost of capital utilised by the Department, is included in operating costs. The charge is calculated at the Government's standard rate of 3.5 per cent in real terms on the average carrying amounts of all assets less liabilities, except for cash balances with the Office of Paymaster General and amounts due from or to be surrendered to the Consolidated Fund, where the charge is nil.

1.9 Foreign exchange

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

1.10 Pensions

Present and past employees (except the Chairman) are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) which is non-contributory and unfunded. Although the Scheme is a defined benefit scheme, liability for payment of future benefits is a charge to the PCSPS. Payment of charges are calculated on an accruing basis. There is a separate scheme statement for the PCSPS as a whole.

Postcomm's former and current Chairmen have a separate pension arrangement that is broadly analogous with the PCSPS. The arrangements provide for a defined benefit, unfunded scheme. However, unlike the PCSPS, a pension liability is included in the accounts as required under FRS17.

1.11 VAT

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

1.12 Leases

Rentals due under operating leases are charged to the Operating Cost Statement over the lease term on a straight-line basis, or on the basis of actual rentals which fairly reflects usage. Future payments, disclosed at Note 21, "Commitments under operating leases", are not discounted.

1.13 Contingent Liabilities

In addition to contingent liabilities disclosed in accordance with FRS 12, Postcomm discloses for parliamentary reporting and accountability purposes certain contingent liabilities where the likelihood of a transfer of economic benefit is remote. These comprise:

- Items over £100,000 (or lower, where required by specific statute) that do not arise in the normal course of business and which are reported to Parliament by departmental Minute prior to the Department entering into the arrangement;

- All items (whether or not they arise in the normal course of business) over £100,000 (or lower, where required by specific statute or where material in the context of resource accounts) which are required by the FReM to be noted in the resource accounts.

Where the time value of money is material, contingent liabilities which are required to be disclosed under FRS 12 are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be disclosed by FRS 12 are stated at the amounts reported to Parliament.

1.14 Costs for Postwatch

Under the Postal Services Act 2000, Postcomm has a fee collection responsibility for Postwatch, the independent consumer representative. Monies are collected and directly paid over to the Department for Trade and Industry in respect of Postwatch costs.

1.15 Provisions

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

Where the time value of money is material, Postcomm discounts general provisions to its present value using a discount rate of 2.2 per cent, the Government's standard rate. Each year the financing charges in the Operating Cost Statement include the adjustments to amortise one year's discount and restate liabilities to current price levels. Postcomm currently has a general provision for the costs following the judgment given against it in the judicial review proceedings brought by Postwatch.

For pension scheme liabilities, the discount rate changed from 3.5% to 2.8% per annum on 1 April 2005.

1.16 The Statement of Parliamentary Supply and the Statement of Net Operating Costs by Departmental Aim and Objectives

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

The Statement of Net Operating Costs by Departmental Aim and Objectives has been prepared from the underlying books and records.

2. Analysis of net resource outturn by function

	2005-06							2004-05
	Outturn					Estimate		
	Admin	Other current	Gross resource expenditure	A in A	Net total	Net Total	Net total outturn compared with Estimate	Prior-year outturn
	£000	£000	£000	£000	£000	£000	£000	£000
Request for resources								
Ensuring the provision of a universal service at a uniform tariff, protecting consumers and promoting competition	9,693	–	9,693	(9,692)	1	1	–	1
Resource outturn	**9,693**	**–**	**9,693**	**(9,692)**	**1**	**1**	**–**	**1**

The underspend in the gross resource expenditure is due to unfilled vacancies, work not required on Royal Mail's Access Code proposal, and no access determinations. A fuller explanation can be found in the Annual Report.

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

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

		2005-06			2004-05
	Note	Estimate	Outturn	Outturn compared with Estimate	Outturn
		£000	£000	£000	£000
Net Resource Outturn	2	1	1	–	1
Prior period adjustments		–	–	–	–
Non supply income (Consolidated Fund Extra Receipts (CFERs))	5	(500)	(544)	(41)	(15)
Non supply expenditure		–	–	–	–
Net operating income		**(499)**	**(543)**	**(41)**	**(14)**

3(b) Outturn against final Administration Budget

	2005-06		2004-05	
	Budget	Outturn	Budget	Outturn
	£000	£000	£000	£000
Gross Administration Budget	10,160	9,693	10,160	9,026
Income allowable against the Administration Budget	(10,159)	(9,692)	(10,159)	(9,025)
Net outturn against the Administration Budget	1	1	1	1

4. Reconciliation of resources to cash requirement

	Note	Estimate	Outturn	Net total outturn compared with estimate: saving/ (excess)
		£000	£000	£000
Resource Outturn	2	**1**	**1**	-
Capital:				
● Acquisition of fixed assets	11,12	650	645	5
Non-operating Appropriations in Aid (A in A):				
● Proceeds of fixed asset disposals	7	–	–	–
Accruals adjustments:				
● Non-cash items	9,10	(540)	(850)	310
● Changes in working capital other than cash		1,930	1,426	504
● Changes in creditors falling due after more than one year		–	–	–
● Use of provision	16	–	6	(6)
Excess cash receipts surrenderable to the Consolidated Fund	5	–	–	–
Net cash requirement		**2,041**	**1,228**	**813**

The variance in the net cash requirement is due primarily to the setting up of a provision for the costs of the Postwatch judicial review, and a reduction in working capital due to improved management.

5. Analysis of income payable to the Consolidated Fund

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

	Note	**Forecast 2005-06** Income	*Receipts*	**Outturn 2005-06** Income	*Receipts*
		£000	*£000*	£000	*£000*
Operating income and receipts – excess A in A		–	–	–	–
Other operating income and receipts not classified as A in A	6	500	*500*	544	*544*
		500	*500*	544	*544*
Non operating income and receipts not classified as A in A		–	–	–	–
Surplus supply surrenderable to the Consolidated Fund	15	–	–	772	*772*
Total income payable to the Consolidated Fund		500	*500*	1,316	*1,316*

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

	Note	**2005-06**	**2004-05**
		£000	£000
Operating Income	8	10,236	9,040
Income authorised to be appropriated in aid		(9,692)	(9,025)
Operating Income payable to the Consolidated Fund		544	15

All the operating income relates to Request for Resource 1.

7. Non-operating income – Excess A in A

	2005-06	2004-05
	£000	£000
Proceeds on disposal of fixed assets	–	–
Allowable A in A	–	–
Excess A in A	–	–

8. Income

	2005-06	2004-05
	£000	£000
Licence fees	9,692	9,025
Royal Mail contribution to capital	500	–
Miscellaneous CFERS	44	15
Total	10,236	9,040

9. Staff numbers and related costs

Staff costs comprise

		2005-06 £000		2004-05 £000
	Permanently employed staff	**Others**	**Total**	**Total**
Wages and salaries	1,991	865	2,856	2,343
Social security costs	192	75	267	196
Other pension costs	307	167	474	269
Pension of retired members	22	–	22	16
Total	**2,512**	**1,107**	**3,619**	**2,824**
Less recoveries in respect of outward secondments	–	–	–	–
Total net costs*	**2,512**	**1,107**	**3,619**	**2,824**

* Of the total no charge has been made to capital

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

For 2005-06, employers' contributions of £467,283 were payable to the PCSPS (2004-05 £268,704) at one of four rates in the range 16.2 to 24.6 per cent (2004-05 12 to 18.5 per cent) of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. From 2006-07, the salary bands will be revised and the rates will be in a range between 17.1 per cent and 25.5 per cent. The contribution rates reflect benefits accruing during 2005-06 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £4,073 were paid to one or more of a panel of four appointed stakeholder pension providers. Employer contributions are age-related and range from 3 to 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. Employer contributions of £285, 0.8 per cent of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

Average number of persons employed

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

Number	2005-06 Permanently employed staff	2005-06 Other non permanent staff	2005-06 Total	2004-05 Total
	£000	£000	£000	£000
Objective				
Ensuring the provision of a universal service at a uniform tariff, protecting consumers and promoting competition	43.3	13.3	56.6	48.9
Total	**43.3**	**13.3**	**56.6**	**48.9**

10. Other administration costs

	Note	2005-06 £000	2004-05 £000
Rental under operating leases:			
Hire of office equipment		10	9
Other operating leases (land and buildings)		217	187
		227	196
Non-cash items (see below):			
Auditors' remuneration and expenses[1]		30	29
Depreciation	11,12	421	346
Diminution in value of fixed assets	11,12	63	–
Loss on disposal of fixed assets	11,12	16	8
Cost of capital credit	17	(20)	(23)
Provision provided in year	16	318	11
		828	371
Other expenditure:			
Consultants costs		3,663	3,839
Learning and development		140	292
Building costs		166	226
IT services		245	246
Human resources		132	221
Office supplies		193	137
Contracted out services		104	129
Publicity		111	57
Information		75	68
Severance costs[2]		–	37
Special payments[3]		–	150
Utilities		42	50
Other		8	23
		4,879	5,475
Travel and subsistence		113	125
Hospitality		27	35
		140	160
Total		**6,074**	**6,202**

[1] There was no auditor remuneration for non-audit work.
[2] The severance payments related to two members of staff whose posts were restructured.
[3] The special payments consisted mainly of two amounts relating to VAT (£56,000 and £85,000).

Notes

The total of non-cash transactions included in the Reconciliation of Resources to Net Cash Requirement in The Statement of Parliamentary Supply and in the Reconciliation of Operating Costs to Operating Cashflows in the Cashflow Statement comprises:

	2005-06	2004-05
	£000	£000
Other administration costs – non-cash items (as above)	828	371
Other non-cash amounts relating to pension of retired members	22	16
Total non cash transactions	**850**	**387**

11. Tangible fixed assets

	Leasehold improvements	Office equipment	Information Technology	Furniture and fittings	Total
	£000	£000	£000	£000	£000
Cost or valuation					
At 1 April 2005	1,167	86	396	312	1,961
Additions	389	12	95	84	580
Disposals	–	–	(84)	(4)	(88)
Revaluations	106	(1)	(43)	3	65
At 31 March 2006	1,662	97	364	395	2,518
Depreciation					
At 1 April 2005	598	16	231	108	953
Charged in year	292	17	85	36	430
Disposals	–	–	(71)	(1)	(72)
Revaluations	41	–	(21)	1	21
At 31 March 2006	931	33	224	144	1,332
Net book value at 31 March 2006	731	64	140	251	1,186
Net book value at 31 March 2005	569	70	165	204	1,008
Asset financing:					
Owned	731	64	140	251	1,186
Net book value at 31 March 2006	731	64	140	251	1,186

Reconciliation of cash flows to tangible fixed asset additions
(Cash flow Statement)

	2005-06	2004-05
	£000	£000
Tangible fixed asset additions	580	215
Creditor reversals	13	–
Creditor for fixed asset additions	–	(13)
Cash flows for tangible fixed assets	**593**	**202**

12. Intangible fixed assets

	Software
	£000
Cost or valuation	
At 1 April 2005	206
Additions	65
Disposals	(59)
Revaluations	(19)
At 31 March 2006	193
Depreciation	
At 1 April 2005	171
Charged in year	23
Disposals	(59)
Revaluations	(10)
At 31 March 2006	125
Net book value	
At 31 March 2006	68
Net book value	
At 31 March 2005	35
Asset financing:	
Owned	68
Net book value	
At 31 March 2006	68

Reconciliation of cash flows to intangible fixed asset additions

	2005-06	2004-05
	£000	£000
Intangible fixed asset additions	65	35
Cash flows for intangible fixed assets	**65**	**35**

13. Debtors

13(a) Analysis by type

	2005-06	2004-05
	£000	£000
Amounts falling due within one year:		
Trade debtors	3	–
Deposits and advances	11	11
Prepayments and accrued income	65	26
HM Revenue and Customs (VAT)	213	361
	292	**398**

Deposits and advances includes loans outstanding of £10,264 which relates to season ticket loans for 12 employees.

13(b) Intra-government balances

	Debtors: amounts falling due within one year	Debtors: amounts falling due after more than one year
	£000	£000
Balances with other central government bodies	240	–
Balances with local authorities	–	–
Balances with public corporations and trading funds	–	–
Balances with bodies external to government	52	–
At 31 March 2006	**292**	**–**
Balances with other central government bodies	361	–
Balances with local authorities	–	–
Balances with public corporations and trading funds	–	–
Balances with bodies external to government	37	–
At 31 March 2005	**398**	**–**

14. Cash at bank and in hand

	2005-06	2004-05
	£000	£000
Balance at 1 April	1,106	696
Net change in cash balances:	(330)	410
Balance at 31 March	**776**	**1,106**
The following balances at 31 March are held at:		
Office of HM Paymaster General	775	1,105
Commercial banks and cash in hand	1	1
Balance at 31 March	**776**	**1,106**

15. Creditors

15(a) Analysis by type

	2005-06	2004-05
	£000	£000
Amounts falling due within one year:		
Trade creditors	145	74
Other creditors	51	123
Taxation and social security creditor	111	80
Staff creditors	134	62
Deferred licence fees	237	1,178
Accruals	352	1,045
Excess cash	–	1,091
Amounts issued from the Consolidated Fund for supply but not spent at year end	772	–
Consolidated Fund extra receipts due to be paid to the Consolidated Fund:		
Received	4	15
Receivable	–	–
	1,806	**3,668**

15(b) Intra-government balances

	Creditors: amounts falling due within one year	Creditors: amounts falling due after more than one year
	£000	£000
Balances with other central government bodies	1,023	–
Balances with local authorities	–	–
Balances with public corporations and trading funds	237	–
Balances with bodies external to government	546	–
At 31 March 2006	**1,806**	**–**
Balances with other central government bodies	1,278	–
Balances with local authorities	109	–
Balances with public corporations and trading funds	1,178	–
Balances with bodies external to government	1,103	–
At 31 March 2005	**3,668**	**–**

16. Provisions

16(a) Pension liabilities

	2005-06	**2004-05**
	£000	£000
Provision at 1 April	111	86
Current service cost	22	19
Employee contributions	3	3
Interest cost	7	5
Overnight charge*	7	–
Actuarial losses	1	24
Less benefits paid	(6)	(26)
Provision at 31 March	**145**	**111**
Net movement in year (excluding actuarial loss)	33	1

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

An actuarial valuation was carried out by the Government Actuary's Department (GAD) at 31 March 2006. The major assumptions used by the actuary were:-

	At 31 March 2006	At 31 March 2005
	% (per annum)	% (per annum)
Inflation assumption	2.5	2.5
Rate of increase in salaries	4.0	4.0
Rate used to discount scheme liabilities	2.8	3.5

Amount recognised in Statement of Total Recognised Gains and Losses

	2005-06	2004-05
	£000	£000
Amount recognised	4	24
Amount recognised as a percentage of present value of scheme liabilities	3%	22%

*On 1 April 2005 the discount rate for pension scheme liabilities changed from 3.5% to 2.8% per annum. The impact of this change was an overnight increase in the pension liability of £7,000 as at 1 April 2005.

16(b) Other provisions

	2005-06	Total
	£000	£000
Provision at 1 April 2005	–	–
Provided in year	304	304
Provisions utilised in year	–	–
Balance at 31 March 2006	**304**	**304**

Postcomm has decided not to appeal the judgement given against it in the judicial review proceedings brought by Postwatch, and has consequently provided £304,000 in relation to Postwatch's costs following the award made in this case.

The possibility exists that this amount will be reduced by the Crown Costs assessment process, although as the judgement is unknown it is prudent to provide for the full amount of the costs.

17. General fund

	2005-06		2004-05	
	£000	£000	£000	£000
Balance at 1 April		(1,353)		(275)
Net Parliamentary Funding:				
Draw Down	2,000		–	
Deemed Supply	–		–	
		2,000		–
Net transfer from operating activities				
Net operating income		543		14
CFERS repayable to Consolidated Fund				
CFERS paid to Consolidated Fund	(540)		(1,091)	
CFERS miscellaneous	(4)		(15)	
Supply issued not spent	(772)		–	
		(1,316)		(1,106)
Non-cash charges:				
Cost of capital	(20)		(23)	
Auditor's remuneration	30		29	
		10		6
Transfer from revaluation reserve		52		32
Actuarial losses relating to pension liabilities		(4)		(24)
Balance at 31 March		**(68)**		**(1,353)**

18. Revaluation reserve

	2005-06	2004-05
	£000	£000
Balance at 1 April	121	99
Arising on revaluation during the year	109	54
Transferred in relation to backlog depreciation	(43)	–
Transferred to general fund in respect of realised element of the revaluation reserve	(52)	(32)
Balance at 31 March	**135**	**121**

The Revaluation reserve reflects the unrealised element of the cumulative balance of indexation and the revaluation adjustments of tangible fixed assets.

19. Notes to the Cash Flow Statement

19(a) Reconciliation of operating income to operating cash flows

		2005-06	2004-05
	Note	£000	£000
Net operating income	3a	(543)	(14)
Adjustments for non-cash transactions	9,10	(850)	(387)
(Decrease)/Increase in Debtors	13	(106)	110
Less movements in debtors relating to items not passing through the OCS	13	–	–
Decrease/(Increase) in Creditors	15	1,862	(1,501)
Less movements in creditors relating to items not passing through the OCS	11,15	(343)	423
Use of provisions	16	6	26
Net cash outflow/(inflow) from operating activities		**26**	**(1,343)**

19(b) Analysis of capital expenditure and financial investment

	Note	2005-06 £000	2004-05 £000
Tangible fixed asset additions	11	580	215
Intangible fixed asset additions	12	65	35
Net movement in creditors	11	13	(13)
Proceeds of disposal of fixed assets		–	–
Net cash outflow from investing activities		**658**	**237**

19(c) Analysis of capital expenditure and financial investment by Request for Resources

	Capital expenditure £000	Loans, etc. £000	A-in-A £000	Net total £000
Request for resources				
Ensuring the provision of a universal service at a uniform tariff, protecting consumers and promoting competition	645	–	–	645
Movement in creditors	13	–	–	13
Total 2005-06	**658**	**–**	**–**	**658**
Total 2004-05	237	–	–	237

19(d) Analysis of financing

	Note	2005-06 £000	2004-05 £000
From the Consolidated Fund (Supply) – current year	17	2,000	–
From the Consolidated Fund (Supply) – prior year	17	–	–
Advances from the Contingency Fund		4,000	1,800
Repayments to the Contingency Fund		(4,000)	(1,800)
Net financing		**2,000**	**–**

19(e) Reconciliation of Net Cash Requirement to increase/(decrease) in cash

	Note	2005-06 £000	2004-05 £000
Net cash requirement		(1,228)	–
From the Consolidated Fund (Supply) – current year	17	2,000	–
From the Consolidated Fund (Supply) – prior year	17	–	–
Amounts due to the Consolidated Fund received in prior year and paid over		(1,106)	(696)
Amounts due to the Consolidated Fund received and not paid over	15	4	1,106
Amounts collected in year [1]		11,379	9,702
Amounts paid over in year [1]		(11,379)	(9,702)
(Decrease)/Increase in cash		**(330)**	**410**

[1] Amounts received from Royal Mail and paid over to DTI relate to Postwatch costs.

20. Capital commitments

	2005-06 £000	2004-05 £000
Contracted capital commitments at 31 March for which no provision has been made	–	–

21. Commitments under leases

Operating leases

Commitments under operating leases to pay rentals during the year following the year of these accounts are given in the table below, analysed according to the period in which the lease expires.

	2005-06	2004-05
	£000	£000
Obligation under operating leases comprise:		
Land and buildings:		
Expiry within 1 year	–	–
Expiry after 1 year but not more than 5 years	226	191
Expiry thereafter	–	–
	226	**191**
Other:		
Expiry within 1 year	–	–
Expiry after 1 year but not more than 5 years	17	6
Expiry thereafter	–	–
	17	**6**

22. Other financial commitments

Postcomm had not entered into any non-cancellable contracts (which are not operating leases) as at 31 March 2006.

23. Contingent liabilities disclosed under FRS 12

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

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

24. Financial instruments

FRS 13, *Derivatives and Other Financial Instruments*, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the largely non-trading nature of its activities and the way in which government departments are financed, Postcomm is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. Postcomm has very limited powers to borrow or invest surplus funds and except for relatively insignificant forward purchases of foreign currency, financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing Postcomm in undertaking its activities.

As permitted by FRS 13, debtors and creditors which mature or become payable within 12 months from the balance sheet date have been omitted from the currency profile.

Liquidity risk

Postcomm operates on a full cost recovery basis and is financed primarily by licence fee income and has no borrowings. Specific and limited areas of operation are, for reasons of public policy, directly funded by grants of supply approved annually by Parliament. The extent to which licence fee and other income may be raised and retained for use in operations (Appropriated in Aid) is also approved by annual vote of Parliament, along with further grants of supply needed to meet Postcomm's Net Cash Requirement. Postcomm is not therefore exposed to significant liquidity risks.

Interest rates and foreign currency risks

Postcomm has no material deposits, and all material assets and liabilities are denominated in Sterling, so it is not exposed to any significant interest rate or foreign currency risks.

Fair values

There is no material difference between the book values and fair values of Postcomm's financial assets and liabilities as at 31 March 2006.

25. Related Party Transactions

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

One Commissioner is an associate of a firm of economic consultants (LECG) which from time to time carries out projects for postal operators in various countries. This firm has been employed by Postcomm and transactions of £1,034,441 (2004-05 £1,227,507) occurred during the year. An amount of £20,666 (2004-05 £342,152) was owing at the year end and is included in the figure for accruals. The individual does not undertake such projects and is not involved in the awarding of any contracts.

Postcomm collected £11,379,000 from Royal Mail Group plc, on behalf of the Department of Trade and Industry (DTI) for the operation of Postwatch, the independent consumer representative. This was remitted directly to the DTI and is only reflected in Postcomm's note to the Cash Flow Statement (Note 19(e)).

COI sublets part of its premises to Postcomm and receives financial and payroll services from Ofgem. Transactions in year were £383,980 (2004-05 £408,144) to COI and £65,261 (2004-05 £44,223) to Ofgem. An amount of £11,118 (2004-05 £12,867) was owing to Ofgem at the year end and is included in the figure for creditors.

26. Post balance sheet events

There were no reportable post balance sheet events.

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